

ISSUER DIRECT CORP  
Form 10-Q  
May 06, 2013

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, 2013

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	1-10185	26-1331503
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer 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

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preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes   
No

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

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

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 1,947,259 shares of common stock were issued and outstanding as of May 6, 2013.

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Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
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Ex-101.Ins XBRL Instance Document

Ex-101.Sch XBRL Taxonomy Extention Schema

Ex-101.Cal XBRL Taxonomy Extention Calculation Linkbase

Ex-101.Def XBRL Taxonomy Extention Definition Linkbase

Ex-101.Lab XBRL Taxonomy Extention Label Linkbase

Ex-101.Pre XBRL Taxonomy Extention Presentation Linkbase

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## PART I – FINANCIAL INFORMATION

## ITEM FINANCIAL STATEMENTS

1.

ISSUER DIRECT CORPORATION  
CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,257,862	\$ 1,250,643
Accounts receivable, (net of allowance for doubtful accounts of \$149,703 and \$117,030, respectively)	745,654	544,684
Deferred income tax asset – current	49,000	49,000
Other current assets	24,561	38,710
Total current assets	2,077,077	1,883,037
Furniture, equipment and improvements, net	75,093	55,611
Deferred income tax – noncurrent	159,000	159,000
Intangible assets (net of accumulated amortization of \$214,500 and \$187,666, respectively)	404,696	431,529
Other noncurrent assets	12,069	12,069
Total assets	\$ 2,727,935	\$ 2,541,246
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 110,390	\$ 62,886
Accrued expenses	99,148	37,347
Income taxes payable	124,592	226,406
Deferred revenue	90,688	112,906
Line of credit	75,000	150,000
Total current liabilities	499,818	589,545
Other long term liabilities	100,099	105,554
Total liabilities	599,917	695,099
Stockholders' equity:		
Preferred stock, \$0.001 par value, 30,000,000 shares authorized, no shares issued and outstanding as of March 31, 2013 and December 31, 2012.	-	-
Common stock \$.001 par value, 100,000,000 shares authorized, 1,947,259 and 1,937,329 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively.	1,947	1,937
Additional paid-in capital		2,136,692 2,070,369
Accumulated deficit		(10,621 ) (226,159 )
Total stockholders' equity		2,128,018 1,846,147
Total liabilities and stockholders' equity		\$2,727,935 \$2,541,246

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

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## ISSUER DIRECT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
Revenues	\$1,411,228	\$796,594
Cost of services	398,890	356,694
Gross profit	1,012,338	439,900
Operating costs and expenses:		
General and administrative	408,601	289,296
Sales and marketing expenses	201,017	212,544
Depreciation and amortization	34,935	36,068
Total operating costs and expenses	644,553	537,908
Operating income (loss)	367,785	(98,008 )
Interest income (expense), net	(247 )	3,572
Net income (loss) before taxes	367,538	(94,436 )
Income tax (expense) benefit	(152,000 )	37,500
Net income (loss)	\$215,538	\$(56,936 )
Income (loss) per share – basic and fully diluted	\$0.11	\$(0.03 )
Weighted average number of common shares outstanding – basic	1,942,635	1,819,098
Weighted average number of common shares outstanding – fully diluted	2,013,749	1,819,098

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

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ISSUER DIRECT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Three months ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$215,538	\$(56,936 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	34,935	36,068
Bad debt expense	40,776	8,201
Deferred income taxes	-	(37,500 )
Stock-based expense	66,269	81,910
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(241,746 )	(49,960 )
Decrease (increase) in deposits and prepaids	14,149	36,285
Increase (decrease) in accounts payable	47,504	2,847
Increase (decrease) in accrued expenses	(22,218 )	(98,088 )
Increase (decrease) in deferred revenue	(45,468 )	(30,976 )
Net cash provided by (used in) used in operating activities	109,739	(108,149 )
Cash flows from investing activities:		
Purchase of property and equipment	(27,584 )	(2,218 )
Acquisition of intangible assets	-	(275,000 )
Net cash used in investing activities	(27,584 )	(277,218 )
Cash flows from financing activities:		
Proceeds from exercise of stock options	64	-
Advance from line of credit	-	275,000
Repayment of line of credit	(75,000 )	-
Net cash provided by (used in) financing activities	(74,936 )	275,000
Net change in cash	7,219	(110,367 )
Cash – beginning	1,250,643	862,386
Cash – ending	\$1,257,862	\$752,019
Supplemental disclosure for non-cash investing and financing activities:		
Cash paid for interest	\$1,779	\$2,587
Cash paid for income taxes	\$253,814	\$-
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.

