

Research Solutions, Inc.  
Form 10-Q  
November 14, 2017

**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, 2017**

☐ **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.)

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**15821 Ventura Blvd., Suite 165, Encino, California**  
(Address of principal executive offices)

**91436**  
(Zip Code)

**(310) 477-0354**

(Registrant's telephone number, including area code)

(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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

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

Accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

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

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

<b>Title of Class</b>	<b>Number of Shares Outstanding on November 10, 2017</b>
Common Stock, \$0.001 par value	24,134,992

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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, 2017 (unaudited)	June 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$4,542,485	\$5,773,950
Accounts receivable, net of allowance of \$119,546 and \$119,536, respectively	4,307,776	5,465,299
Prepaid expenses and other current assets	218,893	196,820
Prepaid royalties	657,434	566,282
Total current assets	9,726,588	12,002,351
Other assets:		
Property and equipment, net of accumulated depreciation of \$715,221 and \$699,421, respectively	92,508	85,737
Intangible assets, net of accumulated amortization of \$648,212 and \$623,714, respectively	31,624	41,870
Deposits and other assets	14,455	14,466
Right of use asset, net of accumulated amortization of \$72,353 and \$45,105, respectively	390,669	417,917
Total assets	\$10,255,844	\$12,562,341
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$4,677,299	\$6,443,056
Deferred revenue	1,356,950	1,335,475
Lease liability, current portion	113,065	110,888
Total current liabilities	6,147,314	7,889,419
Long-term liabilities:		
Lease liability, long-term portion	299,253	328,299
Total liabilities	6,446,567	8,217,718

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; 24,134,992 and 23,883,145 shares issued and outstanding, respectively	24,135	23,883
Additional paid-in capital	22,513,645	22,267,327
Accumulated deficit	(18,648,823)	(17,875,858)
Accumulated other comprehensive loss	(79,680 )	(70,729 )
Total stockholders' equity	3,809,277	4,344,623
Total liabilities and stockholders' equity	\$10,255,844	\$12,562,341

See notes to condensed consolidated financial statements

**Research Solutions, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Operations and Other Comprehensive Loss**

**(Unaudited)**

	Three Month Ended September 30,	
	2017	2016
Revenue:		
Platforms	\$ 387,945	\$ 172,072
Transactions	6,359,895	6,006,399
Total revenue	6,747,840	6,178,471
Cost of revenue:		
Platforms	83,987	29,964
Transactions	4,914,414	4,714,999
Total cost of revenue	4,998,401	4,744,963
Gross profit	1,749,439	1,433,508
Operating expenses:		
Selling, general and administrative	2,537,036	1,897,699
Depreciation and amortization	40,568	30,469
Total operating expenses	2,577,604	1,928,168
Loss from operations	(828,165 )	(494,660 )
Other income (expenses):		
Interest expense	(3,000 )	(3,000 )
Other income	12,802	4,710
Total other income	9,802	1,710
Loss from continuing operations before provision for income taxes	(818,363 )	(492,950 )
Provision for income taxes	(11,751 )	(13,605 )
Loss from continuing operations	(830,114 )	(506,555 )
Discontinued operations:		
Income from discontinued operations	-	95,889
Gain from sale of discontinued operations	57,149	-
Income from discontinued operations	57,149	95,889
Net loss	(772,965 )	(410,666 )
<b>Other comprehensive loss:</b>	(8,951 )	(3,283 )

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Foreign currency translation

Comprehensive loss \$(781,916 ) \$(413,949 )

Loss per common share:

Loss per share from continuing operations, basic and diluted \$(0.04 ) \$(0.02 )

Income per share from discontinued operations, basic and diluted \$- \$-

Net loss per share, basic and diluted \$(0.04 ) \$(0.02 )

Weighted average common shares outstanding, basic and diluted 23,380,437 23,131,570

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, 2017****(Unaudited)**

	Common Stock		Additional	Accumulated	Other	Total
	Shares	Amount	Paid-in Capital	Deficit	Comprehensive Loss	Stockholders' Equity
Balance, July 1, 2017	23,883,145	\$23,883	\$22,267,327	\$(17,875,858)	\$ (70,729)	) \$ 4,344,623
Fair value of vested stock options	-	-	176,983	-	-	176,983
Fair value of vested restricted common stock	286,647	287	102,739	-	-	103,026
Repurchase of common stock	(34,800 )	(35 )	(39,637 )	-	-	(39,672 )
Modification cost of stock options	-	-	6,233			6,233
Net loss for the period	-	-	-	(772,965 )	-	(772,965 )
Foreign currency translation	-	-	-	-	(8,951 )	(8,951 )
Balance, September 30, 2017	24,134,992	\$24,135	\$22,513,645	\$(18,648,823)	\$ (79,680)	) \$ 3,809,277

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30,	
	2017	2016
Cash flow from operating activities:		
Net loss	\$(772,965 )	\$(410,666 )
Adjustment to reconcile net loss to net cash provided by (used in) operating activities of operations:		
Gain from sale of discontinued operations	(57,149 )	-
Depreciation and amortization	40,568	30,469
Amortization of lease right	27,248	-
Fair value of vested stock options	176,983	14,856
Fair value of vested restricted common stock	103,026	87,733
Modification cost of stock options	6,233	-
Changes in operating assets and liabilities:		
Accounts receivable	1,157,523	1,184,710
Prepaid expenses and other current assets	35,076	13,692
Prepaid royalties	(91,152 )	(244,400 )
Deposits and other assets	-	50
Accounts payable and accrued expenses	(1,765,757)	(374,291 )
Deferred revenue	21,475	231,533
Lease liability	(26,869 )	-
Net cash provided by (used in) operating activities	(1,145,760)	533,686
Cash flow from investing activities:		
Purchase of property and equipment	(23,402 )	(10,101 )
Purchase of intangible assets	(14,252 )	(5,209 )
Net cash used in investing activities	(37,654 )	(15,310 )
Cash flow from financing activities:		
Common stock repurchase and retirement	(39,672 )	(26,528 )
Net cash used in financing activities	(39,672 )	(26,528 )
Effect of exchange rate changes	(8,379 )	(2,509 )
Net increase (decrease) in cash and cash equivalents	(1,231,465)	489,339
Cash and cash equivalents, beginning of period	5,773,950	6,076,875
Cash and cash equivalents, end of period	\$4,542,485	\$6,566,214

Supplemental disclosures of cash flow information:

Cash paid for income taxes	\$11,751	\$13,605
Cash paid for interest	\$3,000	\$3,000

See notes to condensed consolidated financial statements

**RESEARCH SOLUTIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Three Months Ended September 30, 2017 and 2016 (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, and is a publicly traded holding company with two wholly owned subsidiaries: Reprints Desk, Inc., a Delaware corporation and Reprints Desk Latin America S. de R.L. de C.V, an entity organized under the laws of Mexico.

