WORLD FUEL SERVICES CORP
Form 10-Q
August 01, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-9533

WORLD FUEL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

Florida	**59-2459427**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9800 N.W. 41st Street, Suite 400 **Miami, Florida**	**33178**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s Telephone Number, including area code: **(305) 428-8000**

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

The registrant had a total of 72,063,000 shares of common stock, par value $0.01 per share, issued and outstanding as of July 25, 2012.

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Part I Financial Information

General

The following unaudited consolidated financial statements and notes thereto of World Fuel Services Corporation and its subsidiaries have been prepared in accordance with the instructions to Quarterly Reports on Form 10-Q and, therefore, omit or condense certain footnotes and other information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. In the opinion of management, all adjustments necessary for a fair presentation of the financial information, which are of a normal and recurring nature, have been made for the interim periods reported. Results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results for the entire fiscal year. The unaudited consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 (10-Q Report) should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (2011 10-K Report). World Fuel Services Corporation (World Fuel or the Company) and its subsidiaries are collectively referred to in this 10-Q Report as we, our and us.

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Item 1. Financial Statements

World Fuel Services Corporation and Subsidiaries

Consolidated Balance Sheets

(Unaudited - In thousands, except per share data)

	As of	
	June 30, 2012	**December 31, 2011**
Assets:		
Current assets:		
Cash and cash equivalents	$ 136,676	$ 205,415
Accounts receivable, net	2,124,645	2,160,561
Inventories	557,390	472,584
Prepaid expenses	158,239	109,297
Other current assets	319,895	174,370
Total current assets	3,296,845	3,122,227
Property and equipment, net	92,597	90,710
Goodwill	353,547	346,246
Identifiable intangible assets, net	103,739	107,620
Non-current other assets	41,166	30,443
Total assets	$ 3,887,894	$ 3,697,246
Liabilities:		
Current liabilities:		
Short-term debt	$ 23,780	$ 17,800
Accounts payable	1,774,508	1,739,678
Customer deposits	98,478	105,554
Accrued expenses and other current liabilities	190,978	163,110
Total current liabilities	2,087,744	2,026,142
Long-term debt	308,212	269,348
Non-current income tax liabilities, net	43,013	47,703
Other long-term liabilities	9,857	7,335
Total liabilities	2,448,826	2,350,528
Commitments and contingencies		
Equity:		
World Fuel shareholders equity:		
Preferred stock, $1.00 par value; 100 shares authorized, none issued		
Common stock, $0.01 par value; 100,000 shares authorized, 72,058 and 71,154 issued and outstanding as of June 30, 2012 and December 31, 2011, respectively	721	712
Capital in excess of par value	506,213	502,551
Retained earnings	925,887	836,222
Accumulated other comprehensive loss	(14,603)	(6,524)
Total World Fuel shareholders equity	1,418,218	1,332,961
Noncontrolling interest equity	20,850	13,757

Total equity		1,439,068		1,346,718
Total liabilities and equity	$	3,887,894	$	3,697,246

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

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World Fuel Services Corporation and Subsidiaries

Consolidated Statements of Income and Comprehensive Income

(Unaudited - In thousands, except per share data)

	For the Three Months ended June 30, 2012	For the Three Months ended June 30, 2011	For the Six Months ended June 30, 2012	For the Six Months ended June 30, 2011
Revenue	$ 9,618,797	$ 8,708,709	$ 19,097,852	$ 15,788,115
Cost of revenue	9,446,674	8,543,607	18,768,494	15,486,245
Gross profit	172,123	165,102	329,358	301,870
Operating expenses:				
Compensation and employee benefits	56,183	54,877	110,710	101,946
Provision for bad debt	641	3,531	782	4,327

We will continue to evaluate complimentary verticals and systems that we can integrate well into our current platforms. These opportunities typically need to be accretive and consistent with what we have done in the past. We will continue to maintain our product and technology focus, so it is likely we will look for acquisitions in areas we currently generate revenues and or see clear opportunities to leverage our strengths to disrupt existing markets. In these potential transactions, we will look for key people, technologies, and long-term customers that will further enhance our overall market position.

Sales and Marketing

During 2018, we will continue to strengthen our brands in the market by working aggressively to expand our new customer footprint and continue to cross sell to increase average revenue per user. Since our platform, systems and operations are built to handle growth, we can leverage them to produce consistently high margins and increased cash flows without a proportional increase in our capital or operating expenses.

Our global sales organization is responsible for generating new customer opportunities and expanding our current customers. We ended 2017 with a multi-tier organization of sales personnel, made up of Strategic Account Managers and Business Development Managers. We believe this structured approach is the most efficient and highly impactful way to reach new customers and also grow our current install base. The total compensation packages for these teams are heavily weighted with commission compensation to incent sales. All members of the team have sales quotas. At the end of December 31, 2017, we employed 18 full-time equivalent sales personnel and are on track to add more Business Development Managers in 2018 to focus on selling new subscriptions of Platform id.

Our marketing organization has been focused on both new customer acquisition as well as campaigns to educate current customers on the advantages of our entire Platform id. Additionally, our marketing team has expanded their focus on investor conferences, strategic exchange partnerships and private company marketing activities in order to continue to scale our business long term.

Additionally, our executive team plays a critical role in our sales process, assisting the organization and customers with new offerings, cross selling opportunities and channel development; because our overall organization is small, we benefit from this approach and believe this is key to our future success.

Technology

We will continue to make investments in our technology, as we transition our business from a historically service-oriented business to a cloud-based subscription organization. In all of our offerings, quality, support, and scalability as well as the need to preserve the confidential content of our customers is of utmost importance and part of our core values.

