Research Solutions, Inc.
Form 10-Q
February 07, 2014

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-Q**

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended: December 31, 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** | **11-3797644** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **5435 Balboa Blvd., Suite 202, Encino, California** | **91316** |
| (Address of principal executive offices) | (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 þ 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 þ No ¨

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

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company þ |

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

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 January 27, 2014** |
|---|---|
| Common Stock, $0.001 par value | 17,554,729 |

**TABLE OF CONTENTS**

**PART 1 FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements**

**Research Solutions, Inc. and Subsidiaries**
**Condensed Consolidated Balance Sheets**

| | December 31, 2013 (unaudited) | | June 30, 2013 | |
|---|---|---|---|---|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 2,074,600 | $ | 1,699,969 |
| Accounts receivable: | | | | |
| Trade receivables, net of allowance of $224,091 and $211,743, respectively | | 5,609,223 | | 4,966,717 |
| Due from factor | | 12,434 | | 165,971 |
| Inventory | | 158,780 | | 171,682 |
| Prepaid expenses and other current assets | | 335,049 | | 327,532 |
| Prepaid royalties | | 900,260 | | 351,852 |
| Total current assets | | 9,090,346 | | 7,683,723 |
| | | | | |
| Other assets: | | | | |
| Property and equipment, net of accumulated depreciation of $1,327,708 and $1,094,953, respectively | | 699,686 | | 831,231 |
| Intangible assets, net of accumulated amortization of $357,955 and $308,245, respectively | | 89,410 | | 123,482 |
| Deposits and other assets | | 480,067 | | 286,073 |
| Total assets | $ | 10,359,509 | $ | 8,924,509 |
| | | | | |
| Liabilities and Stockholders' Equity | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | $ | 8,423,076 | $ | 7,530,034 |
| Capital lease obligations, current | | 319,075 | | 221,461 |
| Notes payable, current | | 46,808 | | 55,293 |
| Due to factor | | 171,415 | | 246,221 |
| Deferred revenue | | 429,339 | | 53,216 |
| Total current liabilities | | 9,389,713 | | 8,106,225 |
| | | | | |
| Long term liabilities: | | | | |
| Notes payable, long term | | - | | 11,059 |
| Capital lease obligations, long term | | 280,574 | | 493,045 |
| Total liabilities | | 9,670,287 | | 8,610,329 |
| | | | | |
| 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; 17,554,729 and 16,970,465 shares issued and outstanding, respectively | | 17,555 | | 16,970 |
| Additional paid-in capital | | 15,234,926 | | 14,213,443 |
| Accumulated deficit | | (14,581,741) | | (13,992,238) |
| Accumulated other comprehensive income | | 18,482 | | 76,005 |
| Total stockholders' equity | | 689,222 | | 314,180 |
| Total liabilities and stockholders' equity | $ | 10,359,509 | $ | 8,924,509 |

See notes to condensed consolidated financial statements

3

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

| | Three Months Ended December 31, 2013 | 2012 | Six Months Ended December 31, 2013 | 2012 |
|---|---|---|---|---|
| Revenue | $ 9,622,379 | $ 13,982,098 | $ 18,200,100 | $ 23,524,097 |
| Cost of revenue | 7,402,073 | 11,223,397 | 13,974,818 | 18,608,552 |
| Gross profit | 2,220,306 | 2,758,701 | 4,225,282 | 4,915,545 |
| Operating expenses: | | | | |
| Selling, general and administrative | 2,521,246 | 2,414,701 | 4,532,275 | 4,405,411 |
| Depreciation and amortization | 120,964 | 134,914 | 238,315 | 321,572 |
| Gain on sale of fixed assets | - | - | - | (6,879) |
| Total operating expenses | 2,642,210 | 2,549,615 | 4,770,590 | 4,720,104 |
| Income (loss) from operations | (421,904) | 209,086 | (545,308) | 195,441 |
| Other income (expenses) | | | | |
| Interest expense | (15,278) | (22,723) | (27,925) | (59,560) |
| Other income (expense) | (7,175) | (6,956) | (6,389) | (9,914) |
| Total other expense | (22,453) | (29,679) | (34,314) | (69,474) |
| Income (loss) before provision for income taxes | (444,357) | 179,407 | (579,622) | 125,967 |
| Provision for income taxes | (2,199) | (1,088) | (9,881) | (1,681) |
| Net income (loss) | (446,556) | 178,319 | (589,503) | 124,286 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation | (20,549) | (37,603) | (57,523) | (65,250) |
| Comprehensive income (loss) | $ (467,105) | $ 140,716 | $ (647,026) | $ 59,036 |
| Net income (loss) per share: | | | | |
| Basic | $ (0.03) | $ 0.01 | $ (0.03) | $ 0.01 |
| Diluted | $ (0.03) | $ 0.01 | $ (0.03) | $ 0.01 |
| Weighted average shares outstanding: | | | | |
| Basic | 17,171,633 | 17,208,117 | 17,071,049 | 17,145,856 |
| Diluted | 17,171,633 | 17,208,117 | 17,071,049 | 17,175,663 |