***Nature of Business***

We provide two service offerings to our customers: annual licenses that allow customers to access and utilize certain premium features of our cloud based software-as-a-service (“SaaS”) research intelligence platform (“Platforms”) and the transactional sale of published scientific, technical, and medical (“STM”) content managed, sourced and delivered through the Platform (“Transactions”). Platforms and Transactions are packaged as a single solution that enable life science and other research-intensive organizations to speed up research and development activities with faster, single sourced access and management of content and data used throughout the intellectual property development lifecycle.

***Platforms***

Our cloud-based SaaS research intelligence platform consists of proprietary software and Internet-based interfaces. Legacy functionality allows customers to initiate orders, route orders for the lowest cost acquisition, manage transactions, obtain spend and usage reporting, automate authentication, and connect seamlessly to in-house and third-party software systems. Customers can also enhance the information resources they already own or license and collaborate around bibliographic information.

Additional functionality has recently been added to our Platform in the form of interactive app-like gadgets. An alternative to manual data filtering, identification and extraction, gadgets are designed to gather, augment, and extract data across a variety of formats, including bibliographic citations, tables of contents, RSS feeds, PDF files, XML feeds, and web content. We are rapidly developing new gadgets in order to build an ecosystem of gadgets. Together, these gadgets will provide researchers with an “all in one” toolkit, delivering efficiencies in core research workflows and knowledge creation processes.

Our Platform is deployed as a single, multi-tenant system across our entire customer base. Customers securely access the Platform through online web interfaces and via web service APIs that enable customers to leverage Platform features and functionality from within in-house and third-party software systems. The Platform can also be configured to satisfy a customer’s individual preferences. We leverage our Platform’s efficiencies in scalability, stability and development costs to fuel rapid innovation and competitive advantage.

### ***Transactions***

Researchers and knowledge workers in life science and other research-intensive organizations generally require single copies of published STM journal articles for use in their research activities. These individuals are our primary users. Our Platform provides our customers with a single source to the universe of published STM content that includes over 70 million existing STM articles and over one million newly published STM articles each year.

Our Platform allows customers to find and download digital versions of STM articles that are critical to their research. Customers submit orders for the articles they need which we source and electronically deliver to them generally in under an hour. We also obtain the necessary permission licenses from the content publisher or other rights holder so that our customer’s use complies with applicable copyright laws. We have arrangements with hundreds of 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.

### ***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 financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2017 filed with the SEC. The condensed consolidated balance sheet as of June 30, 2017 included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures, including notes, required by GAAP.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to fairly present the Company's financial position and results of operations for the interim periods reflected. Except as noted, all adjustments contained herein are of a normal recurring nature. Results of operations for the fiscal periods presented herein are not necessarily indicative of fiscal year-end results.

### **Note 2. Summary of Significant Accounting Policies**

#### ***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

These estimates and assumptions include estimates for reserves of uncollectible accounts, analysis of impairments of recorded intangibles, accruals for potential liabilities, assumptions made in valuing equity instruments issued for services, and realization of deferred tax assets.

#### ***Concentration of Credit Risk***

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash and cash equivalents and accounts receivable. The Company places its cash with high quality financial institutions and at times may exceed the FDIC \$250,000 insurance limit. The Company does not anticipate incurring any losses related to these credit risks. The Company extends credit based on an evaluation of the customer's financial condition, generally without collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and intends to maintain allowances for anticipated losses, as required.

Cash denominated in Euros with a US Dollar equivalent of \$123,011 and \$93,359 at September 30, 2017 and June 30, 2017, respectively, was held by Reprints Desk in accounts at financial institutions located in Europe.

The Company has no customers that represent 10% of revenue or more for the three months ended September 30, 2017 and 2016.

The Company has no customers that accounted for greater than 10% of accounts receivable at September 30, 2017 and June 30, 2017.

The following table summarizes vendor concentrations:

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>
Vendor A	15%	18%
Vendor B	12%	12%
Vendor C	11%	*

\* Less than 10%

### ***Revenue Recognition***

The Company's policy is to recognize revenue when services have been performed, risk of loss and title to the product transfers to the customer, the selling price is fixed or determinable, and collectability is reasonably assured. We generate revenue by providing two service offerings to our customers: annual licenses that allow customers to access and utilize certain premium features of our cloud based SaaS research intelligence platform (Platforms) and the transaction sale of STM content managed, sourced and delivered through the Platform (Transactions).



### ***Platforms***

We charge a subscription fee that allows customers to access and utilize certain premium features of our Platform. Revenue is recognized ratably over the term of the subscription agreement, which is typically one year, provided all other revenue recognition criteria have been met. Billings or payments received in advance of revenue recognition are recorded as deferred revenue.

### ***Transactions***

We charge a transactional service fee for the electronic delivery of single articles, and a corresponding copyright fee for the permitted use of the content. We recognize revenue from single article delivery services upon delivery to the customer only when the selling price is fixed or determinable, and collectability is reasonably assured.

### ***Deferred Revenue***

Customer deposits and billings or payments received in advance of revenue recognition are recorded as deferred revenue.

### ***Cost of Revenue***

#### ***Platforms***

Cost of Platform revenue consists primarily of personnel costs of our operations team, and to a lesser extent managed hosting providers and other third-party service and data providers.

#### ***Transactions***

Cost of Transaction revenue consists primarily of the respective copyright fee for the permitted use of the content, less a discount in most cases, and to a much lesser extent, personnel costs of our operations team and third-party service providers.

### ***Stock-Based Compensation***

The Company periodically issues stock options, warrants and restricted stock to employees and non-employees for services, in capital raising transactions, and for financing costs. The Company accounts for share-based payments under the guidance as set forth in the Share-Based Payment Topic 718 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees, officers, directors, and consultants, including employee stock options, based on estimated fair values. The Company estimates the fair value of stock option and warrant awards to employees and directors on the date of grant using an option-pricing model, and the value of the portion of the award that is ultimately expected to vest is recognized as expense over the required service period in the Company's Statements of Operations. The Company estimates the fair value of restricted stock awards to employees and directors using the market price of the Company's common stock on the date of grant, and the value of the portion of the award that is ultimately expected to vest is recognized as expense over the required service period in the Company's Statements of Operations. The Company accounts for share-based payments to non-employees in accordance with Topic 505 of the FASB Accounting Standards Codification, whereby the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) the date at which the necessary performance to earn the equity instruments is complete. Stock-based compensation is based on awards ultimately expected to vest and is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, as necessary, in subsequent periods if actual forfeitures differ from those estimates.