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ISSUER DIRECT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Note Accounting Policies

1.

Basis of Presentation

The unaudited interim balance sheet as of March 31, 2013 and statements of operations and cash flows for the periods ended March 31, 2013 and 2012 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 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”) 2012 audited financial statements filed on Form 10-K.

Note Summary of Significant Accounting Policies

2.

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.

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 excludes the effect of 237,750 shares of common stock 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.

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, deferred tax assets, and stock based compensation. Actual results could differ from those estimates.

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### 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 expected to realize based on projected future profitability, and we recognized income tax expense of \$152,000 during the three-month period ended March 31, 2013.

### Fair Value Measurements

As of March 31, 2013 and December 31, 2012, 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, our line of credit, 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. Included in the determination of the fair value under the option model are highly subjective assumptions regarding expected dividend yields, prior volatility, risk free rate of interest, and the expected life of options. 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.

The Company recognized stock based compensation expense of \$66,269 and \$81,910 during the three-month periods ended March 31, 2013 and 2012, respectively.

### 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.

Note Intangible Assets

3:

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.

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Note Preferred and Common Stock

4:

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, the Company has 30,000,000 shares of Preferred Stock authorized, with no shares designated, issued, or outstanding. On June 29, 2012, the shareholders of the Company approved a reduction in the par value of the Preferred Stock from \$1.00 per share to \$0.001 per share, which became effective on July 16, 2012.

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.

Restricted Common Stock

On April 2, 2012, the Company issued 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 in the 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.

Dividends

The Company paid cash dividends of \$270,590 to holders of shares of common stock during the year ended December 31, 2012.

On April 1, 2013, the Company's Board of Directors approved and declared a quarterly cash dividend of \$0.03 per share. The dividend was paid on May 3, 2013 to shareholders of record as of April 18, 2013.

Note Stock Options

5:

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.

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## Employee Stock Options

The following table summarizes information about stock options outstanding and exercisable at March 31, 2013:

Exercise Price Range	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number	
\$0.01 - \$1.34	28,700	8.81	\$ 0.01	28,700	
\$1.34 - \$2.00	18,000	8.15	\$ 1.73	18,000	
\$2.00 - \$2.67	82,966	7.60	\$ 2.18	64,216	
\$2.67 - \$3.33	78,500	6.64	\$ 3.01	17,500	
Total	208,166	7.45	\$ 2.15	128,416	

## Note Concentrations

6:

For the three-month periods ended March 31, 2013 and 2012, we earned revenues (as a percentage of total revenues) in the following categories:

Revenue Streams	Three months ended March 31,			
	2013		2012	
Compliance and reporting services	58.6	%	57.0	%
Printing and financial communication	8.6	%	14.9	%
Fulfillment and distribution	9.1	%	16.5	%
Software licensing	3.7	%	5.5	%
Transfer agent services	20.0	%	6.1	%
Total	100.0	%	100.0	%

No customers accounted for more than 10% of the operating revenues during the three-month periods ended March 31, 2013 or 2012. We did not have any customers that comprised more than 10% of our total accounts receivable balances at March 31, 2013 or December 31, 2012.

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 revenue is 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.

## Note Line of Credit

7:

On November 5, 2012, the Company renewed their working capital line of credit (the "Line of Credit"), and increased the amount available from \$450,000 to \$500,000. The Line of Credit has an interest rate equal to the 30 day LIBOR

rate plus 4.5%, and therefore was 4.7% at March 31, 2013. The Line of Credit has a twelve month term and is renewable annually. During the year ended December 31, 2012, the Company borrowed \$275,000 under the Line of Credit as part of the purchase of the customer list from SECCS, and repaid \$125,000 during the year. The Company also repaid \$75,000 during the three-month period ended March 31, 2013. Therefore, the amount owed on the Line of Credit as of March 31, 2013 was \$75,000.

NoteSubsequent Events

8:

Effective April 30, 2013, the Company renewed it's Line of Credit and increased the amount of funds available to 75% of eligible accounts receivable, as defined in the Line of Credit agreement, up to a maximum of \$2,000,000. The interest rate was also reduced to LIBOR plus 3.5%.

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ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. 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 and mutual funds, 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 professional 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 the rights to all customer contracts, of SEC Compliance Services, Inc. ("SECCS"). We purchased the rights to the customer contracts of New York Stock Transfer on May 10, 2012 and on September 5, 2012 the Company acquired the assets of Firelace, Inc., a cloud-based accounting platform operated under the name Merchants Mirror.