See notes to condensed consolidated financial statements

**Research Solutions, Inc. and Subsidiaries**
**Condensed Consolidated Statement of Stockholders' Equity**
**For the Six Months Ended December 31, 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 | - | - | 131,678 | - | - | 131,678 |
| Fair value of common stock issued for services | 165,264 | 166 | 52,224 | - | - | 52,390 |
| Common shares issued upon exercise of warrants | 419,000 | 419 | 837,581 | - | - | 838,000 |
| Net loss for the period | - | - | - | (589,503) | - | (589,503) |
| Foreign currency translation | - | - | - | - | (57,523) | (57,523) |
| Balance, December 31, 2013 | 17,554,729 | $ 17,555 | $ 15,234,926 | $ (14,581,741) | $ 18,482 | $ 689,222 |

See notes to condensed consolidated financial statements

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

| | Six Months ended December 31, 2013 | 2012 |
|---|---|---|
| Cash flow from operating activities: | | |
| Net income (loss) | $ (589,503) | $ 124,286 |
| Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 238,315 | 343,815 |
| Fair value of vested stock options | 131,678 | 110,406 |
| Fair value of common stock issued for services | 52,390 | - |
| Gain on sale of fixed assets | - | (6,879) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (642,506) | (2,773,262) |
| Inventory | 12,902 | 11,718 |
| Due from factor | 153,537 | (63,604) |
| Prepaid expenses and other current assets | (7,517) | (590,644) |
| Prepaid royalties | (548,408) | 13,779 |
| Deposits and other assets | (193,994) | (2,913) |
| Accounts payable and accrued expenses | 893,042 | 3,677,225 |
| Deferred revenue | 376,123 | 257,474 |
| Net cash provided by (used in) operating activities | (123,941) | 1,101,401 |
| Cash flow from investing activities: | | |
| Purchase of property and equipment | (20,359) | (61,810) |
| Purchase of intangible assets | (15,638) | - |
| Proceeds from sale of fixed assets | - | 16,357 |
| Net cash used in investing activities | (35,997) | (45,453) |
| Cash flow from financing activities: | | |
| Payments to factor | (74,806) | (8,860) |
| Payment of notes payable | (19,544) | (28,263) |
| Payment of capital lease obligations | (114,857) | (262,845) |
| Payments under line of credit | - | (900,000) |
| Issuance of shares upon exercise of warrants for cash | 838,000 | - |
| Net cash provided by (used in) financing activities | 628,793 | (1,199,968) |
| Effect of exchange rate changes | (94,224) | (108,673) |
| Net increase (decrease) in cash and cash equivalents | 374,631 | (252,693) |
| Cash and cash equivalents, beginning of period | 1,699,969 | 3,150,978 |
| Cash and cash equivalents, end of period | $ 2,074,600 | $ 2,898,285 |

See notes to condensed consolidated financial statements

6

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

| | Six Months ended December 31, 2013 | | 2012 | |
|---|---|---|---|---|
| Supplemental disclosures of cash flow information: | | | | |
| Cash paid for income taxes | $ | 9,881 | $ | 1,681 |
| Cash paid for interest | $ | 27,925 | $ | 59,560 |
| Supplemental disclosures of non-cash investing and financing activities: | | | | |
| Acquisition of customer list through issuance of common shares | $ | - | $ | 154,908 |

See notes to condensed consolidated financial statements

**RESEARCH SOLUTIONS, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**Three and Six Months Ended December 31, 2013 and 2012 (Unaudited)**

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

***Organization***

Research Solutions, Inc. (the "Company," "we," "us" or "our") 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 ("Reprints Desk Latin America"); and Techniques Appliquées aux Arts Graphiques, S.p.A. ("TAAG"), an entity organized under the laws of France.

***Nature of Business***

We 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 facilitating 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 have two reportable diverse geographical concentrations: North American Operations, which consists of Reprints Desk and Reprints Desk Latin America, and TAAG, which operates in France.