### ***Foreign Currency***

The accompanying consolidated financial statements are presented in United States dollars, the functional currency of the Company. Capital accounts of foreign subsidiaries are translated into US Dollars from foreign currency at their historical exchange rates when the capital transactions occurred. Assets and liabilities are translated at the exchange rate as of the balance sheet date. Income and expenditures are translated at the average exchange rate of the period. Although the majority of our revenue and costs are in US dollars, the costs of Reprints Desk Latin America are in Mexican Pesos. As a result, currency exchange fluctuations may impact our revenue and the costs of our operations. We currently do not engage in any currency hedging activities.

Gains and losses from foreign currency transactions, which result from a change in exchange rates between the functional currency and the currency in which a foreign currency transaction is denominated, are included in selling, general and administrative expenses and amounted to \$12,387 and \$3,324, for the three months ended September 30, 2017 and 2016, respectively. Cash denominated in Euros with a US Dollar equivalent of \$123,011 and \$93,359 at September 30, 2017 and June 30, 2017, respectively, was held in accounts at financial institutions located in Europe.



The following table summarizes the exchange rates used:

	Three Months Ended September 30,		Year Ended June 30,	
	2017	2016	2017	2016
Period end Euro : US Dollar exchange rate	1.18	1.12	1.09	1.11
Average period Euro : US Dollar exchange rate	1.18	1.12	1.09	1.11
Period end Mexican Peso : US Dollar exchange rate	0.05	0.05	0.05	0.05
Average period Mexican Peso : US Dollar exchange rate	0.06	0.05	0.05	0.06

### ***Net Income (Loss) Per Share***

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period, excluding unvested restricted common stock. Shares of restricted stock are included in the basic weighted average number of common shares outstanding from the time they vest. Diluted earnings per share is computed by dividing the net income applicable to common stock holders by the weighted average number of common shares outstanding plus the number of additional common shares that would have been outstanding if all dilutive potential common shares had been issued, using the treasury stock method. Shares of restricted stock are included in the diluted weighted average number of common shares outstanding from the date they are granted. Potential common shares are excluded from the computation when their effect is antidilutive. At September 30, 2017 potentially dilutive securities include options to acquire 3,120,310 shares of common stock and warrants to acquire 1,985,000 shares of common stock. At September 30, 2016 potentially dilutive securities include options to acquire 2,723,193 shares of common stock and warrants to acquire 1,985,000 shares of common stock. The dilutive effect of potentially dilutive securities is reflected in diluted net income per share if the exercise prices were lower than the average fair market value of common shares during the reporting period.

Basic and diluted net loss per common share is the same for the three months ended September 30, 2017 and 2016 because all stock options, warrants, and unvested restricted common stock are anti-dilutive.

### ***Recently Issued Accounting Pronouncements***

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 will eliminate transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted only in annual reporting periods beginning after December 15, 2016, including interim periods therein. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Management is currently assessing the impact the adoption of ASU 2014-09 and has not determined the effect of the standard on our ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016-02 is effective for all interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company adopted ASU No. 2016-02 for a new lease entered into during the period.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

### **Note 3. Line of Credit**

The Company entered into a Loan and Security Agreement with Silicon Valley Bank (“SVB”) on July 23, 2010, which, as amended, provided for a revolving line of credit for the lesser of \$4,000,000, or 80% of eligible accounts receivable. The line of credit matured on October 31, 2017, and was subject to certain financial and performance covenants with which we were in compliance as of September 30, 2017. Financial covenants included maintaining a ratio of quick assets to current liabilities of at least 0.8 to 1.0, and maintaining tangible net worth of \$600,000, plus 50% of net income for the fiscal quarter ended from and after December 31, 2015, plus 50% of the dollar value of equity issuances after October 1, 2015 and the principal amount of subordinated debt. The line of credit bore interest at the prime rate plus 2.25% for periods in which we maintain an account balance with SVB (less all indebtedness owed to SVB) of at least \$800,000 at all times during the prior calendar month (the “Streamline Period”), and at the prime rate plus 5.25% when a Streamline Period is not in effect. The interest rate on the line of credit was 6.50% as of September 30, 2017. The line of credit was secured by the Company’s consolidated assets.

There were no outstanding borrowings under the line as of September 30, 2017 and June 30, 2017, respectively. As of September 30, 2017 and June 30, 2017, approximately \$2,336,000 and \$3,277,000, respectively, of available credit

was unused.

The line of credit matured on October 31, 2017. The Company is attempting to amend the Loan and Security Agreement with SVB to extend the maturity date of the line of credit to October 31, 2019, and the material terms and financial and performance covenants of the line of credit are expected to change.

#### **Note 4. Lease Obligations**

During the period ended March 31, 2017, the Company entered into a 48 month non-cancellable lease for its office facilities that will require monthly payments ranging from \$10,350 to \$11,475 through January 2021. In accounting for the lease, the Company adopted ASU 2016-02, Leases which requires a lessee to record a right-of-use asset and a corresponding lease liability at the inception of the lease initially measured at the present value of the lease payments. The Company classified the lease as an operating lease and determined that the fair value of the lease liability at the inception of the lease was \$463,000 using a discount rate of 3.75%. ASU 2016-02 requires recognition in the statement of operations of a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. Rent expense, including real estate taxes, for the three months ended September 30, 2017 and 2016 was \$31,440 and \$16,282, respectively. During the three months ended September 30, 2017, the Company reflected amortization of right of use asset of \$27,248 related to this lease.

#### **Note 5. Stockholders' Equity**

##### ***Stock Options***

In December 2007, we established the 2007 Equity Compensation Plan (the "Plan"). The Plan was approved by our board of directors and stockholders. The purpose of the Plan is to grant stock and options to purchase our common stock to our employees, directors and key consultants. On November 10, 2016, the maximum number of shares of common stock that may be issued pursuant to awards granted under the Plan increased from 5,000,000 to 7,000,000, as approved by our board of directors and stockholders. Cancelled and forfeited stock options and stock awards may again become available for grant under the Plan. There were 1,884,513 shares available for grant under the Plan as of September 30, 2017. All stock option grants are made under the 2007 Equity Compensation Plan.

The majority of awards issued under the Plan vest immediately or over three years, with a one year cliff vesting period, and have a term of ten years. Stock-based compensation cost is measured at the grant date, based on the fair value of the awards that are ultimately expected to vest, and recognized on a straight-line basis over the requisite service period, which is generally the vesting period.