Additionally, and given the nature of our business, we recently engaged a reputable, national security consulting firm to identify, address and create policies and plans to proactively mitigate our cybersecurity and information vulnerabilities, if any, on both a near-term and long-term basis. We believe having a strong cyber and information security policy is not only necessary to maintain our current business model but also important to attract new customers. We plan to work closely with this firm to ensure our security policies meet our customers' needs and requirements.

Industry Overview

Our industry benefits from increased regulatory requirements and the need for platforms and systems to manage these new regulations. Additionally, the industry along with cloud-based technologies have matured considerably over the past several years, whereby corporate issuers and communication professionals are seeking platforms and systems to do some, if not all the work themselves. We are uniquely positioned in this new environment to benefit from software licensing and further advancements of Platform id.

The business services industry as it relates to compliance and communications is highly fragmented, with hundreds of independent service companies that provide a range of financial reporting, document management services and with a wide range of printing and technology software providers. The demands for many of our services historically have been cyclical and reliant on capital market activity. During 2017, we spent a considerable amount of time growing several new service offerings beyond our traditional compliance reporting and transaction services business. These new offerings will afford us the ability to reduce our revenue seasonality and provide a new baseline of recurring annualized contracts under our new subscription-based business.

The global communications and compliance software and services market is approximately $3+ billion in annual spend, and has maintained its global strength according to research. This market comprises spend on the earnings event, press releases, engagement and targeting, Investor Relations platforms, as well as the regulatory compliance and reporting components globally. The key drivers of growth in our industry relate to changing regulatory requirements, new innovated platform technologies and typical industry consolidations we believe we have a significant competitive advantage by innovating our technology and workflow automation solutions.

Competition

Despite some consolidation in recent years, the industry remains both highly fragmented and extremely competitive. The success of our products and services are generally based on price, quality and the ability to service customer demands. Management has been focused on offsetting these risks relating to competition as well as the seasonality by introducing its cloud-based subscription platforms, with significantly higher margins, clear competitive advantages and scalability to withstand market and pricing pressures.

We also review our operations on a regular basis to balance growth with opportunities to maximize efficiencies and support our long-term strategic goals. We believe by blending our workflow technologies with our legacy service offerings we are able to offer a comprehensive set of products and solutions to each of our customers that most competitors cannot offer today.

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We believe we are positioned to be the public company platform of choice as a cost-effective alternative to both small regional providers and global providers. We also believe we benefit from our location in North Carolina, as we do not experience significant competition for sales, customer service, or production personnel.

Customers

Our customers include a wide variety of issuers, mutual funds, law firms, brokerage firms, banks, individuals, and other institutions. For the year ended December 31, 2017, we did work for approximately 2,950 customers on our ACCESSWIRE platform and 1,300 customers through our other products and services. We did not have any customers during the year ended December 31, 2017 that accounted for more than 10% of our revenue and no customer represented more than 10% of our year end accounts receivable balance as of December 31, 2017.

Employees

As of December 31, 2017, we employed sixty-six full-time employees as compared to sixty full-time employees at December 31, 2016, none of which are represented by a union. Our employees work in our corporate offices in North Carolina, and in satellite locations throughout North America and the United Kingdom.

Facilities

Our headquarters are located in Morrisville, North Carolina. In October 2015, we agreed to an extension on our current lease to extend the maturity through October 2019. Our current office includes 16,059 square feet of office space. We believe we have sufficient space to sustain our growth through 2019. Additionally, we have an office in Salt Lake City, Utah and a shared office facility in London, England, both of which are on a short term lease.

Insurance

We maintain both a general business liability policy and an errors and omissions policy specific to our industry and operations. We believe that our insurance policies provide adequate coverage for all reasonable risks associated with operating our business. Additionally, we maintain a Directors and Officers insurance policy, which is standard for our industry and size. We also maintain key man life insurance on our Chief Executive Officer, our Chief Financial Officer, and one other key individual.

Regulations

The securities and financial services industries generally are subject to regulation in the United States and elsewhere. Regulatory policies in the United States and the rest of the world are tasked with safeguarding the integrity of the securities and financial markets with protecting the interests of both issuers and shareholders.

In the United States, corporate issuers are subject to regulation under both federal and state laws, which often require public disclosure and regulatory filings. At the federal level, the Securities and Exchange Commission (“SEC”) regulates the securities industry, along with the Financial Industry Regulatory Authority, or FINRA, formally known as NASD, and NYSE market regulations, various stock exchanges, and other self-regulatory organizations (“SRO”).

In the European Union (EU), the securities and reporting authorities tend to be based on exchanges as well as individual country disclosure requirements. We currently work with our stock exchange partners to deliver our solutions. We believe this is the best approach as this market is highly complex and divided in comparison to our North American markets.

We operate our filing agent business and transfer agent business under the supervision and regulations of the SEC.

Our transfer agency business, Direct Transfer, LLC, is subject to certain regulations, which are governed, without limitation by the SEC, with respect to registration with the SEC, annual reporting, examination, internal controls, tax reporting and escheatment services. Our transfer agency is currently approved to handle the securities of NYSE, NASDAQ and OTC securities.

Our mission is to assist corporate issuers with these regulations, communication and compliance of rules imposed by regulatory bodies. The majority of our business involves the distribution of content, either electronically or on paper, to governing bodies and shareholders alike. We are licensed under these regulations to disseminate, communicate and or solicit on behalf of our customers, the issuers.

ITEM 1A. RISK FACTORS.