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 non-exclusive arrangements with numerous content publishers that allow us to distribute their content. The majority of these publishers provide us with electronic access to their content, which allows us to electronically deliver single articles to our customers often in a matter of minutes. Even though single article delivery services are charged on a transactional basis, customer order volume tends to be consistent from month to month in part due to consistent orders of larger customers that require the implementation of our services into their work flow.

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 enhance the information resources they already own, or have access to via subscriptions or internal libraries, as well as organize workgroups to collaborate around scientific information. 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. We also help customers connect to free content on the Internet when available and compliant with applicable copyright laws.

All of the aforementioned services and proprietary software comprise the Article Galaxy journal article platform (“Article Galaxy”).

***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 obtain the necessary permissions from the content publisher so that our customer’s use complies with applicable copyright laws. The majority of content publishers print their content in-house and prohibit others from printing their content, however, when not prohibited by the content publisher, we use a third party to print Reprint orders delivered to North American customers, and TAAG to print Reprint orders delivered to mostly European customers. 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. 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.

***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. The majority of TAAG's customers are in France. Only a small percentage of the printing work performed by TAAG is for Reprint orders for North American operations delivered to mostly European customers.

***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 December 31, 2013, we had an accumulated deficit of $14,581,741 and stockholders' equity of $689,222. For the six months ended December 31, 2013, the Company recorded a net loss of $589,503 and cash used in operating activities was $123,941. 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 achieve and maintain profitability on a quarterly or annual basis.

***North American Operations (Reprints Desk and Reprints Desk Latin America)***

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

***TAAG (France)***

The Company believes that its current cash resources and expected cash flow from TAAG may not be sufficient to sustain TAAG operations for the next twelve months. During the six months ended December 31, 2013, TAAG incurred a net loss from operations of $2,268, and at December 31, 2013, had a working capital deficiency of approximately $1,630,000. In addition, significant net losses in prior years have been incurred and approximately $325,000 of payroll and VAT taxes were delinquent at December 31, 2013. Effective June 30, 2013, the Company forgave a loan receivable from TAAG totaling $1,009,115 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 $279,333. The funding period for TAAG under the line of credit expires on March 31, 2014, and no additional financing for TAAG is in place. 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 would 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 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 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, 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 $559,239 and $393,093 at December 31, 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 December 31, 2013 | | As of June 30, 2013 | |
|---|---|---|---|---|
| Customer A | 23 | % | 11 | % |

The following table summarizes revenue concentrations:

| | Three Months Ended December 31, | | | | Six Months Ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| Customer A | 21 | % | 23 | % | 16 | % | 16 | % |

The following table summarizes vendor concentrations:

| | Three Months Ended December 31, | | | | Six Months Ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| Vendor A | 28 | % | 26 | % | 21 | % | 22 | % |
| Vendor B | | * | 30 | % | | * | 22 | % |
| Vendor C | | * | | * | 12 | % | | * |
| Vendor D | | * | | * | 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: Article Galaxy, Reprints and ePrints, and Printing and Logistics services.

***Article Galaxy***

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, generates nearly all of the revenue attributable to the Article Galaxy journal article platform. 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. The majority of content publishers print their content in-house and prohibit others from printing their content, however, when not prohibited by the content publisher, we use a third party to print Reprint orders delivered to North American customers, and TAAG to print Reprint orders delivered to mostly European customers. 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, our French operating subsidiary. The majority of TAAG's customers are in France. Only a small percentage of the printing work performed by TAAG is for Reprint orders for North American operations delivered to mostly European customers. 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 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 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, and 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.

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

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period, excluding unvested restricted common stock. 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 share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period, excluding unvested restricted common stock. 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:

| | Three Months Ended December 31, 2013 | 2012 | Six Months Ended December 31, 2013 | 2012 |
|---|---|---|---|---|
| Numerator: | | | | |
| Net income (loss) | $ (446,556) | $ 178,319 | $ (589,503) | $ 124,286 |
| Denominator: | | | | |
| Weighted average shares outstanding (basic) | 17,171,633 | 17,208,117 | 17,071,049 | 17,145,856 |
| Effect of diluted securities | - | - | - | 29,807 |
| Weighted average shares outstanding (diluted) | 17,171,633 | 17,208,117 | 17,071,049 | 17,175,663 |

than at December 31, 2016, the purchase of capital assets, and the repayment of notes payable.

Capital spending for the six months ended June 30, 2017 totaled $2,159,492, as compared to $1,260,659 for the same period in 2016. The 2017 expenditures were for additional rental barrier, land in North Carolina, and miscellaneous manufacturing equipment. The Company plans to make additional capital purchases of approximately $1,400,000 over the remainder of the year. The remaining 2017 expenditures will be for land improvements, new construction vehicles, additional rental barrier and miscellaneous manufacturing equipment.