The following table summarizes vested and unvested stock option activity:

All Options	Vested Options	Unvested Options
-------------	----------------	------------------

	<b>Weighted</b>		<b>Weighted</b>		<b>Weighted</b>	
	<b>Average</b>		<b>Average</b>		<b>Average</b>	
	Shares	Exercise	Shares	Exercise	Shares	Exercise
		<b>Price</b>		<b>Price</b>		<b>Price</b>
Outstanding at June 30, 2017	3,130,310	1.15	2,994,851	1.15	135,459	1.07
Granted	385,000	1.40	385,000	1.40	-	-
Options vesting	-	-	9,125	1.08	(9,125 )	1.08
Exercised	-	-	-	-	-	-
Forfeited/Cancelled	(395,000 )	1.35	(389,167 )	1.35	(5,833 )	1.09
Outstanding at September 30, 2017	3,120,310	\$ 1.15	2,999,809	\$ 1.15	120,501	\$ 1.07

The following table presents the assumptions used to estimate the fair values based upon a Black-Scholes option pricing model of the stock options granted during the three months ended September 30, 2017 and 2016.

	<b>Three Months Ended</b>			
	<b>September 30,</b>			
	2017	2016	2017	2016
Expected dividend yield	0 %	0 %	0 %	0 %
Risk-free interest rate	1.45 %	1.27 %	1.45 %	1.27 %
Expected life (in years)	2.60	6.0	2.60	6.0
Expected volatility	76.0 %	81.4 %	76.0 %	81.4 %



The weighted average remaining contractual life of all options outstanding as of September 30, 2017 was 5.40 years. The remaining contractual life for options vested and exercisable at September 30, 2017 was 5.25 years. Furthermore, the aggregate intrinsic value of options outstanding as of September 30, 2017 was \$301,714, and the aggregate intrinsic value of options vested and exercisable at September 30, 2017 was \$291,492, in each case based on the fair value of the Company's common stock on September 30, 2017.

During the three months ended September 30, 2017, the Company granted 385,000 options to employees with a fair value of \$167,050. The total fair value of options that vested during the three months ended September 30, 2017 was \$176,983 and is included in selling, general and administrative expenses in the accompanying statement of operations. In addition, on September 30, 2017, options originally issued to an employee to purchase an aggregate of 17,600 shares of the Company's common stock were modified to extend the exercise period from three months to approximately five years. Stock-based compensation cost of \$6,233 was recorded during the three months ended September 30, 2017 as a result of the modification.

As of September 30, 2017, the amount of unvested compensation related to stock options was \$63,587 which will be recorded as an expense in future periods as the options vest.

Additional information regarding stock options outstanding and exercisable as of September 30, 2017 is as follows:

Option Exercise Price	Options Outstanding	Remaining	
		Contractual Life (in years)	Options Exercisable
\$0.59	8,150	4.75	8,150
0.60	5,000	4.75	5,000
0.65	6,150	4.75	6,150
0.70	225,000	8.18	225,000
0.77	59,500	6.01	59,500
0.80	16,000	7.89	16,000
0.90	25,667	6.56	25,667
0.97	6,000	4.75	6,000
1.00	300,249	2.86	298,999
1.02	247,000	3.15	247,000
1.05	507,529	8.02	435,528
1.07	53,898	5.04	53,898
1.09	156,165	8.20	108,915
1.10	255,000	3.25	255,000

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1.14	3,674	4.75	3,674
1.15	343,000	2.77	343,000
1.20	31,414	6.43	31,414
1.25	32,000	5.38	32,000
1.30	263,000	4.43	263,000
1.50	380,000	1.34	380,000
1.75	1,067	4.75	1,067
1.80	169,425	5.71	169,425
1.85	24,000	5.34	24,000
1.97	1,422	4.75	1,422
Total	3,120,310		2,999,809

**Warrants**

The following table summarizes warrant activity:

	<b>Weighted</b>	
	<b>Number of</b>	<b>Average</b>
	<b>Warrants</b>	<b>Exercise</b>
		<b>Price</b>
Outstanding, June 30, 2017	1,985,000	1.25
Granted	-	-
Exercised	-	-
Expired/Cancelled	-	-
Outstanding, September 30, 2017	1,985,000	\$ 1.25
Exercisable, June 30, 2017	1,985,000	\$ 1.25
Exercisable, September 30, 2017	1,985,000	\$ 1.25

There was no intrinsic value for all warrants outstanding as of September 30, 2017, based on the fair value of the Company's common stock on September 30, 2017.

Additional information regarding warrants outstanding and exercisable as of September 30, 2017 is as follows:

Warrant Exercise Price	Warrants Outstanding	Remaining Contractual	Warrants Exercisable
		Life (in years)	
\$1.19	100,000	4.30	100,000
1.25	1,885,000	3.77	1,885,000
Total	1,985,000		1,985,000

### ***Restricted Common Stock***

Prior to July 1, 2017, the Company issued 1,573,197 shares of restricted common stock to employees valued at \$1,563,074, of which \$1,150,136 had been recognized as an expense.

During the three months ended September 30, 2017, the Company issued an additional 286,674 shares of restricted stock to employees. These shares vest over a three year period, with a one year cliff vesting period, and remain subject to forfeiture if vesting conditions are not met. The aggregate fair value of the stock awards was \$292,380 based on the market price of our common stock of \$1.02 per share on the date of grant, which will be amortized over the three-year vesting period. Restricted common stock grants are made under the 2007 Equity Compensation Plan.

The total fair value of restricted common stock vested during the three months ended September 30, 2017 was \$103,026 and is included in selling, general and administrative expenses in the accompanying statements of operations. As of September 30, 2017, the amount of unvested compensation related to issuances of restricted common stock was \$602,292, which will be recognized as an expense in future periods as the shares vest. When calculating basic net income (loss) per share, these shares are included in weighted average common shares outstanding from the time they vest. When calculating diluted net income per share, these shares are included in weighted average common shares outstanding as of their grant date.

The following table summarizes restricted common stock activity:

Number of	Fair Value	Weighted
-----------	------------	----------

	Shares		Average
			Grant
			Date
			Fair
			Value
Non-vested, June 30, 2017	513,194	412,938	0.92
Granted	286,647	292,380	1.02
Vested	(109,784 )	(103,026)	0.89
Forfeited	-	-	-
Non-vested, September 30, 2017	690,057	\$602,292	\$ 0.97

### ***Common Stock Repurchase and Retirement***

During the three months ended September 30, 2017, the Company repurchased 34,800 shares of our common stock from employees at an average market price of approximately \$1.14 per share for an aggregate amount of \$39,672. The shares of common stock were surrendered by employees to cover tax withholding obligations with respect to the vesting of restricted stock. Shares repurchased are retired and deducted from common stock for par value and from additional paid in capital for the excess over par value.