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) Stock Transfer Services. These four core business streams comprise our Disclosure Management System.



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## Disclosure Management System

Our Disclosure Management System is a business process outsourcing (BPO) model whereby we act under contract as a back-office extension of the corporate issuer's management and board of directors. Our unique disclosure process aims to create efficiencies not previously possible 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 ended 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 has not changed; we continue to focus on increasing our core disclosure business from both the corporate issuer directly as well as the filing agent community both in XBRL and EDGAR filings.

## Financial Printing

As one of the only 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 2012 and the three-month period ended March 31, 2013, we have 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 an advantage 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 forms one interface. As regulations continue to change and companies opt to print fewer and fewer 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 and access cards for corporate issuers, reminder mailings, and short run production on a one-to-one or one-to-many delivery method.

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## Shareholder Communications

As part of our commitment to shareholder disclosure and improved corporate transparency, we continue to expand our core news wire services into a comprehensive shareholder communication system that assist not only our client's investor relations departments but also market disseminators and financial portals.

During the year ended December 31, 2012, we completed the transition of certain content from our former partners, into our internally developed product set referred to as 'Market Streams'. This development effort will result in longer term margin improvements in this segment and less reliance on third party providers. We intend to license portions of our data business and API's to other providers and disseminators that are seeking a competitive replacement in the market.

Our offerings include a blend of proprietary Market Stream Cloud datasets (formally our datafeed technologies):

**Stock Charting & Fundamentals** – We deliver both real-time and delayed stock quotes, interactive charts and fundamental data for over 14,000 listed companies. Our interactive charts have embedded vitals such as corporate actions, news streams as well as other customizable alerts that are presented in the chart tip window. Our Market Stream is one of the only fundamental data sets that leverage XBRL as a source for specific corporate data.

**Compliance Stream** – Our compliance stream technology delivers SEC compliant EDGAR filings to corporate issuers' investor relations systems in a variety of formats. The stream provides an embedded XBRL viewer for financial analysis, and easy downloadable formats such as HTML, and PDF. It also offers a social share option for each filing, whereby users can share, copy, save and print official company filings right from the Market Stream.

**News Stream** – Our cloud-based news stream is more than just a system to serve press releases in real-time. It analyzes, stores and matches key fundamental data, about each company and delivers it back to corporate investor relations personnel as well as to key industry professionals that wish to harness the power of our Profile+ system. Our network approach thinks beyond just news content and incorporates additional relevant mediums, such as blogs, analyst reports and social tagging and sharing systems.

Additionally, our shareholder communications business offers additional cloud-based product suites that provide both corporate issuer and market data distribution partners the ability to connect to our market data cloud to access virtually hundreds of customizable data sets for thousands of public companies, as well as the compliance driven modules of whistleblower, Profile+ and our e-Notify request system.

## 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.



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Our commitment to compliance and safeguarding of information goes beyond our SSAE 16 business process. 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 &amp; Subsidiaries

Issuer Direct  
 Issuer Services  
 Direct Transfer (Wholly owned subsidiary – Direct Transfer, LLC.)  
 iTransfer (formally New York Stock Transfer)  
 iProxyDirect  
 iRDirect  
 XBRL Check  
 QX Interactive (Wholly owned subsidiary – QX Interactive, LLC.)

## Results of Operations

Comparison of results of operations for the three months ended March 31, 2013 and 2012

	Three months ended March 31,			
	2013		2012	
<b>Revenue Streams</b>				
<b>Compliance and reporting services</b>				
Revenue	\$ 826,357		\$ 454,410	
Gross Margin	\$ 624,055		\$ 265,907	
Gross margin %	76	%	59	%
<b>Printing and financial communication</b>				
Revenue	121,797		118,574	
Gross Margin	70,479		69,045	
Gross margin %	58	%	58	%
<b>Fulfillment and distribution</b>				
Revenue	128,566		130,934	
Gross Margin	30,972		49,097	
Gross margin %	24	%	37	%
<b>Software licensing</b>				
Revenue	52,059		44,105	
Gross Margin	51,619		43,698	

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Gross margin %	99	%	99	%
Transfer agent services				
Revenue	282,449		48,571	
Gross Margin	235,213		12,153	
Gross margin %	83	%	25	%
Total				
Revenue	\$ 1,411,228		\$ 796,594	
Gross Margin	\$ 1,012,338		\$ 439,900	
Gross margin %	72	%	55	%

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Revenues

Total revenue increased by \$614,634, or 77%, to \$1,411,228 during the three-month period ended March 31, 2013, as compared to \$796,594 during the same period of fiscal 2012. The overall increase is primarily due to an increase in compliance and reporting revenue of \$371,947, and an increase in transfer agent revenues of \$233,878.

Compliance and reporting service revenue increased \$371,947, or 82%, during the three-month period ended March 31, 2013, as compared to the same period in fiscal 2012. 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 were first required to file quarterly and annual reports in XBRL format for all periods ended after June 15, 2011. During the first quarter of fiscal 2012, our small reporting clients were required to file their quarterly and annual reports in XBRL, however they were first required to file in XBRL with detail footnote tagging for periods ended after June 15, 2012. When the requirement for detail footnote tagging became effective, we were able to significantly increase our revenue per client. Therefore, the increase in revenue in the three-month period ended March 31, 2013 as compared to the same period in fiscal 2012 is largely because of the additional revenue earned from detail footnote tagging in the three months ended March 31, 2013. Furthermore, we have continued to increase the number of clients we have under annual contracts, both from our acquisition of SECCS in January 2012 and from organic sales efforts. Because of the large number of clients that we have under annual contracts, we believe our revenue from these services will continue to be much more predictable in the future.

Printing and financial communication revenue increased slightly by \$3,223 in the three-month period ended March 31, 2013 as compared to the same period in fiscal 2012. Revenue from printing, particularly from our iFUND platform, tends to be somewhat project oriented, and will therefore fluctuate from period to period based on the timing of projects. We will continue to focus on obtaining more recurring revenues, particularly from our Print-On-Demand services.

Fulfillment and distribution revenue decreased slightly by \$2,368 during the three-month period ended March 31, 2013 as compared to the same period in fiscal 2012. Similar to revenue from printing services, fulfillment and distribution revenue tends to be somewhat project oriented, and will therefore fluctuate from period to period based on the timing of projects.

Software licensing revenues increased slightly by \$7,954 during the three-month period ended March 31, 2013 as compared to the same period 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 increased by \$233,878 during the three-month period ended March 31, 2013 as compared to the same period in fiscal 2012. The increase was primarily due to significant revenues from corporate action engagements earned in the three months ended March 31, 2013. 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. We also achieved increased revenue due to the purchase of the clients of New York Stock Transfer in May 2012.

No customers accounted for more than 10% of the operating revenues during the three-month periods ended March 31, 2013 or March 31, 2012.





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### 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 \$42,196, or 12%, during the three-month period ended March 31, 2013 as compared to same period of fiscal 2012. However, overall gross margins increased by \$572,438, or 130%, to \$1,012,338 during the three-month period ended March 31, 2013 as compared to \$439,900 in the same period of fiscal 2012. Gross margins for the three-month period ended March 31, 2013 increased to 72% of revenue compared to 55% of revenue during the same period of fiscal 2012.

Furthermore, we achieved margins of 76% from our compliance and regulatory services during the three-month period ended March 31, 2013 as compared to 59% in same period of fiscal 2012, primarily due to our XBRL service offerings. Although pricing pressures in the market are accelerating quicker than we anticipated, we have been able to continually improve our margins from our XBRL services as we have gained significant operational efficiencies over the past year, as we become more experienced in performing these services, and as we have increased our revenue per client due to the requirement for small companies to add detail footnote tagging to their XBRL filings as previously discussed.

We achieved margins of 58% from our printing and financial communications services during both the three-month periods ended March 31, 2013 and 2012.

Gross margins from our fulfillment and distribution services decreased to 24% during the three-month period ended March 31, 2013 as compared to 37% in the same period of fiscal 2012. Revenue from these services are largely project based, and therefore margins can fluctuate from between projects based on the nature of the services performed. We anticipate that margins in the future will increase as compared to the margins achieved in the three months ended March 31, 2013.

Gross margins from software licensing remained relatively high, and were 99% during the three-month periods ended March 31, 2013 and 2012.

Gross margins from our transfer agent services increased to 83% during the year three-month period ended March 31, 2013 to 25% in the same period fiscal 2012. The increase in margin is primarily due to the increase in revenue previously discussed, as cost for our transfer agent department consist largely of fixed costs and the relatively low revenues achieved in the three months ended March 31, 2012 were not significantly above our fixed cost.

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 services and fulfillment services fluctuate periodically as the cost of the services, labor, 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, but market demands, and inventory levels play a significant impact in our overall ability to attract new business.

We incur direct labor costs for software licensing, as all development is performed in-house. To date, costs have not been significant. We intend to increase our development efforts in the coming quarters to further enhance our intellectual property and market position in both our shareholder communications and disclosure management business.

To date, costs for transfer agent services have also been minimal, in proportion to this growing revenue stream. We will devote additional resources to this service offering as we expand these services in future periods.



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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 \$119,305 during the three-month period ended March 31, 2013 as compared to the same period in fiscal 2012. The increase in the three month-period ended March 31, 2013 as compared to the same period of fiscal 2012 is primarily due to increases in bad debt expense of \$32,573, accounting and consulting fees of \$72,322, and personnel related expenses of \$21,316.

The increase in accounting services is attributable to several factors; first, we spent approximately \$40,000 on project related work on evaluating acquisition targets, as strategic mergers and acquisitions is part of our ongoing strategy. The remainder of the increase is primarily to the timing of audit and tax work performed, additional fees for a new investor relations firm, and the monthly fee paid to our independent Board director appointed in 2012. The increase in bad debt expense is due primarily to the overall increase in our revenues and accounts receivable, as we increased our reserve to cover the increased exposure. The increase in personnel expenses is partially due an increase in stock based compensation for incentive stock options and restricted stock issued in April 2012, and due to increased personal hired to support the overall growth in business.

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, 2013 decreased slightly by \$11,527 to \$201,017 as compared to \$212,544 in the same period of fiscal 2012.

As a percentage of revenue, sales and marketing expense was relatively high in the three months ended March 31, 2012, as 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 throughout fiscal 2012. As a result, stock based compensation within sales and marketing expense decreased \$29,234 during the three months ended March 31, 2013 as compared to the same period in fiscal 2012. We anticipate that sales in marketing expense as a percent of total revenue during the three months ended March 31, 2013 is more reflective of anticipated future expenses.

Depreciation and Amortization

Depreciation and amortization expenses during the three-month period ended March 31, 2013 decreased slightly to \$34,935 as compared to \$36,068 during the same period of fiscal 2012.

Interest Income (Expense)

Net interest income (expense) of (\$247) and \$3,572 during the three-month periods ended March 31, 2013 and 2012, respectively, consisted primarily of finance charges to customers with past due balances that we are reasonably assured that we will collect.

Income Tax Benefit (Expense)

The company recorded income tax expense during the three-month period ended March 31, 2013 of \$152,000 based on our estimated effective tax rate for fiscal 2013. The company recorded an income tax benefit of \$37,500 during the three-month period ended March 31, 2012, as a result of the net loss for the period.

Net Income (Loss)

Net income for the three-month period ended March 31, 2013 was \$215,538 as compared to a net loss of \$56,936 in the same period of fiscal 2012, due primarily to the increase in total revenue and gross profit previously discussed.

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## Liquidity and Capital Resources

As of March 31, 2013, we had \$1,257,862 in cash and cash equivalents and \$745,654 net accounts receivable. Current liabilities at March 31, 2013, totaled \$499,818 including our line of credit, accounts payable, deferred revenue, accrued payroll liabilities, income taxes payable, and accrued expenses. At March 31, 2013, our current assets exceeded our current liabilities by \$1,577,259.

As of March 31, 2013, we owed \$75,000 under a working capital line of credit. We have \$425,000 of credit remaining available to us under this line of credit. Effective April 30, 2013, we renewed our line of credit and increased the amount of funds available to 75% of eligible accounts receivable, as defined in the line of credit agreement, up to a maximum of \$2,000,000.

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.

## 2013 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.

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 and mutual funds, 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 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.

We work with a diverse client base in the financial services industry, including brokerage firms, banks, mutual funds, corporate issuers, shareholders and professional 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.

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

## 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.

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ITEMQUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

3.

Not applicable

ITEMCONTROLS AND PROCEDURES.

4.

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.

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PART II – OTHER INFORMATION

ITEMLEGAL PROCEEDINGS.

1.

None.

ITEMRISK FACTORS.

1A.

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

ITEMUNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

2.

None.

ITEMDEFAULTS UPON SENIOR SECURITIES.

3.

Not applicable.

ITEMMINE SAFETY DISCLOSURE.

4.

Not applicable.

ITEMOTHER INFORMATION.

5.

None.

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ITEMEXHIBITS.

6.

(a) Exhibits.

Exhibit

Number Description

[31.1](#) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

[31.2](#) Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

[32.1](#) Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

[32.2](#) Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

\* Filed herewith

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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.

Date: May 6, 2013

ISSUER DIRECT CORPORATION

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

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