The Company's two mortgage notes payable are financed at fixed rates of interest. This leaves the Company almost impervious to fluctuating interest rates. Increases in such rates will only slightly affect the interest paid by the Company on an annual basis. Slightly more that 98% of the Company's debt obligations are financed at a fixed interest rate so that each 1% increase in the interest rates of the Company’s outstanding debt will reduce income by approximately $2,400 annually.

The Company’s cash flow from operations is affected by production schedules set by contractors, which generally provide for payment 35 to 90 days after the products are produced and with some architectural contracts, retainage may be held until the entire project is completed. This payment schedule may result in liquidity problems for the Company because it must bear a portion of the cost of production before it receives payment from its customers. The Company’s average days sales outstanding, excluding the effect of unbilled revenue, was 70 days for the six months ended June 30, 2017 compared to 74 days for the year ended December 31, 2016. The decrease in DSO is due primarily to more aggressive collection activities, along with a decrease in retainage from previous architectural projects. Although no assurances can be given, the Company believes that anticipated cash flow from operations and the availability under the lines of credits will be sufficient to finance the Company’s operations for at least the next 12 months.

The Company’s inventory was $3,443,621 at June 30, 2017 and $2,578,817 at December 31, 2016, or an increase of $864,804. The significant increase in inventory is due to production of barrier products for orders scheduled to be delivered during 2017. Inventory turnover was 7.2, annualized for the six months ended June 30, 2017, compared to 8.3 for the same period in 2016.

Critical Accounting Policies and Estimates

The Company's critical accounting policies are more fully described in its Summary of Accounting Policies to the Company's consolidated financial statements on Form 10-K for the year ended December 31, 2016. There have been no changes as of June 30, 2017.

### Seasonality

The Company services the construction industry primarily in areas of the United States where construction activity may be inhibited by adverse weather during the winter. As a result, the Company may experience reduced revenues from December through February and realize a more significant part of its revenues during the other months of the year. The Company may experience lower profits, or losses, during the winter months, and as such, must have sufficient working capital to fund its operations at a reduced level until the spring construction season. The failure to generate or obtain sufficient working capital during the winter may have a material adverse effect on the Company.

### Inflation

Raw material costs for the Company, cement, aggregates and other direct materials used in production have increased slightly for the first six months of 2017 and the Company anticipates prices will continue to increase over the remainder of 2017 and into 2018, although no assurance can be given regarding future pricing.

### Sales Backlog

As of August 10, 2017, the Company's sales backlog was approximately \$30.2 million, as compared to approximately \$18.3 million at the same time in 2016. It is estimated that substantially all of the projects in the sales backlog will be produced within 12 months. In the past, the Company excluded from the backlog structural products, which the backlog of structural products had been insignificant in amount. With the substantial increase in the backlog of structural products, the Company is now including structural products in the backlog for 2017 and 2016.

## ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

## ITEM 4. Controls and Procedures

### (a) Disclosure controls and procedures

The Company carried out our evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective at June 30, 2017.

### (b) Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the three months ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1. Legal Proceedings

The Company is not presently involved in any litigation of a material nature.

### ITEM 1A. Risk Factors

Not required

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

### ITEM 3. Defaults Upon Senior Securities

None

## ITEM 4. Mine Safety Disclosures

Not applicable

## ITEM 5. Other Information

None

## ITEM 6. Exhibits

| Exhibit No. | Exhibit Description |
|---|---|
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934. |
| 31.2 | Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934. |
| 32.1 | Certification pursuant 18 U.S.C. Section 1350 as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

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.

SMITH-MIDLAND CORPORATION
(Registrant)

| | | | |
|---|---|---|---|
| Date: | August 10, 2017 | By: | /s/ Rodney I. Smith |
| | | | Rodney I. Smith, Chief Executive Officer |
| | | | (Principal Executive Officer) |
| | | | |
| Date: | August 10, 2017 | By: | /s/ William A. Kenter |
| | | | William A. Kenter, Chief Financial Officer |
| | | | (Principal Financial Officer) |

Smith-Midland Corporation
Exhibit Index to Quarterly Report on Form 10-Q
For The Three Months Ended June 30, 2017

| Exhibit No | Exhibit Description |
|---|---|
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934. |
| 31.2 | Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934. |
| 32.1 | Certification pursuant 18 U.S.C. Section 1350 as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |