

ISSUER DIRECT CORP  
Form 10-Q  
May 02, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 31, 2012  
or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

ISSUER DIRECT CORPORATION  
(Exact name of registrant as specified in its charter)

|   |  |   |
|---|--|---|
| Delaware<br>(State or Other Jurisdiction<br>of Incorporation) | 1-10185<br>(Commission<br>File Number) | 26-1331503<br>(I.R.S. Employer<br>Identification No.) |
|---|--|---|

500 Perimeter Park Drive, Suite D, Morrisville NC 27560  
(Address of Principal Executive Office) (Zip Code)

(919) 481-4000  
(Registrant's telephone number, including area code)

N/A  
(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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

|                         |                       |                           |                       |
|-------------------------|-----------------------|---------------------------|-----------------------|
| Large accelerated filer | <input type="radio"/> | Accelerated filer         | <input type="radio"/> |
| Non-accelerated filer   | <input type="radio"/> | Smaller reporting company | <input type="radio"/> |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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 1,928,425 shares of common stock were issued and outstanding as of May 2, 2012.

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## ISSUER DIRECT CORPORATION

## CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2012<br>(unaudited) | December 31,<br>2011 |
|---|----------------------------------|----------------------|
| <b>ASSETS</b>   |                                  |                      |
| Current assets:   |                                  |                      |
| Cash and cash equivalents   | \$ 752,019                       | \$ 862,386           |
| Accounts receivable, (net of allowance for doubtful accounts of \$134,189 and \$125,987, respectively)  | 402,949                          | 361,191              |
| Deferred project costs  | 49,119                           | 76,106               |
| Deferred income tax asset – current   | 172,500                          | 135,000              |
| Other current assets  | 25,800                           | 35,093               |
| Total current assets  | 1,402,387                        | 1,469,776            |
| Furniture, equipment and improvements, net  | 60,845                           | 66,611               |
| Deferred income tax – noncurrent  | 64,000                           | 64,000               |
| Intangible assets (net of accumulated amortization of \$107,250 and \$79,166, respectively)   | 505,946                          | 109,029              |
| Other noncurrent assets   | 12,069                           | 22,074               |
| Total assets  | \$ 2,045,247                     | \$ 1,731,490         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                  |                      |
| Current liabilities:  |                                  |                      |
| Accounts payable  | \$ 106,413                       | \$ 103,566           |
| Accrued expenses  | 59,266                           | 39,324               |
| Accrued litigation  | -                                | 130,000              |
| Deferred revenue  | 146,732                          | 177,708              |
| Line of credit  | 275,000                          | -                    |
| Total current liabilities   | 587,411                          | 450,598              |
| Other long term liabilities   | 81,257                           | 69,287               |
| Total liabilities   | 668,668                          | 519,885              |
| Stockholders' equity:   |                                  |                      |
| Preferred stock, \$1.00 par value, 30,000,000 shares authorized, no shares issued and outstanding as of March 31, 2012 and December 31, 2011.                                 | -                                | -                    |
| Common stock \$.001 par value, 100,000,000 shares authorized, 1,822,175 and 1,752,175 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively. | 1,822                            | 1,752                |
| Additional paid-in capital  | 1,963,584                        | 1,741,744            |
| Accumulated deficit   | (588,827 )                       | (531,891 )           |
| Total stockholders' equity  | 1,376,579                        | 1,211,605            |
| Total liabilities and stockholders' equity  | \$ 2,045,247                     | \$ 1,731,490         |

The accompanying notes are an integral part of these unaudited financial statements.

ISSUER DIRECT CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

|  | For the Three Months<br>Ended |                   |
|--|-------------------------------|-------------------|
|  | March 31,<br>2012             | March 31,<br>2011 |
| Revenues   | \$796,594                     | \$513,556         |
| Cost of services   | 356,694                       | 232,096           |
| Gross profit   | 439,900                       | 281,460           |
| Operating costs and expenses:  |                               |                   |
| General and administrative   | 289,296                       | 233,736           |
| Sales and marketing  | 212,544                       | 64,549            |
| Depreciation and amortization  | 36,068                        | 11,819            |
| Total operating costs and expenses   | 537,908                       | 310,104           |
| Operating loss   | (98,008 )                     | (28,644 )         |
| Interest income (expense), net   | 3,572                         | 2,862             |
| Net loss before taxes  | (94,436 )                     | (25,782 )         |
| Income tax benefit   | 37,500                        | -                 |
| Net loss   | \$(56,936 )                   | \$(25,782 )       |
| Loss per share – basic and fully diluted                                       | \$(0.03 )                     | \$(0.01 )         |
| Weighted average number of common shares outstanding – basic and fully diluted | 1,819,098                     | 1,768,531         |

The accompanying notes are an integral part of these unaudited financial statements.