### **Note 6. Gain from Sale of Discontinued Operations (Reprints and ePrints business line)**

On June 30, 2017, we sold the intangible assets of our Reprints and ePrints business pursuant to an Asset Purchase Agreement dated June 20, 2017. The aggregate net consideration for the sale included earn-out payments of 45% of gross margin over the 30-month period subsequent to the closing date. We have made a policy election to record the contingent consideration when the consideration is determined to be realizable (each 6-month period ending subsequent to the closing date). Contingent consideration determined to be realizable amounted to \$57,149 for the three months ended September 30, 2017 and is recorded as gain from sale of discontinued operations.

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

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

*The following discussion and analysis of our financial condition and results of operations for the three months ended September 30, 2017 and 2016 should be read in conjunction with our consolidated financial statements and related notes to those financial statements that are included elsewhere in this report. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017.*

*We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could,” and similar expressions to identify forward-looking statements. All forward-looking statements included in this report are based on information available to us on the date hereof and, except as required by law, we assume no obligation to update any such forward-looking statements.*

### **Overview**

Research Solutions was incorporated in the State of Nevada on November 2, 2006, and is a publicly traded holding company with two wholly owned subsidiaries: Reprints Desk, Inc., a Delaware corporation and Reprints Desk Latin America S. de R.L. de C.V, an entity organized under the laws of Mexico.

We provide two service offerings to our customers: annual licenses that allow customers to access and utilize certain premium features of our cloud based software-as-a-service (“SaaS”) research intelligence platform (“Platforms”) and the transactional sale of published scientific, technical, and medical (“STM”) content managed, sourced and delivered through the Platform (“Transactions”). Platforms and Transactions are packaged as a single solution that enable life science and other research-intensive organizations to speed up research and development activities with faster, single sourced access and management of content and data used throughout the intellectual property development lifecycle.

### ***Platforms***

Our cloud-based SaaS research intelligence platform consists of proprietary software and Internet-based interfaces. Legacy functionality allows customers to initiate orders, route orders for the lowest cost acquisition, manage transactions, obtain spend and usage reporting, automate authentication, and connect seamlessly to in-house and third-party software systems. Customers can also enhance the information resources they already own or license and collaborate around bibliographic information.

Additional functionality has recently been added to our Platform in the form of interactive app-like gadgets. An alternative to manual data filtering, identification and extraction, gadgets are designed to gather, augment, and extract data across a variety of formats, including bibliographic citations, tables of contents, RSS feeds, PDF files, XML feeds, and web content. We are rapidly developing new gadgets in order to build an ecosystem of gadgets. Together, these gadgets will provide researchers with an “all in one” toolkit, delivering efficiencies in core research workflows and knowledge creation processes.

Our Platform is deployed as a single, multi-tenant system across our entire customer base. Customers securely access the Platform through online web interfaces and via web service APIs that enable customers to leverage Platform features and functionality from within in-house and third-party software systems. The Platform can also be configured to satisfy a customer’s individual preferences. We leverage our Platform’s efficiencies in scalability, stability and development costs to fuel rapid innovation and competitive advantage.

### ***Transactions***

Researchers and knowledge workers in life science and other research-intensive organizations generally require single copies of published STM journal articles for use in their research activities. These individuals are our primary users. Our Platform provides our customers with a single source to the universe of published STM content that includes over 70 million existing STM articles and over one million newly published STM articles each year.

Our Platform allows customers to find and download digital versions of STM articles that are critical to their research. Customers submit orders for the articles they need which we source and electronically deliver to them generally in under an hour. We also obtain the necessary permission licenses from the content publisher or other rights holder so that our customer’s use complies with applicable copyright laws. We have arrangements with hundreds of 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.

### **Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States, or GAAP, requires us to make estimates and assumptions that affect the reported amounts of

assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. When making these estimates and assumptions, we consider our historical experience, our knowledge of economic and market factors and various other factors that we believe to be reasonable under the circumstances. Actual results may differ under different estimates and assumptions.

The accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties.

### ***Revenue Recognition***

Our policy is to recognize revenue when services have been performed, risk of loss and title to the product transfers to the customer, the selling price is fixed or determinable, and collectability is reasonably assured. We generate revenue by providing two service offerings to our customers: annual licenses that allow customers to access and utilize certain premium features of our cloud based SaaS research intelligence platform (Platforms) and the transaction sale of STM content managed, sourced and delivered through the Platform (Transactions).

### ***Platforms***

We charge a subscription fee that allows customers to access and utilize certain premium features of our Platform. Revenue is recognized ratably over the term of the subscription agreement, which is typically one year, provided all other revenue recognition criteria have been met. Billings or payments received in advance of revenue recognition are recorded as deferred revenue.

### ***Transactions***

We charge a transactional service fee for the electronic delivery of single articles, and a corresponding copyright fee for the permitted use of the content. We recognize revenue from single article delivery services upon delivery to the customer only when the selling price is fixed or determinable, and collectability is reasonably assured.

### ***Stock-Based Compensation***

We periodically issue stock options, warrants and restricted stock to employees and non-employees for services, in capital raising transactions, and for financing costs. We account for share-based payments under the guidance as set forth in the Share-Based Payment Topic 718 of the FASB Accounting Standards Codification, which requires the



measurement and recognition of compensation expense for all share-based payment awards made to employees, officers, directors, and consultants, including employee stock options, based on estimated fair values. We estimate the fair value of stock option and warrant awards to employees and directors on the date of grant using an option-pricing model, and the value of the portion of the award that is ultimately expected to vest is recognized as expense over the required service period in our Statements of Operations. We estimate the fair value of restricted stock awards to employees and directors using the market price of our common stock on the date of grant, and the value of the portion of the award that is ultimately expected to vest is recognized as expense over the required service period in our Statements of Operations. We account for share-based payments to non-employees in accordance with Topic 505 of the FASB Accounting Standards Codification, whereby the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) the date at which the necessary performance to earn the equity instruments is complete. Stock-based compensation is based on awards ultimately expected to vest and is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, as necessary, in subsequent periods if actual forfeitures differ from those estimates.

### ***Recent Accounting Pronouncements***

Please refer to footnote 2 to the condensed consolidated financial statements contained elsewhere in this Form 10-Q for a discussion of Recent Accounting Pronouncements.