Forward-Looking and Cautionary Statements

Investing in our common stock involves a high degree of risk. Prospective investors should carefully consider the following risks and uncertainties and all other information contained or referred to in this Annual Report on Form 10-K before investing in our common stock. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you could lose some or all of your investment.

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Risks related to our business

Legislative and regulatory changes can influence demand for our solutions and could adversely affect our business.

The market for our solutions depends in part on the requirements of the SEC and other regulatory bodies. Any legislation or rulemaking substantially affecting the content or method of delivery of documents to be filed with these regulatory bodies could have an adverse effect on our business. In addition, evolving market practices in light of regulatory developments could adversely affect the demand for our solutions. Uncertainty caused by political change in the United States and European Union (particularly Brexit) heightens regulatory uncertainty in these areas. For example, the White House and Congressional leadership have publicly announced a goal of repealing or amending parts of the Dodd Frank Act, as well as certain regulations affecting the financial services industry. New legislation, or a significant change in rules, regulations, directives or standards could reduce demand for our products and services. Regulatory changes could also increase expenses as we modify our products and services to comply with new requirements and retain relevancy, impose limitations on our operations, and increase compliance or litigation expense, each of which could have a material adverse effect on our business, financial condition and results of operations.

The environment in which we compete is highly competitive, which creates adverse pricing pressures and may harm our business and operating results if we cannot compete effectively.

Competition in our businesses is intense. The speed and accuracy with which we can meet customers' needs, the price of our services and the quality of our products and supporting services are factors in this competition. In our disclosure management business, we compete directly with several other service providers having similar degrees of specialization.

Our print and financial communications business faces diverse competition from a variety of companies including commercial printers, in-house print operations, direct marketing agencies, facilities management companies, software providers and other consultants. In commercial printing services, we compete with general commercial printers, which are far more numerous than those in the financial printing market.

These competitive pressures could reduce our revenue and earnings.

Approximately 9% of our revenue is generated overseas and if the global financial markets become unstable again, it may adversely impact our revenue.

Approximately 9% of our annual revenue is generated in Europe. Over the past decade, global financial markets have experienced periods of extreme disruptions, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. While the global markets are currently relatively stable, we are unable to predict the timing, likely duration and severity of potential future disruptions in the financial markets and adverse global economic conditions, and if such uncertainty returns and economic conditions again deteriorate, our business and results of operations could be materially and adversely affected. The consequences of such adverse effects could include interruptions or delays in our ability to perform services or to get paid for services rendered.

Our revenue growth rate in the recent period relating to our Platform and Technology business may not be indicative of this business segment's future performance.

We experienced a revenue growth rate of 49% from 2016 to 2017 with respect to our Platform and Technology revenue stream. Much of this increase was due to the success of our ACCESSWIRE business. Our historical revenue growth rate of the Platform and Technology revenue stream is not indicative of future growth, and we may not achieve similar revenue growth rates in future periods. You should not rely on our revenue or revenue growth for any prior quarterly or annual periods as any indication of our future revenue or revenue growth. If we are unable to maintain consistent revenue or revenue growth, our stock price could be volatile, and it may be difficult to achieve and maintain profitability.

The success of our cloud-based software largely depends on our ability to provide reliable solutions to our customers. If a customer were to experience a product defect, a disruption in its ability to use our solutions or a security flaw, demand for our solutions could be diminished, we could be subject to substantial liability and our business could suffer.

Our Platform and Technology solutions are complex and we often release new features. As such, our solutions could have errors, defects, viruses or security flaws that could result in unanticipated downtime for our customers and harm our reputation and our business. Internet-based software frequently contains undetected errors or security flaws when first introduced or when new versions or enhancements are released. We might from time to time find such defects in our solutions, the detection and correction of which could be time consuming and costly. Since our customers use our solutions for important aspects of their business, any errors, defects, disruptions in access, security flaws, viruses, data corruption or other performance problems with our solutions could hurt our reputation and may damage our customers' businesses. If that occurs, customers could elect not to renew, could delay or withhold payment to us or may make warranty or other claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or the expense and risk of litigation. We could also lose future sales. In addition, a security breach of our solutions could result in our future business prospects being materially adversely impacted.

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A substantial portion of our business is derived from our ACCESSWIRE brand, which is dependent on technology and key partners.

As noted, our ACCESSWIRE brand has been vital to the increase in revenue associated with our Platform and Technology revenue stream. ACCESSWIRE is dependent upon a few key partners for news distribution, some of which are also partners that we rely on for other shareholder communications services. A disruption in any of these partnership relationships could have a material adverse impact on our business and financial results and the inability to procure new key partners could impact the growth of the ACCESSWIRE brand, particularly with respect to public company news distribution. Furthermore, we acquired software with the acquisition of ACCESSWIRE. Any performance issues with this technology could also have a material adverse impact on our ability to serve our customers and thus our ability to generate revenue.

Failure to manage our growth may adversely affect our business or operations.

Since 2013, we have experienced overall growth in our business, customer base, employee headcount and operations, and we expect to continue to grow our business over the next several years. This growth places a significant strain on our executive management team and employees and on our operating and financial systems. To manage our future growth, we must continue to scale our business functions, improve our financial and management controls and our reporting systems and procedures and expand and train our work force. In particular, we grew from 24 employees as of December 31, 2012 to more than 66 employees as of December 31, 2017. We anticipate that additional investments in sales personnel, infrastructure and research and development spending will be required to:

scale our operations and increase productivity;

address the needs of our customers;

further develop and enhance our existing solutions and offerings; and

develop new technology.