ISSUER DIRECT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

|   | Three months<br>ended March 31, |             |
|---|---------------------------------|-------------|
|   | 2012                            | 2011        |
| Cash flows from operating activities:   |                                 |             |
| Net loss  | \$(56,936 )                     | \$(25,782 ) |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                                 |             |
| Depreciation and amortization   | 36,068                          | 11,818      |
| Bad debt expense  | 8,201                           | 21,182      |
| Deferred income taxes   | (37,500 )                       | -           |
| Stock-based expense   | 81,910                          | 19,346      |
| Changes in operating assets and liabilities:                                    |                                 |             |
| Decrease (increase) in accounts receivable                                      | (49,960 )                       | (68,496 )   |
| Decrease (increase) in deposits and prepaids                                    | 36,285                          | (4,459 )    |
| Increase (decrease) in accounts payable   | 2,847                           | 23,797      |
| Increase (decrease) in accrued expenses   | (98,088 )                       | 11,758      |
| Increase (decrease) in deferred revenue   | (30,976 )                       | 37,224      |
| Net cash provided by (used in) operating activities                             | (108,149 )                      | 26,388      |
| Cash flows from investing activities:   |                                 |             |
| Purchase of property and equipment  | (2,218 )                        | (29,208 )   |
| Acquisition of intangible assets  | (275,000 )                      | -           |
| Net cash used in investing activities   | (277,218 )                      | (29,208 )   |
| Cash flows from financing activities:   |                                 |             |
| Advance from line of credit   | 275,000                         | -           |
| Net cash provided by financing activities                                       | 275,000                         | -           |
| Net change in cash  | (110,367 )                      | (2,820 )    |
| Cash – beginning  | 862,386                         | 504,713     |
| Cash – ending   | \$752,019                       | \$501,893   |
| Supplemental disclosure for non-cash investing and financing activities:        |                                 |             |
| Cash paid for interest  | \$2,587                         | -           |
| Cash paid for income taxes  | \$-                             | \$-         |
| Non-cash activities:  |                                 |             |
| Common stock issued for acquisition of customer list                            | \$140,000                       | -           |

The accompanying notes are an integral part of these unaudited financial statements.

ISSUER DIRECT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Note 1. Accounting Policies

Basis of Presentation

The unaudited interim balance sheet as of March 31, 2012 and statements of operations and cash flows for the periods ended March 31, 2012 and 2011 included herein, have been prepared in accordance with the instructions for Form 10-Q under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Article 10 of Regulation S-X under the Exchange Act. In the opinion of the management, they include all normal recurring adjustments necessary for a fair presentation of the financial statements. Results of operations reported for the interim periods are not necessarily indicative of results for the entire year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations relating to interim financial statements. The interim financial information should be read in conjunction with Issuer Direct Corporation's (the Company's) 2011 audited financial statements filed on Form 10-K.

Certain reclassifications have been made to prior period amounts to conform to the current period presentation. All reclassifications have been applied consistently for the periods presented.

Note 2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Direct Transfer LLC and QX Interactive LLC. Significant intercompany accounts and transactions are eliminated in consolidation.

Common Stock Split

On October 31, 2011, the Company effected a one-for-ten reverse stock split to shareholders of record as of October 31, 2011. All share and per share information has been retroactively adjusted to reflect the stock split. The number of authorized shares of the Company's common stock and its par value remain unchanged. Outstanding stock incentive awards are adjusted to give effect to the reverse split and the shares available for future grants were proportionately reduced.

Earnings per Share (EPS)

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted shares for the three months ended March 31, 2012 and 2011 excludes the effect of 237,750 and 100,000 shares of common stock, respectively, issuable upon the exercise of outstanding stock options agreements because the impact is anti-dilutive.

Revenue Recognition



We recognize revenue in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition," which requires that: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. We recognize revenue when services are rendered or delivered, where collectability is probable. Deferred revenue primarily consists of upfront payments for annual service contracts, and is recognized throughout the year as the services are performed.

#### Deferred Costs

For all customer sales arrangements in which we defer the recognition of revenue, we also defer the associated costs, such as the personnel or expenses incurred with third parties to perform the services.

ISSUER DIRECT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(UNAUDITED)

#### Allowance for Doubtful Accounts

We initially record our provision for doubtful accounts based on our historical experience and then adjust this provision at the end of each reporting period based on a detailed assessment of our accounts receivable and allowance for doubtful accounts.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for doubtful accounts and the valuation of goodwill and intangible assets. Actual results could differ from those estimates.

#### Income Taxes

We comply with FASB ASC No. 740 – Income Taxes which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amounts expected to be realized. For any uncertain tax positions, we recognize the impact of a tax position, only if it is more likely than not of being sustained upon examination, based on the technical merits of the position. Our policy regarding the classification of interest and penalties is to classify them as income tax expense in our financial statements, if applicable. At the end of each interim period, we estimate the effective tax rate we expect to be applicable for the full fiscal year and this rate is applied to our results for the interim year to date period. We recognized an income tax benefit of \$37,500 during the three-month period ended March 31, 2012 that we expect to realize based on projected future profitability.

#### Fair Value Measurements

As of March 31, 2012 and December 31, 2011, we do not have any financial assets or liabilities that are required to be, or that we elected to measure, at fair value.