**Quarterly Information (Unaudited)**

The following table sets forth unaudited and quarterly financial data for the most recent eight quarters:

	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015
Revenue:								
Platforms	\$387,945	\$318,194	\$270,920	\$219,137	\$172,072	\$129,963	\$121,034	\$92,578
Transactions	6,359,895	6,521,313	6,372,679	5,866,562	6,006,399	6,025,972	6,394,127	5,702,733
Total revenue	6,747,840	6,839,507	6,643,599	6,085,699	6,178,471	6,155,935	6,515,161	5,795,311
Cost of revenue:								
Platforms	83,987	71,097	58,367	45,623	29,964	23,426	21,557	17,177
Transactions	4,914,414	5,060,500	4,997,842	4,664,690	4,714,999	4,702,892	4,918,679	4,471,950
Total cost of revenue	4,998,401	5,131,597	5,056,209	4,710,313	4,744,963	4,726,318	4,940,236	4,489,127
Gross profit:								
Platforms	303,958	247,097	212,553	173,514	142,108	106,537	99,477	75,401
Transactions	1,445,481	1,460,813	1,374,837	1,201,872	1,291,400	1,323,080	1,475,448	1,230,783
Total gross profit	1,749,439	1,707,910	1,587,390	1,375,386	1,433,508	1,429,617	1,574,925	1,306,184
Operating expenses:								
Sales and marketing	899,695	988,962	963,784	854,724	580,778	520,402	525,681	498,835
General and administrative	1,363,486	1,326,798	1,251,807	1,226,181	1,211,008	902,667	1,011,670	1,092,187
Depreciation and amortization	40,568	36,893	33,906	32,426	30,469	29,702	30,310	16,096
Stock-based compensation expense	286,242	112,151	112,326	303,097	102,589	162,192	130,568	277,389
Foreign currency transaction loss (gain)	(12,387 )	(6,362 )	6,272	17,631	3,324	994	(2,829 )	5,805
Total operating expenses	2,577,604	2,458,442	2,368,095	2,434,059	1,928,168	1,615,957	1,695,400	1,890,312

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Other income (expenses and income taxes)	(1,949 )	(6,425 )	1,599	(6,913 )	(11,895 )	(22,034 )	(37,238 )	(4,415 )
Loss from continuing operations	(830,114 )	(756,957 )	(779,106 )	(1,065,586 )	(506,555 )	(208,374 )	(157,713 )	(588,543 )
Income from discontinued operations	-	113,314	141,616	222,626	95,889	155,385	190,089	290,118
Gain on sale of discontinued operations	57,149	241,196	-	-	-	-	-	-
Net income (loss)	(772,965 )	(402,447 )	(637,490 )	(842,960 )	(410,666 )	(52,989 )	32,376	(298,425 )
	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016	June 30, 2016	Mar. 31, 2016	Dec. 31, 2015
Net income (loss):								
Loss from continuing operations	\$(830,114 )	\$(756,957 )	\$(779,106 )	\$(1,065,586 )	\$(506,555 )	\$(208,374 )	\$(157,713 )	\$(588,543 )
Income from discontinued operations	57,149	354,510	141,616	222,626	95,889	155,385	190,089	290,118
Net income (loss)	\$(772,965 )	\$(402,447 )	\$(637,490 )	\$(842,960 )	\$(410,666 )	\$(52,989 )	\$32,376	\$(298,425 )
Basic income (loss) per common share:								
Loss per share from continuing operations	\$(0.04 )	\$(0.03 )	\$(0.03 )	\$(0.05 )	\$(0.02 )	\$(0.01 )	\$-	\$(0.03 )
Income per share from discontinued operations	\$-	\$0.01	\$-	\$0.01	\$-	\$-	\$-	\$0.01
Net income (loss) per share	\$(0.04 )	\$(0.02 )	\$(0.03 )	\$(0.04 )	\$(0.02 )	\$(0.01 )	\$-	\$(0.02 )
Basic weighted average common shares outstanding	23,380,437	23,369,727	23,265,939	23,200,975	23,131,570	18,154,762	17,707,900	17,656,000

Diluted  
income (loss)  
per common  
share:

Loss per  
share from  
continuing  
operations

\$ (0.04	)	\$ (0.03	)	\$ (0.03	)	\$ (0.05	)	\$ (0.02	)	\$ (0.01	)	\$ -		\$ (0.03
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Income per  
share from  
discontinued  
operations

\$ -		\$ 0.01		\$ -		\$ 0.01		\$ -		\$ -		\$ -		\$ 0.01
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Net income  
(loss) per  
share

\$ (0.04	)	\$ (0.02	)	\$ (0.03	)	\$ (0.04	)	\$ (0.02	)	\$ (0.01	)	\$ -		\$ (0.02
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Diluted  
weighted  
average  
common  
shares  
outstanding

23,380,437		23,369,727		23,265,939		23,200,975		23,131,570		18,154,762		18,464,000		17,656
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**Comparison of the Three Months Ended September 30, 2017 and 2016*****Results of Operations***

	Three Months Ended September 30,		2017-2016		
	2017	2016	2017-2016	2017-2016	
			\$ Change	% Change	
Revenue:					
Platforms	\$387,945	\$172,072	\$215,873	125.5	%
Transactions	6,359,895	6,006,399	353,496	5.9	%
Total revenue	6,747,840	6,178,471	569,369	9.2	%
Cost of revenue:					
Platforms	83,987	29,964	54,023	180.3	%
Transactions	4,914,414	4,714,999	199,415	4.2	%
Total cost of revenue	4,998,401	4,744,963	253,438	5.3	%
Gross profit	1,749,439	1,433,508	315,931	22.0	%
Operating expenses:					
Sales and marketing	899,695	580,778	318,917	54.9	%
General and administrative	1,363,486	1,211,008	152,478	12.6	%
Depreciation and amortization	40,568	30,469	10,099	33.1	%
Stock-based compensation expense	286,242	102,589	183,653	179.0	%
Foreign currency transaction loss	(12,387 )	3,324	(15,711 )	(472.7 )	%
Total operating expenses	2,577,604	1,928,168	649,436	33.7	%
Loss from operations	(828,165 )	(494,660 )	(333,505 )	(67.4 )	%
Other income (expenses):					
Interest expense	(3,000 )	(3,000 )	-	-	%
Other income	12,802	4,710	8,092	171.8	%
Total other income	9,802	1,710	8,092	473.2	%
Loss from operations before provision for income taxes	(818,363 )	(492,950 )	(325,413 )	66.0	%
Provision for income taxes	(11,751 )	(13,605 )	1,854	13.6	%
Loss from continuing operations	(830,114 )	(506,555 )	(323,559 )	63.9	%
Discontinued operations:					
Income from discontinued operations	-	95,889	(95,889 )	(100.0 )	%

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Gain from sale of discontinued operations	57,149	-	57,149	-	%
Income from discontinued operations	57,149	95,889	(38,740 )	(40.4 )	%
Net loss	\$(772,965 )	\$(410,666 )	\$(362,299 )	(88.2 )	%

**Revenue**

		Three Months Ended September 30,		2017-2016	
	2017	2016	2017-2016	2017-2016	
			\$ Change	% Change	
Revenue:					
Platforms	\$387,945	\$172,072	\$215,873	125.5	%
Transactions	6,359,895	6,006,399	353,496	5.9	%
Total revenue	\$6,747,840	\$6,178,471	\$569,369	9.2	%

Total revenue increased \$569,369, or 9.2%, for the three months ended September 30, 2017 compared to the prior year, due to the following:

Category	Impact	Key Drivers
Platforms	\$215,873	Increased due to additional deployments to new and existing customers. Revenue is recognized ratably over the term of the subscription agreement, which is typically one year, provided all other revenue recognition criteria have been met. Billings or payments received in advance of revenue recognition are recorded as deferred revenue.
Transactions	\$353,496	Increased primarily due to orders from new customers.

