

Research Solutions, Inc.
Form 10-Q
November 19, 2013

**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, 2013

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)

(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

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

Accelerated filer

Smaller reporting company

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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 7, 2013
Common Stock, \$0.001 par value	17,121,298

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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, 2013 (unaudited)	June 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,804,881	\$ 1,699,969
Accounts receivable:		
Trade receivables, net of allowance of \$ 215,125 and \$211,743, respectively	4,720,460	4,966,717
Due from factor	162,234	165,971
Inventory	122,435	171,682
Prepaid expenses and other current assets	311,925	327,532
Prepaid royalties	374,422	351,852
Total current assets	7,496,357	7,683,723
Other assets:		
Property and equipment, net of accumulated depreciation of \$ 1,218,048 and \$1,094,953, respectively	761,319	831,231
Intangible assets, net of accumulated amortization of \$ 331,455 and \$308,245, respectively	103,889	123,482
Deposits and other assets	220,523	286,073
Total assets	\$ 8,582,088	\$ 8,924,509
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,313,800	\$ 7,530,034
Capital lease obligations, current	310,749	221,461
Notes payable, current	57,473	55,293
Due to factor	295,596	246,221
Deferred revenue	21,488	53,216
Total current liabilities	7,999,106	8,106,225
Long term liabilities:		
Notes payable, long term	-	11,059
Capital lease obligations, long term	355,609	493,045
Total liabilities	8,354,715	8,610,329
Commitments and contingencies		
Stockholders' equity:		
Preferred stock; \$0.001 par value; 20,000,000 shares authorized; no shares issued and outstanding	-	-

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Common stock; \$0.001 par value; 100,000,000 shares authorized; 17,121,298 and 16,970,465 shares issued and outstanding, respectively	17,121	16,970
Additional paid-in capital	14,306,406	14,213,443
Accumulated deficit	(14,135,185)	(13,992,238)
Accumulated other comprehensive income	39,031	76,005
Total stockholders' equity	227,373	314,180
Total liabilities and stockholders' equity	\$ 8,582,088	\$ 8,924,509

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30,	
	2013	2012
Revenue	\$ 8,577,721	\$ 9,541,999
Cost of revenue	6,572,745	7,385,155
Gross profit	2,004,976	2,156,844
Operating expenses:		
Selling, general and administrative	2,011,029	1,990,710
Depreciation and amortization	117,351	186,658
Gain on sale of fixed assets	-	(6,879)
Total operating expenses	2,128,380	2,170,489
Loss from operations	(123,404)	(13,645)
Other income (expenses):		
Interest expense	(12,647)	(36,837)
Other income (expense)	786	(2,958)
Total other expense	(11,861)	(39,795)
Loss before provision for income taxes	(135,265)	(53,440)
Provision for income tax	(7,682)	(593)
Net loss	(142,947)	(54,033)
Other comprehensive loss:		
Foreign currency translation	(36,974)	(27,647)
Comprehensive loss	\$ (179,921)	\$ (81,680)
Net loss per common share:		
Basic and diluted	\$ (0.01)	\$ 0.00
Weighted average shares outstanding:		
Basic and diluted	16,970,465	17,083,596

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, 2013
(Unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Income	Total Stockholders' Equity
Balance, July 1, 2013	16,970,465	\$ 16,970	\$ 14,213,443	\$ (13,992,238)	\$ 76,005	\$ 314,180
Fair value of vested stock options	-	-	70,489	-	-	70,489
Fair value of restricted common stock issued for services	150,833	151	22,474	-	-	22,625
Net loss for the period	-	-	-	(142,947)	-	(142,947)
Foreign currency translation	-	-	-	-	(36,974)	(36,974)
Balance, September 30, 2013	17,121,298	\$ 17,121	\$ 14,306,406	\$ (14,135,185)	\$ 39,031	\$ 227,373