We comply with the authoritative guidance for fair value provisions applicable to nonfinancial assets and nonfinancial liabilities. Our assets and liabilities that are subject to these provisions include our intangible assets, consisting of goodwill, domain names and software, and our long-lived assets.

We believe that the fair value of our financial instruments, which consist of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts.

#### Stock-based compensation

We account for stock-based compensation under the authoritative guidance for stock compensation. The authoritative guidance for stock compensation requires that companies estimate the fair value of share-based payment awards on the date of the grant using an option-pricing model. The cost is to be recognized over the period during which an employee is required to provide service in exchange for the award. The authoritative guidance for stock compensation also requires the benefit of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under previous accounting rules. This requirement reduces net operating cash flows and increases net financing cash flows in periods subsequent to adoption.

#### Recent Accounting Pronouncements

The adoption of recently issued accounting pronouncements did not have a material effect on our financial position or results from operations. We do not expect recently issued accounting pronouncements that are not yet effective will have a material effect on our financial position or results of operations upon adoption.

ISSUER DIRECT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(UNAUDITED)

Note 3: Intangible Assets

The Company acquired certain assets, primarily the rights to all customer contracts, of privately held SEC Compliance Services, Inc. ("SECCS") on January 4, 2012. The purchase price of \$425,000 consisted of cash proceeds of \$285,000, and 70,000 shares of common stock with a value of \$140,000 based on the Company's stock price of \$2.00 per share on the close of business on January 4, 2012. The Company borrowed \$275,000 from its line of credit to finance the transaction. The Company is amortizing the purchase price of \$425,000 over its estimated useful life of five years.

Note 4: Preferred and Common Stock

Preferred Stock

On March 26, 2012, the Company filed a Certificate of Amendment to the Certificate of Designation for the Series A and B Convertible Preferred Stock (the "Amendment"). Under the terms of the Amendment, the Series A and Series B Designations were removed. As a result, at March 31, 2012, the Company has 30,000,000 shares of Preferred Stock authorized with a par value of \$1.00 per share, with no shares designated, issued, or outstanding.

Common Stock

As discussed in Note 3, the Company issued 70,000 shares of common stock with a value of \$140,000 to the former shareholders of SECCS on January 4, 2012 as part of the consideration given for the purchase of assets obtained from SECCS.

Note 5: Stock Options

Increase in number of shares authorized under the 2010 Equity Incentive Plan (the "Plan")

On January 20, 2012, the Company's Board of Directors approved an increase in the number of shares authorized under the Plan from 220,416 to 420,416.

Issuance of non-qualified stock options

The Company issued options to purchase 10,000 shares to a consultant on January 1, 2012, which were vested immediately with an exercise price of \$2.30 per share. The Company also issued options to purchase a total of 105,000 shares of common stock with an exercise price of \$0.01 per share on January 20, 2012 to four former employees and consultants of SECCS. The options will vest through December 31, 2012 upon the achievement of specified milestones related to the execution of annual contracts for XBRL services or revenue targets.

ISSUER DIRECT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(UNAUDITED)

The following table summarizes information about stock options outstanding and exercisable at March 31, 2012:

| Exercise Price | Options Outstanding |  | Options Exercisable |
|----------------|---------------------|--|---------------------|
|                | Number              | Weighted Average Remaining Contractual Life (in Years) | Number              |
| \$0.01         | 105,000             | 9.80   | 0                   |
| \$1.70         | 19,000              | 9.15   | 0                   |
| \$1.87         | 3,000               | 9.15   | 0                   |
| \$2.10         | 79,250              | 8.36   | 45,500              |
| \$2.30         | 15,000              | 9.72   | 15,000              |
| \$2.31         | 16,500              | 8.36   | 14,625              |
| <b>Total</b>   | <b>237,750</b>      | <b>9.16</b>  | <b>75,125</b>       |

The Company recognized stock based compensation expense of \$81,910 and \$19,346 during the three-month periods ended March 31, 2012 and March 31, 2011, respectively.

Note 6: Concentrations

For the three-month periods ended March 31, 2012 and 2011, we earned revenues (as a percentage of total revenues) in the following categories:

| Revenue Streams                      | Three months ended March 31, |          |              |          |
|--------------------------------------|------------------------------|----------|--------------|----------|
|                                      | 2012                         | %        | 2011         | %        |
| Compliance and reporting services    | 57.0                         | %        | 40.3         | %        |
| Printing and financial communication | 14.9                         | %        | 9.4          | %        |
| Fulfillment and distribution         | 16.5                         | %        | 25.1         | %        |
| Software licensing                   | 5.5                          | %        | 2.3          | %        |
| Transfer agent services              | 6.1                          | %        | 22.9         | %        |
| <b>Total</b>                         | <b>100.0</b>                 | <b>%</b> | <b>100.0</b> | <b>%</b> |

No customers accounted for more than 10% of the operating revenues during the three-month periods ended March 31, 2012 or 2011. We did not have any customers that comprised more than 10% of our total accounts receivable balances at March 31, 2012 or December 31, 2011.