### *Cost of Revenue*

		Three Months Ended September 30,		2017-2016	
		2017	2016	\$ Change	% Change
Cost of Revenue:					
Platforms		\$83,987	\$29,964	\$54,023	180.3 %
Transactions		4,914,414	4,714,999	199,415	4.2 %
Total cost of revenue		\$4,998,401	\$4,744,963	\$253,438	5.3 %

		Three Months Ended September 30,		2017-2016	
		2017	2016	Change *	
As a percentage of revenue:					
Platforms		21.6 %	17.4 %	4.2	%
Transactions		77.3 %	78.5 %	(1.2)	)%
Total		74.1 %	76.8 %	(2.8)	)%

\* The difference between current and prior period cost of revenue as a percentage of revenue

Total cost of revenue as a percentage of revenue decreased 2.8%, from 76.8% for the previous year to 74.1%, for the three months ended September 30, 2017.

Category	Impact as percentage of revenue	Key Drivers
Platforms	4.2 %	Increased due to additional third-party data costs.
Transactions	1.2 %	Decreased primarily due to an increase in copyright discounts.

### Gross Profit

		Three Months Ended September 30,		2017-2016	
		2017	2016	\$ Change	% Change
Gross Profit:					
Platforms	\$303,958	\$142,108	\$161,850	113.9	%
Transactions	1,445,481	1,291,400	154,081	11.9	%
Total gross profit	\$1,749,439	\$1,433,508	\$315,931	22.0	%

		Three Months Ended September 30,		2017-2016	
		2017	2016	Change *	
As a percentage of revenue:					
Platforms	78.4%	82.6%	(4.2	)%	
Transactions	22.7%	21.5%	1.2	%	
Total	25.9%	23.2%	2.7	%	

\* The difference between current and prior period gross profit as a percentage of revenue



**Operating Expenses**

	Three Months Ended September 30,		2017-2016		2017-2016
	2017	2016			
			\$ Change	% Change	
Operating Expenses:					
Sales and marketing	\$899,695	\$580,778	\$ 318,917	54.9	%
General and administrative	1,363,486	1,211,008	152,478	12.6	%
Depreciation and amortization	40,568	30,469	10,099	33.1	%
Stock-based compensation expense	286,242	102,589	183,653	179.0	%
Foreign currency transaction loss	(12,387 )	3,324	(15,711 )	(472.7	)%
Total operating expenses	\$2,577,604	\$1,928,168	\$ 649,436	33.7	%

Category	Impact	Key Drivers
Sales and marketing	\$318,917	Increased primarily due to greater personnel and consulting cost.
General and administrative	\$152,478	Increased primarily due to greater personnel cost.
Depreciation and amortization	\$10,099	Increased due to greater amortization of customer list.

**Net Income (Loss)**

	Three Months Ended September 30,		2017-2016		2017-2016
	2017	2016			
			\$ Change	% Change	
Net Income (Loss):					
Loss from continuing operations	\$(830,114)	\$(506,555)	\$(323,559 )	(63.9	)%
Income from discontinued operations	57,149	95,889	(38,740 )	(40.4	)%
Total net loss	\$(772,965)	\$(410,666)	\$(362,299 )	(88.2	)%

Loss from continuing operations increased \$323,559 or 63.9%, for the three months ended September 30, 2017 compared to the prior year, primarily due to increased operating expenses, partially offset by increased gross profit as described above.

**Liquidity and Capital Resources**

	Nine Months Ended September 30,	
Consolidated Statements of Cash Flow Data:	2017	2016
Net cash provided by (used in) operating activities	\$(1,145,760 )	\$533,686
Net cash used in investing activities	(37,654 )	(15,310 )
Net cash used in financing activities	(39,672 )	(26,528 )
Effect of exchange rate changes	(8,379 )	(2,509 )
Net increase in cash and cash equivalents	(1,231,465 )	489,339
Cash and cash equivalents, beginning of period	5,773,950	6,076,875
Cash and cash equivalents, end of period	\$4,542,485	\$6,566,214

### ***Liquidity***

Since our inception, we have funded our operations primarily through private sales of equity securities and the exercise of warrants, which have provided aggregate net cash proceeds to date of approximately \$15,972,000. As of September 30, 2017, we had working capital of \$3,579,274 and stockholders' equity of \$3,809,277. For the three months ended September 30, 2017, we recorded a net loss of \$772,965, and cash used in operating activities was \$1,145,760. We may incur losses for an indeterminate period and may never sustain profitability. We may be unable to achieve and maintain profitability on a quarterly or annual basis. An extended period of losses and negative cash flow may prevent us from successfully operating and expanding our business.

As of September 30, 2017, we had cash and cash equivalents of \$4,542,485, compared to \$6,566,214 as of September 30, 2016, a decrease of \$1,231,465. This decrease was primarily due to cash used in operating activities.

### ***Operating Activities***

Net cash used in operating activities was \$1,145,760 for the three months ended September 30, 2017 and resulted primarily from a net loss of \$772,965 and a decrease in accounts payable and accrued expenses of \$1,765,757, partially offset by a decrease in accounts receivable of \$1,157,523.

Net cash provided by operating activities was \$533,686 for the three months ended September 30, 2016 and resulted primarily from a decrease in accounts receivable of \$1,184,710, partially offset by a decrease in accounts payable and accrued expenses of \$374,291 and an increase in prepaid royalties of \$244,400.



### ***Investing Activities***

Net cash used in investing activities was \$37,654 for the three months ended September 30, 2017 and resulted from the purchase of intangible assets and property and equipment.

Net cash used in investing activities was \$15,310 for the three months ended September 30, 2016 and resulted from the purchase of intangible assets and property and equipment.

### ***Financing Activities***

Net cash used in financing activities was \$39,672 for the three months ended September 30, 2017 and resulted from the repurchase of common stock.

Net cash used in financing activities was \$26,528 for the three months ended September 30, 2016 and resulted from the repurchase of common stock.

We entered into a Loan and Security Agreement with Silicon Valley Bank (“SVB”) on July 23, 2010, which, as amended, provided for a revolving line of credit for the lesser of \$4,000,000, or 80% of eligible accounts receivable. The line of credit matured on October 31, 2017, and was subject to certain financial and performance covenants with which we were in compliance as of September 30, 2017. Financial covenants included maintaining a ratio of quick assets to current liabilities of at least 0.8 to 1.0, and maintaining tangible net worth of \$600,000, plus 50% of net income for the fiscal quarter ended from and after December 31, 2015, plus 50% of the dollar value of equity issuances after October 1, 2015 and the principal amount of subordinated debt. The line of credit bore interest at the prime rate plus 2.25% for periods in which we maintain an account balance with SVB (less all indebtedness owed to SVB) of at least \$800,000 at all times during the prior calendar month (the “Streamline Period”), and at the prime rate plus 5.25% when a Streamline Period is not in effect. The interest rate on the line of credit was 6.50% as of September 30, 2017. The line of credit was secured by our consolidated assets.

There were no outstanding borrowings under the line as of September 30, 2017 and June 30, 2017, respectively. As of September 30, 2017 and June 30, 2017, approximately \$2,336,000 and \$3,277,000, respectively, of available credit was unused.

The line of credit matured on October 31, 2017. We are attempting to amend the Loan and Security Agreement with SVB to extend the maturity date of the line of credit to October 31, 2019, and the material terms and financial and performance covenants of the line of credit are expected to change.

### Non-GAAP Measure – Adjusted EBITDA

In addition to our GAAP results, we present Adjusted EBITDA as a supplemental measure of our performance. However, Adjusted EBITDA is not a recognized measurement under GAAP and should not be considered as an alternative to net income, income from operations or any other performance measure derived in accordance with GAAP or as an alternative to cash flow from operating activities as a measure of liquidity. We define Adjusted EBITDA as net income (loss), plus interest expense, other income (expense), foreign currency transaction loss, provision for income taxes, depreciation and amortization, stock-based compensation, income from discontinued operations and gain on sale of discontinued operations. Management considers our core operating performance to be that which our managers can affect in any particular period through their management of the resources that affect our underlying revenue and profit generating operations that period. Non-GAAP adjustments to our results prepared in accordance with GAAP are itemized below. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

Set forth below is a reconciliation of Adjusted EBITDA to net income (loss) for the three months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017-2016		
	2017	2016	\$ Change
Net loss	\$(772,965)	\$(410,666)	\$(362,299)
Add (deduct):			
Interest expense	3,000	3,000	-
Other (income) expense	(12,802 )	(4,710 )	(8,092 )
Foreign currency transaction loss	(12,387 )	3,324	(15,711 )
Provision for income taxes	11,751	13,605	(1,854 )
Depreciation and amortization	40,568	30,469	10,099
Stock-based compensation	286,242	102,589	183,653
Income from discontinued operations	-	(95,889 )	95,889
Gain on sale of discontinued operations	(57,149 )	-	(57,149 )
Adjusted EBITDA	\$(513,742)	\$(358,278)	\$(155,464)

We present Adjusted EBITDA because we believe it assists investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. In addition, we use Adjusted EBITDA in developing our internal budgets, forecasts and strategic plan; in analyzing the effectiveness of our business strategies in evaluating potential acquisitions; and in making compensation decisions and in communications with our board of directors concerning our financial performance. Adjusted EBITDA has limitations as an analytical tool, which includes, among others, the following:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

- Adjusted EBITDA does not reflect interest expense, or the cash requirements necessary to service interest or principal payments, on our debts; and

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not required.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. For purposes of this section, the term *disclosure controls and procedures* means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2017, the end of the period covered by this report, our disclosure controls and procedures were effective at a reasonable assurance level.

#### **Inherent Limitations on the Effectiveness of Controls**

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been or will be detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

#### **Changes in Internal Control Over Financial Reporting**

In addition, our management with the participation of our principal executive officer and principal financial officer have determined that no change in our internal control over financial reporting (as that term is defined in Rules

13(a)-15(f) and 15(d)-15(f) of the Exchange Act) occurred during the quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**PART II — OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On February 16, 2017, the Compensation Committee of our Board of Directors authorized the repurchase, over a 12-month period on the last day of each trading window and otherwise in accordance with our insider trading policies, of up to \$300,000 of outstanding common stock (at prices no greater than \$2.00 per share) from our employees to satisfy their tax obligations in connection with the vesting of stock incentive awards. The actual number of shares repurchased will be determined by applicable employees in their discretion, and will depend on their evaluation of market conditions and other factors.

During the three months ended September 30, 2017, we repurchased 34,800 shares of our common stock under the repurchase plan at a price of \$1.14 per share for an aggregate amount of \$39,672. As of September 30, 2017, \$143,353 remains under the current authorization to repurchase our outstanding common stock from our employees.

Shares repurchased are retired and deducted from common stock for par value and from additional paid in capital for the excess over par value. Direct costs incurred to acquire the shares are included in the total cost of the shares.

The following table summarizes repurchases of our common stock on a monthly basis:

<b>Period</b>	<b>Total Number of Shares Purchased <sup>1</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
July 1 – July 31, 2017	-	-	-	\$183,025
August 1 – August 31, 2017	-	-	-	\$183,025
September 1 – September 30, 2017	34,800	\$1.14	-	\$143,353
Total	34,800	\$1.14	-	-

<sup>1</sup> Consists of shares of common stock purchased from an employee to satisfy tax obligations in connection with the vesting of stock incentive awards.

**Item 6. Exhibits**

See “Exhibit Index” on the page immediately following the signature page hereto for a list of exhibits filed as part of this report, which is incorporated herein by reference.

## **SIGNATURES**

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

### **RESEARCH SOLUTIONS, INC.**

By:/s/ Peter Victor Derycz

Date: November 14, 2017      Peter Victor Derycz  
Chief Executive Officer (Principal Executive Officer)

By:/s/ Alan Louis Urban

Date: November 14, 2017      Alan Louis Urban  
Chief Financial Officer (Principal Financial and Accounting Officer)

## **EXHIBIT INDEX**

Exhibit	Description
Number	
<u>31.1</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer</u>
<u>31.2</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer</u>
<u>32.1</u>	<u>Section 1350 Certification of Chief Executive Officer *</u>
<u>32.2</u>	<u>Section 1350 Certification of Chief Financial Officer *</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

\*Furnished herewith