We cannot assure you that our controls, systems and procedures will be adequate to support our future operations or that we will be able to manage our growth effectively. We also cannot assure you that we will be able to continue to expand our market presence in the United States and other current markets or successfully establish our presence in other markets. Failure to effectively manage growth could result in difficulty or delays in deploying customers, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new features or other operational difficulties, and any of these difficulties could adversely impact our business performance and results of operations.

If we are unable to retain our key employees and attract and retain other qualified personnel, our business could suffer.

Our ability to grow and our future success will depend to a significant extent on the continued contributions of our key executives, managers and employees. In addition, many of our individual technical and sales personnel have extensive experience in our business operations and/or have valuable customer relationships that would be difficult to replace. Their departure, if unexpected and unplanned for, could cause a disruption to our business. Our competition for these individuals is intense, especially in the markets in which we operate. We may not succeed in identifying, attracting and retaining these personnel. Further, competitors and other entities have in the past recruited and may in the future attempt to recruit our employees, particularly our sales personnel. The loss of the services of our key personnel, the inability to identify, attract and retain qualified personnel in the future or delays in hiring qualified personnel, particularly technical and sales personnel, could make it difficult for us to manage our business and meet key objectives, such as the timely introduction of new technology-based products and services, which could harm our business, financial condition and operating results.

If we fail to keep our customers' information confidential or if we handle their information improperly, our business and reputation could be significantly and adversely affected.

If we fail to keep customers' proprietary information and documentation confidential, we may lose existing customers and potential new customers and may expose them to significant loss of revenue based on the premature release of confidential information. While we have security measures in place to protect customer information and prevent data loss and other security breaches, these measures may be breached as a result of third-party action, employee error, malfeasance or otherwise. Because the techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

In addition, our service providers (including, without limitation, hosting facilities, disaster recovery providers and software providers) may have access to our customers' data and could suffer security breaches or data losses that affect our customers' information.

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If an actual or perceived security breach or premature release occurs, our reputation could be damaged and we may lose future sales and customers. We may also become subject to civil claims, including indemnity or damage claims in certain customer contracts, or criminal investigations by appropriate authorities, any of which could harm our business and operating results. Furthermore, while our errors and omissions insurance policies include liability coverage for these matters, if we experienced a widespread security breach that impacted a significant number of our customers for whom we have these indemnity obligations, we could be subject to indemnity claims that exceed such coverage.

We must adapt to rapid changes in technology and customer requirements to remain competitive.

The market and demand for our products and services, to a varying extent, have been characterized by:

Technological change;

Frequent product and service introductions; and

Evolving customer requirements.

We believe that these trends will continue into the foreseeable future. Our success will depend, in part, upon our ability to:

Enhance our existing products and services;

Successfully develop new products and services that meet increasing customer requirements; and

Gain market acceptance.

To achieve these goals, we will need to continue to make substantial investments in sales and marketing. We may not:

Have sufficient resources to make these investments;

Be successful in developing product and service enhancements or new products and services on a timely basis, if at all; or

Be able to market successfully these enhancements and new products once developed.

Further, our products and services may be rendered obsolete or uncompetitive by new industry standards or changing technology.

Our business could be materially harmed if we do not successfully manage the integration of our recent acquisition of Interwest Transfer Company, Inc.

On October 2, 2017, we acquired Interwest Transfer Company, Inc. (“Interwest”). Through this acquisition, we acquired approximately three hundred transfer agent customers. We believe by adding the transfer agency customer base of Interwest, we significantly bolster our platform potential by providing the Interwest customer base the opportunity to utilize our single-sourced, consolidated disclosure and communication offering for disseminating regulatory and other business information to shareholders and the markets. However, there are a number of risks associated with the Interwest acquisition as set forth below:

the difficulty of integrating the operations and personnel of Interwest into our ongoing operations;

the potential disruption of our ongoing business and distraction of management;

the management of Interwest, which is located in Salt Lake City, Utah;

the establishment and maintenance of uniform standards, controls, procedures and policies between Issuer Direct and Interwest;

the impairment of relationships with employees and customers of Interwest as a result of any integration of new management personnel;

the potential loss of key employees or clients of Interwest; and

potential unknown liabilities or other difficulties associated with Interwest.

If we do not manage these risks successfully, it could result in a material adverse impact to our business.

Additionally, our business could be harmed if we do not successfully manage the integration of any business that we may acquire in the future.

In addition to the specific risks associated with integrating Interwest, as part of our continued business strategy, we will continue to evaluate and acquire as practical other businesses that complement our core capabilities. Certain other areas which may expose the Company to increased risk include:

the difficulty of integrating the operations and personnel of the acquired businesses into our ongoing operations;

the potential disruption of our ongoing business and distraction of management;

the difficulty in incorporating acquired technology and rights into our products and technology;

unanticipated expenses and delays relating to completing acquired development projects and technology integration;

a potential increase in our indebtedness and contingent liabilities, which could restrict our ability to access additional capital when needed or to pursue other important elements of our business strategy;

the management of geographically remote units;

the establishment and maintenance of uniform standards, controls, procedures and policies;

the impairment of relationships with employees and customers as a result of any integration of new management personnel;

risks of entering markets or types of businesses in which we have either limited or no direct experience;

the potential loss of key employees or customers of the acquired businesses; and

potential unknown liabilities, such as liability for hazardous substances, or other difficulties associated with acquired businesses.

New issuers seeking to raise capital and become SEC registrants may choose to utilize Regulation A+ and we may see a significant decline in the number of filings as part of our current disclosure management business.

On March 25, 2015, the Securities and Exchange Commission released its final rules relating to Regulation A+ implemented as part of Title IV of the Jumpstart Our Business Startups Acts. Regulation A+ will allow issuers to raise capital based on reduced filing requirements as compared to those required under the Securities Act of 1934, as amended. On June 12, 2015, the OTC Markets Group Inc. announced new rules and standards for issuers seeking to list their securities on the OTCQX and OTCQB pursuant to Regulation A+. As issuers begin to utilize theses new rules and standards, we expect there to be a decline in the number of filings made by our existing customer base. However, we also expect a number of additional equity and debt offerings to occur as a function of the new rules. In the event we are unable to adapt our disclosure management business to address the changes being implemented by Regulation A+ and the OTC Market Group, our disclosure management business may potentially see a material reduction in revenue.

Revenue from Platform id. subscriptions and many of our service contracts is recognized ratably over the term of the contract or subscription period. As a result, downturns or upturns in sales may not be immediately reflected in our operating results.

We generally recognize subscription and support revenue from customers ratably over the terms of their subscription agreements, which are typically on a quarterly or annual cycle and automatically renew for additional periods. As a result, a substantial portion of the revenue we report in each quarter will be derived from the recognition of deferred revenue relating to subscription agreements entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any one quarter may not be immediately reflected in our revenue results for that quarter. This decline, however, will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our solutions and potential changes in our rate of renewals may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our subscription revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term. In addition, we may be unable to adjust our cost structure to reflect the changes in revenue, which could adversely affect our operating results.

We cannot accurately predict subscription renewal or upgrade rates and the impact these rates may have on our future revenue and operating results.

Our business depends substantially on customers renewing their subscriptions with us, specifically Platform id., and expanding their use of our products. Our customers have no obligation to renew their subscriptions for our products after the expiration of their initial subscription period. Given our limited operating history with respect to our Platform and Technology revenue stream, we may be unable to accurately predict our subscription and support revenue retention rate. In addition, our customers may renew for shorter contract lengths, lower prices or fewer users. We cannot accurately predict new subscription or expansion rates and the impact these rates may have on our future revenue and operating results. Our renewal rates may decline or fluctuate as a result of a number of factors, including customer dissatisfaction with our service, customers' ability to continue their operations and spending levels and deteriorating general economic conditions. If our customers do not renew their subscriptions for our products, purchase fewer solutions at the time of renewal, or negotiate a lower price upon renewal, our revenue will decline and our business will suffer. Our future success also depends in part on our ability to sell additional solutions and products, more subscriptions or enhanced editions of our products to our current customers. If our efforts to sell additional solutions and products to our customers are not successful, our growth and operations may be impeded. In addition, any decline in our customer renewals or failure to convince our customers to broaden their use of our products would harm our future operating results.

We have incurred operating losses in the past and may do so again in the future

The Company has incurred operating losses in the past and may do so again in the future. At December 31, 2017, the Company had $2,774,000 of retained earnings. Although we have generated positive cash flows from operations for the past ten years, there can be no assurances that we will be able to do so in the future. As we continue to invest in our cloud-based technologies and sales and marketing teams, we could experience fluctuations in our cash flows from operations and retained earnings and there are no guarantees that our business can continue to generate the current revenue levels.

We have recently begun to transition our business from a services company to a software as a service company, which makes it difficult to predict our future operating results.

In 2015, we began our transition from a services company to a software as a service company. As a result of this transition, our ability to forecast our future operating results is limited and subject to a number of uncertainties, including our ability to plan for and model future growth. We have encountered and will encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties (which we use to plan our business) are incorrect or change due to changes in our markets, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations and our business could suffer.

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We are subject to general litigation and regulatory requirements that may materially adversely affect us.

From time to time, we may be involved in disputes or regulatory inquiries that arise in the ordinary course of business. We expect that the number and significance of these potential disputes may increase as our business expands and we grow larger. While most of our agreements with customers limit our liability for damages arising from our solutions, we cannot assure you that these contractual provisions will protect us from liability for damages in the event we are sued. Although we carry general liability insurance coverage, our insurance may not cover all potential claims to which we are exposed or may not be adequate to indemnify us for all liability that may be imposed. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time, and result in the diversion of significant operational resources. Because litigation is inherently unpredictable, we cannot assure you that the results of any of these actions will not have a material adverse effect on our business, financial condition, results of operations and prospects.

New and existing laws make determining our income tax rate complex and subject to uncertainty.

The computation of our provision for income tax is complex, as it is based on the laws of multiple taxing jurisdictions and requires significant judgment on the application of complicated rules governing accounting for tax provisions under U.S. generally accepted accounting principles. Additionally, the new Tax Cuts and Jobs Act of 2017 imposes a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings. We currently have $1,370,000 in cash earned and held in a subsidiary in the United Kingdom. We are currently evaluating the tax impact of repatriating these funds, however, based on our current best estimate, we do not believe the impact will be material. Additionally, provisions for income tax for interim quarters are based on forecasts of our U.S. and non-U.S. effective tax rates for the year and contain numerous assumptions. Various items cannot be accurately forecasted and future events may be treated as discrete to the period in which they occur. Our provision for income tax can be materially impacted by things such as changes in our business, such as internal restructuring and acquisitions, changes in tax laws and accounting guidance and other regulatory, legislative developments, tax audit determinations, changes in uncertain tax positions, tax deductions attributed to equity compensation and changes in our determination for a valuation allowance for deferred tax assets. For all of these reasons, our actual income taxes may be materially different than our provision for income tax.

We are subject to U.S. and foreign data privacy and protection laws and regulations as well as contractual privacy obligations, and our failure to comply could subject us to fines and damages and would harm our reputation and business.

We manage private and confidential information and documentation related to our customers’ finances and transactions, often prior to public dissemination. The use of insider information is highly regulated in the United States and abroad, and violations of securities laws and regulations may result in civil and criminal penalties. In addition, we are subject to the data privacy and protection laws and regulations adopted by federal, state and foreign legislatures and governmental agencies. Data privacy and protection is highly regulated and may become the subject of additional regulation in the future. Privacy laws restrict our storage, use, processing, disclosure, transfer and protection of non-public personal information by our customers or collected from visitors of our website. We strive to comply with all applicable laws, regulations, policies and legal obligations relating to privacy and data protection. However, it is possible that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Any failure, or perceived failure, by us to comply with federal, state or international laws, including laws and regulations regulating privacy, payment card information, personal health information, data or consumer protection, could result in proceedings or actions against us by governmental entities or others.

The regulatory framework for privacy and data protection issues worldwide is evolving, and various government and consumer agencies and public advocacy groups have called for new regulation and changes in industry practices, including some directed at providers of mobile and online resources in particular. Our obligations with respect to privacy and data protection may become broader or more stringent. If we are required to change our business activities or revise or eliminate services, or to implement costly compliance measures, our business and results of operations could be harmed.

Our business may be affected by factors outside of our control.

Our ability to increase sales and deliver and sell our service offerings profitably is subject to a number of risks, including changes to corporate disclosure requirements, regulatory filings and distribution of proxy materials, competitive risks such as the entrance of additional competitors into our market, pricing and competition and risks associated with the marketing of new services in order to remain competitive.

If potential customers take a long time to evaluate the use of our products, we could incur additional selling expenses and require additional working capital.

The acceptance of our services depends on a number of factors, including the nature and size of the potential customer base, the effectiveness of our system, and the extent of the commitment being made by the potential customer, and is difficult to predict. Currently, our sales and marketing expenses per customer are fairly low. If potential customers take longer than we expect to decide whether to use our services and require that we travel to their sites, present more marketing material, or spend more time in completing the sales process, our selling expenses could increase, and we may need to raise additional capital sooner than we would otherwise need to.

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The seasonality of business makes it difficult to predict future results based on specific quarters.

A greater portion of our printing, distribution and solicitation of proxy materials business will be processed during our second quarter. Therefore, the seasonality of our revenue makes it difficult to estimate future operating results based on the results of any specific quarter and could affect an investor's ability to compare our financial condition and results of operations on a quarter-by-quarter basis. To balance the seasonal activity of print, distribution and solicitation of proxy materials, we will attempt to continue to grow other revenues since they are linked to predictable periodic activity that is cyclical in nature.

If we are unable to successfully develop and timely introduce new technology-based products or enhance existing technology-based products, our business may be adversely affected.

In the past few years, we have expended significant resources to develop and introduce new technology-based products and improve and enhance our existing technology-based products in an attempt to maintain or increase our sales. The long-term success of new or enhanced technology-based products may depend on a number of factors including, but not limited to, the following: anticipating and effectively addressing customer preferences and demand, the success of our sales and marketing efforts, timely and successful development, changes in governmental regulations and the quality of or defects in our products.

The development of our technology-based products is complex and costly, and we typically have multiple technology-based products in development at the same time. Given the complexity, we occasionally have experienced, and could experience in the future, delays in completing the development and introduction of new and enhanced technology-based products. Problems in the design or quality of our products or services may also have an adverse effect on our brand, business, financial condition, and operating results. Unanticipated problems in developing technology-based products could also divert substantial development resources, which may impair our ability to develop new technology-based products and enhancements of such products, and could substantially increase our costs. If new or enhanced product and service introductions are delayed or not successful, we may not be able to achieve an acceptable return, if any, on our development efforts, and our business may be adversely affected.

Risks Related to Our Common Stock; Liquidity Risks

The price of our common stock may fluctuate significantly, which could lead to losses for stockholders.

The stock prices of smaller public companies can experience extreme price and volume fluctuations. These fluctuations often have been unrelated or out of proportion to the operating performance of such companies. We expect our stock price to be similarly volatile. These broad market fluctuations may continue and could harm our stock price. Any negative change in the public's perception of our prospects or companies in our market could also depress our stock price, regardless of our actual results. Factors affecting the trading price of our common stock may include:

variations in operating results;

announcements of strategic alliances or significant agreements by the Company or by competitors;

recruitment or departure of key personnel;

litigation, legislation, regulation of all or part of our business; and changes in the estimates of operating results or changes in recommendations by any securities analyst that elect to follow our common stock.

You may lose your investment in the shares.

An investment in the shares involves a high degree of risk. An investment in shares of our common stock is suitable only for investors who can bear a loss of their entire investment. We paid dividends in 2012, and in part of 2013, and every quarter since the fourth quarter of 2015, but there can be no assurances that dividends will be paid in the future in the form of either cash or stock.

We currently have authorized but unissued “blank check” preferred stock. Without the vote of our shareholders, the Board of Directors may issue such preferred stock with both economic and voting rights and preferences senior to those of the holders of our common stock. Any such issuances may negatively impact the ultimate benefits to the holders of our common stock in the event of a liquidation event and may have the effect of preventing a change of control and could dilute the voting power of our common stock and reduce the market price of our common stock.

Future sales and issuances of our capital stock or rights to purchase capital stock could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to decline.

Our certificate of incorporation authorizes us to issue up to 20,000,000 shares of common stock. Future sales and issuances of our capital stock or rights to purchase our capital stock could result in substantial dilution to our existing stockholders. We may sell common stock, convertible securities and other equity securities in one or more transactions at prices and in a manner as we may determine from time to time. If we sell any such securities in subsequent transactions, investors may be materially diluted. New investors in subsequent transactions could gain rights, preferences and privileges senior to those of holders of our common stock.

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We will continue to incur significantly increased costs and devote substantial management time as a result of operating as a public company.

As a public company, we incur significant legal, accounting and other expenses that would not be incurred as a private company. For example, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (Exchange Act), and are required to comply with the applicable requirements of the Sarbanes-Oxley Act and the Dodd-Frank Act, as well as rules and regulations subsequently implemented by the SEC and the New York Stock Exchange, including the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Compliance with these requirements has increased our legal and financial compliance costs and made some activities more time consuming and costly. Many of these costs recur annually. We expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. As a result, management’s attention may be diverted from other business concerns, which could adversely affect our business and operating results.

A failure to maintain adequate internal controls over our financial and management systems could cause errors in our financial reporting, which could cause a loss of investor confidence and result in a decline in the price of our common stock.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. If we have a material weaknesses or significant deficiency in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. Effective internal controls are necessary for us to produce reliable financial reports and are important to prevent fraud. As a result, our failure to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act on a timely basis could result in us being subject to regulatory action and a loss of investor confidence in the reliability of our financial statements, both of which in turn could cause the market value of our common stock to decline and affect our ability to raise capital.

Because we are a smaller reporting company, our independent registered public accounting firm did not perform an audit of our internal control over financial reporting for the fiscal year ended December 31, 2017.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTY.

Our headquarters are located in Morrisville, North Carolina. In October 2015, we agreed to an extension on our current lease to extend the maturity through October 2019. Our current office includes 16,059 square feet of office space. We believe we have sufficient space to sustain our growth through 2019. Additionally, we have an office in Salt Lake City, Utah and a shared office facility in London, England, both of which are on short term leases.

ITEM 3. LEGAL PROCEEDINGS.

From time to time, we may be involved in litigation that arises through the normal course of business. As of the date of this filing, we are neither a party to any litigation nor are we aware of any such threatened or pending litigation that might result in a material adverse effect to our business.

ITEM 4. MINE SAFETY DISCOLSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market for common stock

Our common stock is listed on the NYSE American under the symbol "ISDR". The following table sets forth for the periods indicated the high and low closing prices of our common stock for the following periods.

	High	Low
Year ended December 31, 2017		
Quarter Ended March 31, 2017	$11.20	$8.85
Quarter Ended June 30, 2017	13.25	11.05
Quarter Ended September 30, 2017	13.33	12.32
Quarter Ended December 31, 2017	$18.95	$12.95
Year ended December 31, 2016		
Quarter Ended March 31, 2016	$5.80	$4.88
Quarter Ended June 30, 2016	6.50	5.32
Quarter Ended September 30, 2016	7.67	6.40
Quarter Ended December 31, 2016	$9.05	$7.20

Holders of Record

As of December 31, 2017, there were approximately 150 registered holders of record of our common stock and 3,014,494 shares outstanding.

Issuer Purchases of Equity Securities

The Company has not repurchased any shares of common stock during the years ended December 31, 2017 or 2016.

Dividends

During the year ended December 31, 2017, we paid dividends totaling $588,000 or $0.20 per share. During the year ended December 31, 2016, we paid dividends totaling $453,000 or $0.16 per share. There can be no assurances that dividends will be paid in the future. The declaration and payment of dividends in the future will be determined by our Board of Directors in light of conditions then existing, including our earnings, financial condition, capital requirements and other factors.

COMPARISON OF CUMULATIVE TOTAL RETURN

Performance Comparison Graph

This chart compares the five-year cumulative total return on our common stock with that of the Standards & Poor 500 index and a custom peer group, which was selected by the Company. The chart assumes $100 was invested on January

31, 2013, in our common stock, the Standards & Poor 500 index and the peer group, and that any dividends were reinvested. The Peer Group is composed of: Broadridge Financial Solutions Inc., Cision, Ltd., and Workiva, Inc. The peer group index utilizes the same method of presentation and assumptions for the total return calculation as does Issuer Direct Corporation (ISDR) and the Standards & Poor 500 index. All companies in the peer group index are weighted in accordance with their market capitalizations.

The Company make no representation to the peer group market caps being similar to that of Issuer Direct, however these peers do represent a fair and accurate list of the companies that Issuer Direct competes with that are in fact public.

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	01/31/2013	01/31/2014	01/31/2015	01/31/2016	01/31/2017	01/31/2018
Issuer Direct Corporation	$100	$261.04	$291.49	$145.48	$276.28	$564.71
Peers	$100	$162.71	$225.58	$264.06	$333.49	$502.82
S&P 500	$100	$123.29	$144.52	$146.37	$178.35	$228.62

ITEM 6. SELECT FINANCIAL DATA.

Our selected consolidated financial data shown below should be read together with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and respective notes included in Item 8. “Financial Statements and Supplementary Data.” The data shown below are not necessarily indicative of results to be expected for any future period.

Summary of Operations for the periods ended December 31, 2017 and 2016 (in 000’s).