We do not believe we had any financial instruments that could have potentially subjected us to significant concentrations of credit risk. A portion of our revenues are paid at the beginning of the month via credit card or in advance by check, the remaining accounts receivable amounts are generally due within 30 days, none of which is collateralized.



ISSUER DIRECT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(UNAUDITED)

Note 7: Litigation

On June 24, 2011, Kinder Investments, LP (“Kinder”), a former holder of five shares of the Company’s Series A preferred stock, sued the Company, its current officers and directors, and its outside legal counsel, claiming the Company falsely forced the redemption of Kinder’s preferred stock without paying \$1,075,000 in accumulated dividends and other amounts it believed was due. The Company believed the claims were without merit and retained legal counsel and disputed the claims. The Company settled the litigation on February 22, 2012 on favorable terms without admitting any liability. The Company recorded litigation expense of \$206,263 during the year ended December 31, 2011, of which \$130,000 was recorded as an accrued liability at December 31, 2011. All amounts were paid during the three months of fiscal 2012, and therefore there was no accrual as of March 31, 2012.

Note 8: Line of Credit

On December 16, 2011, the Company renewed their working capital line of credit (the “Line of Credit”), and increased the amount available from \$200,000 to \$450,000. The Line of Credit has an interest rate equal to the 30 day LIBOR rate plus 4.5%. The Line of Credit has a twelve month term, and automatically renews on the anniversary. The company owed \$275,000 on the line of credit as of March 31, 2012. No amounts were owed on the line of credit at December 31, 2011.

Note 9: Subsequent Events

Restricted Stock

On April 2, 2012, the Company approved grants for a total of 95,000 restricted shares of the Company’s common stock (the “Awards”) to its executive officers and certain other employees. The Awards vest over periods up to two years as stated Award Agreements, and will accelerate in the event of a Corporate Transaction, as such term is defined in the Award Agreements. In the event a grantee’s relationship with the Company is terminated for any reason, vesting will immediately cease. These Awards are not part of the 2010 Equity Incentive Plan.

Common Stock Dividend

On April 2, 2012, the Company’s Board of Directors approved and declared a quarterly cash dividend of \$0.03 per share. The dividend is payable May 3, 2012 to shareholders of record as of April 19, 2012.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The discussion of the financial condition and results of operations of the Company set forth below should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this Form 10-Q. This Form 10-Q contains forward-looking statements that involve risks and uncertainties. The statements contained in this Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27a of the Securities Act and Section 21e of the Exchange Act. When used in this Form 10-Q, or in the documents incorporated by reference into this Form 10-Q, the words "anticipate," "believe," "estimate," "intend" and "expect" and similar expressions are intended to identify such forward-looking statements. Such forward-looking statements include, without limitation, the statements regarding the Company's strategy, future sales, future expenses, future liquidity and capital resources. All forward-looking statements in this Form 10-Q are based upon information available to the Company on the date of this Form 10-Q, and the Company assumes no obligation to update any such forward-looking statements. The Company's actual results could differ materially from those discussed in this Form 10-Q. Factors that could cause or contribute to such differences ("Cautionary Statements") include, but are not limited to, those discussed in Item 1. Business — "Risk Factors" and elsewhere in the Company's Annual Report on Form 10-K, which are incorporated by reference herein and in this report. All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on the Company's behalf, are expressly qualified in their entirety by the Cautionary Statements.

### Overview

Issuer Direct Corporation (Issuer Direct Corporation and its business are hereinafter collectively referred to as "Issuer Direct", the "Company", "We" or "Our" unless otherwise noted).

The Company strives to be a market leader and innovator of disclosure management solutions and cloud-based compliance technologies. With a focus on corporate issuers, the Company alleviates the complexity of maintaining compliance with its integrated portfolio of products and services that enhance companies' ability to efficiently produce and distribute their financial and business communications both online and in print.

We work with a diverse client base in the financial services industry, including brokerage firms, banks, mutual funds, corporate issuers, shareholders and specialty firms such as accountants and the legal community. For example, corporate issuers utilize our cloud-based technologies and services from document creation all the way to dissemination to regulatory bodies and shareholders. With this example, we generate revenue from all of our services during the lifecycle.

On January 4, 2012, the Company acquired certain assets, primarily the rights to all customer contracts, of SEC Compliance Services, Inc. ("SECCS").

We continue to focus on both the organic growth of our revenue streams as well as evaluating potential acquisitions that would complement our core business operations and accelerate our overall mission of providing a complete solution for all corporate issuers.

### Revenue Sources

The Company's core businesses operate within the financial compliance sector, including but not limited to financial reporting, print and production, proxy tabulation and solicitation as well as the safeguarding of shareholder records through traditional transfer agent services. These services are designed to offer issuers a comprehensive set of solutions for complying and communicating their messages to their audiences. Our offerings are classified into four



areas of corporate focus: (1) Disclosure Reporting, (2) Shareholder Communications, (3) Proxy Services, and (4) Direct Transfer. These four core business streams comprise our Disclosure Management System (DMS).