See notes to condensed consolidated financial statements

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

	Three Months ended September 30,	
	2013	2012
Cash flow from operating activities:		
Net loss	\$ (142,947)	\$ (54,033)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	117,351	199,602
Fair value of vested stock options	70,489	42,172
Fair value of restricted common stock issued for services	22,625	-
Gain on sale of fixed assets	-	(6,879)
Changes in assets and liabilities:		
Accounts receivable	246,257	291,156
Inventory	49,247	71,049
Due from factor	3,737	143,705
Prepaid expenses and other current assets	15,607	(179,502)
Prepaid royalties	(22,570)	342,464
Deposits and other assets	65,550	(1,938)
Accounts payable and accrued expenses	(216,234)	(796,201)
Deferred revenue	(31,728)	(9,847)
Net cash provided by operating activities	177,384	41,748
Cash flow from investing activities:		
Purchase of property and equipment	(559)	(35,463)
Purchase of intangible assets	(3,617)	-
Proceeds from sale of fixed assets	-	16,357
Net cash used in investing activities	(4,176)	(19,106)
Cash flow from financing activities:		
Advances (payments) to factor	49,375	(59,550)
Payment of notes payable	(8,879)	(8,540)
Payment of capital lease obligations	(48,148)	(132,835)
Payments under line of credit	-	(750,000)
Net cash used in financing activities	(7,652)	(950,925)
Effect of exchange rate changes	(60,644)	(47,258)
Net increase (decrease) in cash and cash equivalents	104,912	(975,541)
Cash and cash equivalents, beginning of period	1,699,969	3,150,978
Cash and cash equivalents, end of period	\$ 1,804,881	\$ 2,175,437

See notes to condensed consolidated financial statements

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

	Three Months ended September 30,	
	2013	2012
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ 7,682	\$ 593
Cash paid for interest	\$ 12,647	\$ 36,837

See notes to condensed consolidated financial statements

RESEARCH SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three Months Ended September 30, 2013 and 2012 (Unaudited)

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

Organization

Research Solutions, Inc. (the “Company”) was incorporated in the State of Nevada on November 2, 2006. On March 4, 2013, the Company consummated a merger with DYSC Subsidiary Corporation, the Company’s wholly-owned subsidiary, pursuant to which the Company, in connection with such merger, amended its Articles of Incorporation to change its name to Research Solutions, Inc. (formerly Derycz Scientific, Inc.). Research Solutions, Inc. is a publicly traded holding company with three wholly owned subsidiaries: Reprints Desk, Inc., a Delaware corporation (“Reprints Desk”); Reprints Desk Latin America S. de R.L. de C.V, an entity organized under the laws of Mexico; and Techniques Appliquées aux Arts Graphiques, S.p.A. (“TAAG”), an entity organized under the laws of France.

Nature of Business

Our mission is to provide research solutions that facilitate the flow of information from the publishers of scientific, technical, and medical (“STM”) content to enterprise customers in life science and other research intensive organizations around the world. We provide customers with access to hundreds of thousands of newly published articles each year in addition to the tens of millions of existing articles that have been published in the past, helping them to identify the most useful and relevant content for their activities. In addition to serving end users of content, we also serve STM publishers by insuring compliance with applicable copyright laws. We have developed proprietary software and Internet-based interfaces that allow customers to find, electronically receive and legally use the content that is critical to their research.

We provide three types of solutions to our customers: research solutions, marketing solutions, and printing solutions.

Research Solutions

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 developed 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 maximize 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. In some cases, our proprietary software allows us to fully automate the order fulfillment process. Our services alleviate the need for our customers to develop internal systems or contact multiple content publishers in order to obtain the content that is critical to their research.

Marketing Solutions

Marketing departments in life science and other research intensive organizations generally require large quantities of printed copies of published STM journal articles called “Reprints.” They generally supply Reprints to doctors who may prescribe their products and at conferences. We are responsible for the printing and delivery of Reprint orders, and we also obtain the necessary permissions from the content publisher so that our customer’s use complies with applicable copyright laws. Electronic copies, called “ePrints,” are also used for distribution through the Internet and other

electronic mechanisms. We have developed proprietary ePrint software that increase 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 sciences industry.

Printing Solutions

Our printing solutions, exclusively performed by TAAG, our French operating subsidiary, include a variety of hard copy, professionally printed materials that are used for retail and marketing purposes, including Reprints, as well as regulatory sensitive marketing materials and clinical trial kits.

Liquidity

Historically, we have relied upon cash from financing activities to fund substantially all of the cash requirements of our activities and have incurred significant losses and experienced negative cash flow. As of September 30, 2013, we had an accumulated deficit of \$14,135,185 and stockholders' equity of \$227,373. For the three months ended September 30, 2013, the Company recorded a net loss of \$142,947 and cash provided by operating activities was \$177,384. We cannot predict if we will be profitable. We may continue to incur losses for an indeterminate period of time and may never sustain profitability. An extended period of losses and negative cash flow may prevent us from successfully operating and expanding our business. We may be unable to sustain or increase our profitability on a quarterly or annual basis.

North American Operations (Reprints Desk)

The Company believes that its current cash resources and cash flow from our North American operations will be sufficient to sustain current North American operations for the next twelve months. The Company expects to continue to produce cash from North American operating activities; however, there are no assurances that such results will be achieved.

TAAG (France)

The Company believes that its current cash resources and cash flow from TAAG may not be sufficient to sustain TAAG operations for the next twelve months. During the three months ended September 30, 2013, TAAG incurred a net loss from operations of \$34,243, and at September 30, 2013, had a working capital deficiency of approximately \$1,340,000. In addition, significant net losses in prior years have been incurred and approximately \$325,000 of payroll and VAT taxes were delinquent at September 30, 2013. Effective June 30, 2013, the Company contributed a loan receivable from TAAG totaling \$1,009,115 to TAAG's capital to improve TAAG's liquidity. The Company's line of credit with Silicon Valley Bank limits the amount of funding of TAAG to a maximum of approximately \$335,000, and only to the extent certain warrants are exercised for cash. The funding period for TAAG under the line of credit expires on March 31, 2014, and no additional financing for TAAG is in place. Our overall strategy is to improve TAAG's revenue, operations, and profitability, however, there is no assurance that such results will be achieved. In the event that TAAG liquidates our exposure to creditors in France is limited to the assets of TAAG, with the exception of a \$50,000 guarantee by the Company in favor of the landlord on the facility lease. In the event that TAAG liquidates we could lose a significant percentage of revenue, or all revenue, from TAAG.

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 U.S. 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, 2013 filed with the SEC. The condensed consolidated balance sheet as of June 30, 2013 included herein was derived from the audited consolidated financial statements as of that date, but does not include all disclosures, including notes, required by U.S. 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 U.S. 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, inventory obsolescence, analysis of impairments of recorded goodwill and intangibles, accruals for potential liabilities and assumptions made in valuing equity instruments issued for services or acquisitions.

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 \$401,819 and \$393,093 at September 30, 2013 and June 30, 2013, respectively, was held in accounts at financial institutions located in Europe.

The following table summarizes accounts receivable concentrations:

	As of September 30, 2013		As of June 30, 2013	
Customer A	15	%		*
Customer B		*	11	%

The following table summarizes revenue concentrations:

	Three Months Ended September 30,		
	2013		2012
Customer A	12	%	*

The following table summarizes vendor concentrations:

	Three Months Ended September 30,		
	2013		2012
Vendor A	18	%	*
Vendor B	14	%	15
Vendor C	12	%	*
Vendor D	12	%	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 three types of services to our customers: Single Article Delivery, Reprints and ePrints, and Printing and Logistics services.

Single Article Delivery

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. This service known as Single Article Delivery or Document Delivery, is part of the Article Galaxy journal article platform. We obtain the necessary permissions from the content publisher so that our customer's use complies with applicable copyright laws. We have non-exclusive arrangements with numerous content publishers that allow us to distribute their content. Many 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. We also help customers connect to free content on the Internet when available. The Company recognizes 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.

Reprints and ePrints

We charge a transactional fee for each Reprint or ePrint order and are responsible for printing and delivery of Reprint orders, and the electronic delivery and, in some cases, the electronic delivery mechanism of ePrint orders. We obtain the necessary permissions from the content publisher so that our customer's use complies with applicable copyright laws. 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. The Company recognizes revenue from reprints and ePrints services upon shipment or electronic delivery to the customer only when the selling price is fixed or determinable, and collectability is reasonably assured.

Printing and Logistics Services

We charge a transactional fee for each order of hard copy printed material. We are responsible for printing and delivering the order. Printing and Logistics services are exclusively performed by TAAG. The Company recognizes revenue from printing services when the printed materials have been shipped to the customer only when the selling price is fixed or determinable, and collectability is reasonably assured.

Stock-Based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in capital raising transactions, for services 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 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 share-based payment 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 accounts for stock option and warrant grants issued and vesting 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 Translation

The accompanying condensed 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 revenues and costs of TAAG are in Euros. 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.

Net Income (Loss) Per Share

Basic net income per share is computed by dividing the net income by the weighted average number of common shares outstanding for the period. Diluted net income per share is computed similar to basic net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include stock options and warrants. 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.

Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the respective periods. Basic and diluted net loss per common share is the same for all periods presented with a net loss because all warrants and stock options outstanding are anti-dilutive.

The calculation of basic and diluted net income (loss) per share is presented below:

As of September 30,

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	2013	2012
Numerator:		
Net loss	\$ (142,947)	\$ (54,033)
Denominator:		
Weighted average shares outstanding (basic)	16,970,465	17,083,596
Effect of diluted securities	-	-
Weighted average shares outstanding (diluted)	16,970,465	17,083,596
Earnings loss per share:		
Basic	\$ (0.01)	\$ 0.00
Diluted	\$ (0.01)	\$ 0.00

Recently Issued Accounting Pronouncements

In March 2013, the FASB issued ASU 2013-05 Topic 830, “Foreign Currency Matters” (“ASU 2013-05”). ASU 2013-05 resolves the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, ASU 2013-05 applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. ASU 2013-02 became effective for the company prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The Company does not expect the adoption of this guidance to have a material effect on the Company’s unaudited condensed consolidated financial statements.

The FASB has issued Accounting Standards Update (ASU) No. 2013-04, Liabilities (Topic 405), “Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date.” ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect the adoption of this guidance to have a material impact on the Company’s unaudited condensed consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, A Similar Tax Loss, or a Tax Credit Carryforward Exists (A Consensus the FASB Emerging Issues Task Force). ASU 2013-11 provides guidance on financial statement presentation of unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The FASB’s objective in issuing this ASU is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP. This ASU applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. This amendment is effective for public entities for fiscal years beginning after December 15, 2013 and interim periods within those years. The company does not expect the adoption of this standard to have a material impact on the Company’s unaudited condensed consolidated financial position and results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC 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, provides for a revolving line of credit for the lesser of \$4,000,000, or 80% of eligible accounts receivable. The line of credit matures on October 31, 2015, and is subject to certain financial and performance covenants with which we were in compliance as of September 30, 2013. The line of credit bears interest at the prime rate plus 2.5% for periods in which the Company maintains 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 6.5% as of September 30, 2013. The line of credit is secured by all of the Company’s and its subsidiaries’ assets, excluding TAAG’s assets.

There were no outstanding borrowings under the line as of September 30, 2013 and June 30, 2013, respectively. As of September 30, 2013 and June 30, 2013, approximately \$1,840,000 and \$2,000,000, respectively, of available credit was unused under the line of credit.

Note 4. Factor Agreements

The Company, through TAAG, has factoring agreements with Credit Cooperatif and Natixis for working capital and credit administration purposes. Under the agreements, the factors purchase trade accounts receivable assigned to them by the Company. The accounts are sold (with recourse) at the invoice amount subject to a factor commission and other miscellaneous fees. Trade accounts receivable not sold remain in the Company's custody and control and the Company maintains all credit risk on those accounts.

On September 10, 2013, the Company terminated its factoring agreement with ABN Amro. As of September 30, 2013 and June 30, 2013, \$0 and \$165,971 was due from ABN Amro, respectively.

Under the agreement with Credit Cooperatif, the Company can borrow up to approximately \$325,000 (Euro 250,000). The factor fee is determined on a case by case basis and is not specified in the agreement. The fee charged for the obligations outstanding as of September 30, 2013 was approximately 5%. As of September 30, 2013 and June 30, 2013, \$295,596 and \$246,221 was due to Credit Cooperatif, respectively, that relate to funds paid to the Company not yet returned to the factor.

On May 3rd, 2013, the Company entered into a factoring agreement with Natixis. The maximum amount the Company can borrow is not specified in the agreement. The factor fee is determined based on the Company's revenue and the average amount of customer invoices. The fee charged for the obligations outstanding as of September 30, 2013 was approximately 0.45%. In addition, interest is charged on the amount financed at the three month Euribor interest rate plus 1.6%. The interest rate under the agreement was approximately 1.8% per annum at September 30, 2013. As of September 30, 2013 and June 30, 2013, \$162,234 and \$0 was due from Natixis, respectively.

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 15, 2012, the maximum number of shares of common stock that may be issued pursuant to awards granted under the Plan increased from 1,500,000 to 3,000,000, 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 846,946 shares available for grant under the Plan as of September 30, 2013. All current 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	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at June 30, 2013	1,692,898	1.24	1,352,730	1.23	340,168	1.29
Granted	190,050	1.80	7,400	1.80	182,650	1.80
Options vesting	-	-	24,250	1.47	(24,250)	1.47
Exercised	-	-	-	-	-	-
Forfeited/Cancelled	-	-	-	-	-	-
Outstanding at September 30, 2013	1,882,948	\$ 1.30	1,384,380	\$ 1.24	498,568	\$ 1.47

The weighted average remaining contractual life of all options outstanding as of September 30, 2013 was 7.17 years. The remaining contractual life for options vested and exercisable at September 30, 2013 was 6.58 years. Furthermore, the aggregate intrinsic value of all options outstanding as of September 30, 2013 was \$886,152, and the aggregate intrinsic value of options vested and exercisable at September 30, 2013 was \$733,335, in each case based on the fair value of the Company's common stock on September 30, 2013. The total fair value of options vested during the period ended September 30, 2013 was \$70,489 and is included in selling, general and administrative expenses in the accompanying statement of operations. As of September 30, 2013, the amount of unvested compensation related to these options was \$466,833 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, 2013 is as follows:

Option Exercise Price	Options Outstanding	Remaining Contractual Life (in years)	Options Exercisable
\$ 1.00	347,000	5.66	347,000
1.02	287,000	6.83	287,000
1.07	53,898	9.05	33,897

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1.15	278,000	9.36	150,000
1.25	32,000	9.38	-
1.30	263,000	8.43	153,417
1.50	380,000	4.31	380,000
1.80	190,050	9.98	7,400
1.85	24,000	9.64	-
3.00	15,000	7.29	13,750
3.05	10,000	7.37	9,166
3.65	3,000	7.48	2,750
Total	1,882,948		1,384,380

Warrants

The following table summarizes warrant activity:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, June 30, 2013	2,376,173	2.06
Granted	-	-
Exercised	-	-
Expired	(150,000)	2.00
Outstanding, September 30, 2013	2,226,173	\$2.07
Exercisable, June 30, 2013	2,376,173	\$2.06
Exercisable, September 30, 2013	2,226,173	\$2.07

The intrinsic value for all warrants outstanding as of September 30, 2013 was \$156,000, based on the fair value of the Company's common stock on September 30, 2013.

Additional information regarding warrants outstanding and exercisable as of September 30, 2013 is as follows:

Warrant Exercise Price \$	Warrants Outstanding	Remaining Contractual Life (in years)	Warrants Exercisable
1.19	150,000	8.23	150,000
1.25	150,000	2.10	150,000
1.75	333,331	1.14	333,331
2.00	931,175	0.13	931,175
2.25	266,667	1.22	266,667
3.00	390,000	0.38	390,000
3.50	2,500	2.75	2,500
4.00	2,500	2.75	2,500
Total	2,226,173		2,226,173

Issuance of Restricted Common Stock

On September 6, 2013, the Company issued 150,833 shares of restricted common 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 value of the stock award was \$271,499 based on the market price of our common stock of \$1.80 per share on the date of grant, which will be amortized over the three year vesting period. The total fair value of restricted common stock vested during the period ended September 30, 2013 was \$22,625 and is included in selling, general and administrative expenses in the accompanying statement of operations. As of September 30, 2013, the amount of unvested compensation related to this issuance of restricted common stock was \$248,874 which will be recorded as an expense in future periods as the stock vests. When calculating net income (loss) per share, these shares are included in weighted average common shares outstanding from the time they vest.

Note 6. Geographical Information

As of September 30, 2013, the Company had two reportable diverse geographical concentrations: North American Operations and TAAG, which operates in France. Information related to these operating segments, net of

eliminations, consists of the following for the periods below:

Three Months Ended	
September 30, 2013	
North	
American	TAAG
Operations	(France)