Disclosure Management System –

Our Disclosure Management System (DMS) is a business process outsourcing (BPO) model that encompasses a significant amount of intellectual property that drive efficiencies. Whereby we act under contract as a back-office extension of the corporate issuer's management and board of directors. Our disclosure process aims to be disruptive in areas of normal regulatory business functions of the public markets, where we can clearly improve processes, streamline complexities, while reducing expenditures, generally associated with reporting and disclosure requirements.

Our disclosure management system is the only secure workflow technology available today that allows officers, directors and compliance professionals the ability to manage the entire back-office functions of their respective companies from one interface.

## Disclosure Reporting

As a fully registered Securities and Exchange Commission Filing Agent, we assist corporate issuers, mutual funds, law firms, resellers, and individuals with all of their securities filing needs. Many U.S. companies are required to file corporate documents with the Securities and Exchange Commission ("SEC"); including registration statements, annual reports, quarterly reports, prospectuses, information statements, material event filings, proxy statements, ownership documents, and more.

Since 2009, the SEC has been phasing in requirements for companies who must file public reports with the SEC to supplement their disclosure reporting requirements with XBRL (eXtensible Business Reporting Language) filings. XBRL is a freely available XML-based specification that uses accepted financial reporting standards and practices to exchange financial statements across all software and technologies, including the Internet. It is an XML-based framework that provides the financial community a standards-based method to prepare, publish in a variety of formats, and reliably extract and automatically exchange financial statements of publicly held companies. XBRL is not about establishing new accounting standards but enhancing the usability of the ones that we have through the digital language of business, XML.

The SEC phase in approach began in 2009 and recently just ended this past June 2011, requiring all reporting companies to file quarterly reports on Form 10-Q and annual reports on Form 10-K, 20-F and 40-F in interactive data.

We market our interactive reporting directly under the brand Issuer Direct and to our resellers under the brand Issuer Services and QX Interactive. Our strategy over the next handful of years is to increase our core disclosure business from the filing agent community both in XBRL and EDGAR filings.

## Financial Printing

As one of the largest financial printers in the southeast, we are focused on both corporate issuers and mutual funds.

We pride ourselves on having our typeset, design, print and fulfillment operations under one roof; giving compliance professionals the ability to meet regulatory deadlines and take advantage of our technology and on demand facilities to communicate their message with markets, shareholders and other vital constituents.

Today we produce a comprehensive array of documents for many of the nation's leading corporations, mutual funds, law firms, and investment banks. Our financial printing expertise gives us the edge in the market - giving customers the confidence and time to focus on their business execution. Our production staff has a deep understanding of the regulatory requirements that drive many of the printed materials that are distributed today - such as the new Summary Prospectus for funds and Notice and Access for corporate issuers.

During the year we continued to leverage our post sale fulfillment and iFUND platform to a broader base of clientele. This technology when combined with our Print-on-Demand (POD) production environment gives us a leg up on the competition in the literature fulfillment marketplace. Our technological advancements make our process more efficient and transparent to multiple parties and at the same time form one interface. As regulations continued to change and companies opt to print fewer and few large run projects, we expect print on demand to be a greater portion of our print business; this would include summary prospectuses for our mutual fund and broker clients, custom notice & access cards for corporate issuers, reminder mailings, and short run production on a one to one or one to many delivery method.

We foresee continued success with our mutual fund and ETF clients as well as significant opportunities to service a broader base of larger corporate issuers in the coming years. Additionally, we continue to explore very strategic

relationships' with niche markets that service a segment of the marketplace in which we believe we can be a leader both short and long term.

## Shareholder Communication

As part of our commitment to shareholder disclosure and improved corporate transparency, we expanded our core news wire services into a comprehensive shareholder communication system that assist our client's investor relations departments. Our offerings include a blend of proprietary datafeed technologies such as EDGAR filings, press releases, stock charts and historical data, corporate vitals, as well as the compliance driven modules of whistle blower, corporate governance and our e-Notify request system.

We have strategic partnerships with content providers whereby we re-distribute certain content to the desktops of users on an on-demand basis. Additionally, we power the financial tear sheet market by utilizing our shareholder compliance platform to parse data in a condensed format that the financial markets refer to as a tear sheet.

## Proxy Services

Our Proxy system, branded as iProxyDirect, is a comprehensive technology platform that encompasses issuers, shareholders, banks, brokers and vital constituents during the proxy process. iProxyDirect is one of the only voting platforms where corporate issuers, mutual funds, and mutual fund administrators can setup, manage, communicate and monitor the entire proxy process from one online system. iProxyDirect offers Notice & Access options, material on demand fulfillment, digital delivery, and secure document hosting and real-time voting.

## Direct Transfer

We operate our transfer agent business under the brand Direct Transfer, which is a wholly owned subsidiary. Our shareholder services business provides a complete array of agency and registrar services beyond traditional transfer activities. By combining our online workflow technologies, corporate issuers and their constituents can manage, issue, monitor, communicate and disseminate all facets of shareholder information within minutes.

Our commitment to compliance and safeguarding of information goes beyond our SSAE 16 business process (formally SAS-70). We maintain our client's books and records in the manner we would expect ours to be managed, and that second-to-none service has enabled us to sustain our valued clients, withstand regulatory change and competitiveness by other providers. Corporate issuers have the ability to take advantage of the following:

- Issue, manage and monitor all corporate stock of the company online
- Issue physical certificates, book entry as well as DWAC FAST electronic participation
- Print on Demand Digital Certificate Library
- Communicate with shareholders with the click of a mouse with e-Notify
- Setup, monitor and direct an annual meeting and proxy vote
- Warrant, escrow and rights offerings
- Corporate re-org services including CUSIP, FINRA and state filing needs

## Our Brands & Subsidiaries

- Issuer Direct
- Issuer Services
- Direct Transfer (Wholly owned subsidiary – Direct Transfer, LLC.)

iProxy Direct

iR Direct

XBRL Check

QX Interactive (Wholly owned subsidiary – QX Interactive, LLC.)

iFUND Direct

## Results of Operations

Comparison of results of operations for the three months ended March 31, 2012 and 2011

|   | Three months ended<br>March 31, 2012 |   | 2011      |   |
|---|--------------------------------------|---|-----------|---|
| <b>Revenue Streams</b>                      |                                      |   |           |   |
| <b>Compliance and reporting services</b>    |                                      |   |           |   |
| Revenue                                     | \$454,410                            |   | \$207,009 |   |
| Gross Margin                                | \$265,907                            |   | \$101,210 |   |
| Gross margin %                              | 59                                   | % | 49        | % |
| <b>Printing and financial communication</b> |                                      |   |           |   |
| Revenue                                     | 118,574                              |   | 48,269    |   |
| Gross Margin                                | 69,045                               |   | 14,063    |   |
| Gross margin %                              | 58                                   | % | 29        | % |
| <b>Fulfillment and distribution</b>         |                                      |   |           |   |
| Revenue                                     | 130,934                              |   | 128,829   |   |
| Gross Margin                                | 49,097                               |   | 64,826    |   |
| Gross margin %                              | 37                                   | % | 50        | % |
| <b>Software licensing</b>                   |                                      |   |           |   |
| Revenue                                     | 44,105                               |   | 11,572    |   |
| Gross Margin                                | 43,698                               |   | 10,620    |   |
| Gross margin %                              | 99                                   | % | 92        | % |
| <b>Transfer agent services</b>              |                                      |   |           |   |
| Revenue                                     | 48,571                               |   | 117,877   |   |
| Gross Margin                                | 12,153                               |   | 90,741    |   |
| Gross margin %                              | 25                                   | % | 77        | % |
| <b>Total</b>                                |                                      |   |           |   |
| Revenue                                     | \$796,594                            |   | \$513,556 |   |
| Gross Margin                                | \$439,900                            |   | \$281,460 |   |
| Gross margin %                              | 55                                   | % | 55        | % |

## Revenues

Total revenue increased by \$283,038, or 55%, to \$796,594 during the three months ended March 31, 2012, as compared to \$513,556 during the same period of fiscal 2011. The overall increase is primarily due to an increase in compliance and reporting revenue of \$247,401, an increase in printing and financial communication revenue of \$70,305, and increase in software licensing revenue of \$32,533. These increases were partially offset by a decrease in revenue from transfer agent services of \$69,306.

Compliance and reporting service revenue increased \$247,401, or 120%, during the three month period ended March 31, 2012, as compared to the same period in fiscal 2011. The increase in revenue from compliance and reporting services is primarily attributable to the final phase in of the SEC's three-year mandate for companies to begin filing quarterly and annual reports in XBRL format. A large portion of our clients are small reporting companies, and those companies are required to file quarterly and annual reports in XBRL format for all periods ended after June 15, 2011. Therefore, starting in the second half of 2011, XBRL services have contributed to significant growth in our revenue from compliance and reporting services. Even though we are seeing pricing pressures in this new revenue stream, we will continue to allocate a prudent amount of resources focused on new client acquisition. Furthermore, effective for all periods ended after June 15, 2012, small reporting companies will be required to add detail footnote tagging to their quarterly and annual filings, which will lead to both additional revenue opportunities as well as an expansion of staff requirements to deliver these services.

Printing and financial communication revenue increased \$70,305 in the three months ended March 31, 2012 as compared to the same period in fiscal 2011. The increase is primarily due to success achieved with our Print-On-Demand services.

Fulfillment and distribution revenue increased slightly by \$2,105 during the three months ended March 31, 2012 as compared to the same period in fiscal 2011.

Software licensing revenues increased by \$32,533 during the three-month period ended March 31, 2012 as compared to the same period in fiscal 2011 as we performed more proxy services through our iProxy Direct software in fiscal 2012. The timing of proxy services requested from our clients can be difficult to predict, and therefore revenue from this source can fluctuate significantly between quarters.

Transfer agent revenue decreased by \$69,306 during the three-month period ended March 31, 2012 as compared to the same period in fiscal 2011. Although the number of transfer agent clients continued to grow for the three months ended March 31, 2012 as compared to the previous period, we experienced very few corporate action type engagements in fiscal 2012. Historically, corporate action services are tied to a transaction that results in a project-based engagement, therefore the timing and predictability of this type of revenue becomes difficult to forecast. However, we do anticipate that corporate actions will be a continuing source of revenue in the future.

No customers accounted for more than 10% of the operating revenues during the three-month periods ended March 31, 2012 or March 31, 2011.

## Cost of Revenues and Gross Margin

Cost of revenues consist primarily of direct labor costs, third party licensing, print production materials, postage, and outside services directly related to the delivery of services to our customers. Cost of revenues increased by 124,598, or 54%, in the three months ended March 31, 2012 as compared to the same period in fiscal 2011. The increase in cost of revenues is consistent with the increase in total revenue discussed previously. Overall gross margins increased by \$158,440, or 56%, to \$439,900 during the three months ended March 31, 2012 as compared to \$281,460 in the

same period of fiscal 2011. Gross margins for both the three months ended March 31, 2012 and 2011 were 55% of revenue. Furthermore, we achieved margins of 59% from our compliance and regulatory services during the three months ended March 31, 2012 as compared to 49% in the same period of fiscal 2011, primarily due to our XBRL service offerings. We have been able to achieve relatively high margins from our XBRL services, and will continue to look for opportunities to expand and improve margins from these services. We achieved margins of 58% from our printing and financial communications services during the three months ended March 31, 2012 as compared to 29% in the same period of fiscal 2011, as we have shifted to higher margin projects from our iFund and Print-on-Demand services. Gross margins from our fulfillment and distribution services decreased to 37% during the three months ended March 31, 2012 as compared to 50% in the same period of fiscal 2011, as a lower portion of our revenue was earned from news distribution services which typically achieve relatively high margins. Gross margins from our transfer agent services decreased to 25% during the three months ended March 31, 2012 as compared to 77% in the same period of fiscal 2011. As discussed above, we had very little revenue from corporate actions in the three months ended March 31, 2012, which contribute significantly to the gross margin for these services.



Costs related to compliance and reporting services are related principally to direct labor costs and third party vendor costs.

Costs related to printing and financial communications fluctuate periodically as the cost of the services and materials fluctuate, and can also vary significantly based on the variables of any one project. We strive to maintain reasonable margins for these services.

We incur direct labor costs for software licensing, as all development is performed in-house. To date, costs have not been significant, nor do we expect a significant increase in future periods.

To date, costs for transfer agent services have also been minimal, in proportion to this revenue stream.

### Operating Expenses

#### General and Administrative Expense

General and administrative expenses consist primarily of salaries, stock based compensation, insurance, fees for professional services, general corporate expenses and facility and equipment expenses. General and administrative expenses increased \$55,560 during the three month period ended March 31, 2012 as compared to the same period in fiscal 2011. The increase in fiscal 2012 is primarily due to increases in personnel related expenses of \$34,553 and consulting fees of \$15,084.

The increase in personnel is largely due an increase in stock based compensation, as we issued stock options to a consultant for investor relation services that were immediately vested during the three months ended March 31, 2012, as well as the addition of one administrative employee. Consulting fees were higher in 2012 as we have retained a firm to assist with investor relations.

#### Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, stock based compensation, sales commissions, sales consultants, advertising expenses, and marketing expenses. Sales and marketing expenses for the three month period ended March 31, 2012 increased by \$147,995 to \$212,544 as compared to \$64,549 in the same period of fiscal 2011.

The increase in sales and marketing expense is almost entirely attributable to the hiring of five former employees and consultants of SEC Compliance Services, Inc. ("SECCS") in January 2012, including our Vice President of Sales. Salaries and consulting fees increased \$61,401 primarily due to the hiring of these four individuals, along with higher commissions based on higher sales. Furthermore, we issued options to purchase our common stock to certain former employees and consultants of SECCS which vest upon the achievement of milestones related to executing annual contracts for XBRL services or revenue thresholds. As a result, stock based compensation within sales and marketing expense increased \$40,361 during the three months ended March 31, 2012 as compared to the same period in fiscal 2011. We anticipate that these individuals will contribute to significant revenue growth in the second half of 2012.

#### Depreciation and Amortization

Depreciation and amortization expenses during the three-month period ended March 31, 2012 increased to \$36,068 as compared to \$11,819 during the same period of fiscal 2011. We acquired certain assets, primarily the rights to all customer contracts, of SECCS on January 4, 2012. We are amortizing the purchase price of \$425,000 over its estimated useful life of five years, which attributed to an increase in amortization expense in fiscal 2012.

Interest Income (Expense)

Net interest income (expense) of \$3,572 and \$2,862 during the three months ended March 31, 2012 and 2011, respectively, consisted primarily of finance charges to customers with past due balances that we are reasonably assured that we will collect.

#### Income tax benefit

The company recorded an income tax benefit of \$37,500 during the three-month period ended March 31, 2012, which we expect to realize in the second half of fiscal 2012 based on projected profitability.

#### Net Income (Loss)

Net loss for the three months ended March 31, 2012 was \$56,936 as compared to \$25,872 in the same period of fiscal 2011. Although we had higher revenues and gross margin in the three months ended March 31, 2012 as compared to the same period in fiscal 2011 as discussed above, our overall loss was higher primarily due to the increases in sales and marketing expenses discussed above. However, we believe that the investment that we have made in our sales and marketing team will lead to significant revenue growth in the second half of 2012, particularly with our XBRL offerings. Furthermore, the net loss for the three months ended March 31, 2012 include non-cash expenses for stock based compensation of \$81,910 and depreciation and amortization of \$36,068.

#### Liquidity and Capital Resources

As of March 31, 2012, we had \$752,019 in cash and cash equivalents and \$402,949 net accounts receivable. Current liabilities at March 31, 2012, totaled \$587,411, including our line of credit, accounts payable, deferred revenue, accrued payroll liabilities, and accrued expenses. At March 31, 2012, our current assets exceeded our current liabilities by \$814,976.

During the three months ended March 31, 2012, we borrowed \$275,000 under a working capital line of credit to purchase certain assets from SECCS. We have \$175,000 of credit remaining available to us under this line of credit.

We manage our cash flow carefully with the intent to meet our obligations from cash generated from operations. However, it is possible that we will have to raise additional funds through the issuance of equity in order to meet our debt obligations. There can be no assurance that cash generated from operations will be sufficient to fund our operating expenses, to allow us to continue paying dividends, or meet our other obligations, and there is no assurance that debt or equity financing will be available, or if available, that such financing will be upon terms acceptable to us.

#### 2012 Outlook

The following statements and certain statements made elsewhere in this document are based upon current expectations. These statements are forward looking and are subject to factors that could cause actual results to differ materially from those suggested here, including, without limitation, demand for and acceptance of our services, new developments, competition and general economic or market conditions, particularly in the domestic and international capital markets. Refer also to the Cautionary Statement Concerning Forward Looking Statements included in this report.

Our vision is to be a market leader of unified regulatory solutions for compliance professionals, by providing a true single sourced model for issuers and the capital markets.

We pride ourselves on providing the best systems, the best service to our clients, the highest support to our staff; record results, higher returns to our shareholders, and higher rewards to our team members.

Our strategy is focused on maximizing long-term shareholder value by driving profitable growth, continuing our focus on productivity, and acquiring and integrating complementary businesses.

In fiscal 2012, we will continue to focus on expanding our existing customer relationships as well as acquiring new customers. With our acquisition of the customers of SEC Compliance Services, Inc. in January 2012, we increased the number of corporate issuers for whom we perform services to over 500. Therefore, we anticipate that our revenues will increase in 2012 as compared to 2011. In addition to increasing our client base, we expect to see significant growth in our XBRL revenue as we enter into new annual contracts with issuers that include detail footnote tagging, although much of this increase in revenue will not be recognized until the third and fourth quarters of 2012. We also expect to achieve an overall increase in revenue from our other service offerings.

However, consistent with our results for the three months ended March 31, 2012, we do anticipate increases in our operating expenses to support the customers acquired from SEC Compliance Services, Inc., much of which will be incurred in the first half of the year. We believe that our unique offerings yield a competitive advantage in the marketplace even though we operate in a competitive sector. We anticipate further consolidation in the marketplace of financial printers and suppliers in 2012, which may result in pricing pressures; however, we believe our unique combination of business offerings will provide us the opportunity to increase our overall market. We will continue to evaluate strategic partnerships and or acquisitions as opportunities arise.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable

#### ITEM 4. CONTROLS AND PROCEDURES.

As of the end of the period covered by this quarterly report on Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer conducted an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934). Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective and have not changed since its most recent annual report.

#### Changes in Internal Control over Financial Reporting

We regularly review our system of internal control over financial reporting to ensure we maintain an effective internal control environment. There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On June 24, 2011, Kinder Investments, LP (“Kinder”), a former holder of five shares of the Company’s Series A preferred stock, sued the Company, its current officers and directors, and its outside legal counsel, claiming the Company falsely forced the redemption of Kinder’s preferred stock without paying \$1,075,000 in accumulated dividends and other amounts it believed was due. The Company believed the claims were without merit and retained legal counsel and disputed the claims. The Company settled the litigation on February 22, 2012 on favorable terms without admitting any liability. The Company recorded litigation expense of \$206,263 during the year ended December 31, 2011, of which \$130,000 was recorded as an accrued liability at December 31, 2011. All amounts were paid during the three months of fiscal 2012, and therefore there was no accrual as of March 31, 2012.

ITEM 1A. RISK FACTORS.

There have been no material changes to our risk factors as previously disclosed in our most recent 10-K filing.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURE.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

(a) Exhibits.

| Exhibit<br>Number | Description  |
|-------------------|--|
| <u>31.1</u>       | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| <u>31.2</u>       | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| <u>32.1</u>       | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| <u>32.2</u>       | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |

\* Filed herewith

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.

ISSUER DIRECT CORPORATION

Date: May 2, 2012

By: /s/ Brian R. Balbirnie  
Brian R. Balbirnie  
Chief Executive Officer

By: /s/ Wesley Pollard  
Wesley Pollard  
Chief Financial Officer