	Year Ended December 31,	
	2017	2016
Statement of Operations		
Revenue	$12,628	$12,059
Cost of revenues	3,395	3,024
Gross profit	9,233	9,034
Operating costs	7,205	7,099
Operating income	2,028	1,935
Other income (expense)	(24)	80
Interest income (expense), net	(2)	4
Income before taxes	2,002	2,019
Income tax expense	131	464
Net income	$1,871	$1,555

Concentrations:

For the years ended December 31, 2017 and December 31, 2016, we generated revenues from the following revenue streams as a percentage of total revenue:

	2017	2016
Revenue Streams		

Platform and Technology	50.7%	35.6%
Services	49.3%	64.4%
Total	100.0%	100.0%

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Percentages:

Change expressed as a percentage increase or decrease for the years ended December 31, 2017 and December 31, 2016 ($ in 000's):

	Year ended December 31,		
	2017	2016	% change
Revenue Streams			
Platform and Technology	$6,398	$4,294	49.0%
Services	6,230	7,765	(19.8)%
Total	$12,628	$12,059	4.7%

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Except for the historical information contained herein, the matters discussed in this Form 10-K include certain forward-looking statements that involve risks and uncertainties, which are intended to be covered by safe harbors. Those statements include, but are not limited to, all statements regarding our and management's intent, belief and expectations, such as statements concerning our future and our operating and growth strategy. We generally use words such as "believe," "may," "could," "will," "intend," "expect," "anticipate," "plan," and similar expressions to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons including our ability to implement our business plan, our ability to raise additional funds and manage consumer acceptance of our products, our ability to broaden our customer base, our ability to maintain a satisfactory relationship with our suppliers and other risks described in our reports filed with the Securities and Exchange Commission, including Item 1A of this Report on Form 10-K. Although we believe the expectations reflected in the forward-looking statements are reasonable, they relate only to events as of the date on which the statements are made, and our future results, levels of activity, performance or achievements may not meet these expectations. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, the factors set forth under the Risk Factors section of this report. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. All forward-looking statements made in this Form 10-K are based on information presently available to our management. We do not intend to update any of the forward-looking statements after the date of this document to conform these statements to actual results or to changes in our expectations, except as required by law.

Results of Operations

Comparison of results of operations for the years ended December 31, 2017 and 2016 (in 000's):

	Year ended December 31,	
Revenue Streams	2017	2016
Platform and Technology		
Revenue	$6,398	$4,294
Gross margin	$5,273	$3,551
Gross margin %	82%	83%
Services		
Revenue	6,230	7,765
Gross margin	3,960	5,483
Gross margin %	64%	71%
Total		
Revenue	$12,628	$12,059
Gross margin	$9,233	$9,034
Gross margin %	73%	75%

Revenues

Total revenue increased by $569,000, or 5%, to $12,628,000 during the year ended December 31, 2017, as compared to $12,059,000 in 2016. It is important to note, included in our revenue for the year ended December 31, 2016, is the one-time benefit of $316,000 related to the reversal of an accrual of unused postage credits related to ARS clients acquired from PIR. Absent this one-time benefit, revenue for the year ended December 31, 2017, would have increased 8% compared to the prior year. Overall, the acquisition of Interwest on October 2, 2017, contributed to $404,000 of revenue during the year ended December 31, 2017. A portion of this revenue is included in both our Platform and Technology and Services revenue streams.

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Platform and Technology revenue increased $2,104,000, or 49%, to $6,398,000 for the year ended December 31, 2017, as compared to $4,294,000 during 2016. A majority of the increase is due to the continued success of our ACCESSWIRE news distribution platform, which increased $1,818,000 compared to the same period of the prior year. The increase is attributable to our investment in increased sales staff and distribution during the latter part of 2016 and early 2017, as the Company continues to penetrate the newswire market. Additionally, we generated increased revenue over the prior year from other components of our platform, most notably from our stock transfer, whistleblower, webcasting, Blueprint and Classify platforms. These increases were offset by a decline in revenue from our Investor Network platform due to client attrition as revenue of this platform is typically tied-in with contracts of our ARS services. As a percentage of overall revenue, Platform and Technology revenue increased to 51% during the year ended December 31, 2017, as compared to 36% in the prior year.

Services revenue decreased $1,535,000, or 20% during the year ended December 31, 2017, as compared to 2016. The decrease is primarily associated with a decrease in revenue from our ARS services as we continued to experience client attrition as customers elect to leave the service or transition to digital fulfillment. Additionally, as noted above, included in revenue for the year ended December 31, 2016, is the benefit of $316,000 related to the reversal of an accrual of unused postage credits. We also experienced a decline in our print and proxy distribution services due to the timing of certain projects and other one-time projects from the prior year that did not occur during the current year, as well as, a decline in our XBRL revenue due to continued pricing pressure in that market. These declines were partially offset by an increase in revenue from stock transfer services, which increased primarily due to the addition of Interwest during the fourth quarter.

2017 Revenue Backlog

At December 31, 2017, we have deferred revenue of $887,000 that we expect to recognize throughout 2018, compared to $843,000 at December 31, 2016. Deferred revenue primarily consists of the unearned portion of advance billings for licenses of our cloud-based platforms and annual contracts for legacy ARS services.

Cost of Revenues

Cost of revenues consists primarily of direct labor costs, third party licensing and amortization of capitalized software costs related to our platforms licensed to customers in our Platform and Technology stream and direct labor costs, warehousing, logistics, print production materials, postage, and outside services directly related to the delivery of services to our customers in our Services stream. Cost of revenues increased by $370,000, or 12%, during the year ended December 31, 2017, as compared to the same period of 2016. Overall gross margin percentage decreased to 73% during the year ended December 31, 2017, as compared to 75% during the prior year. Excluding the benefit associated with the release of the accrual related to unused postage credits, gross margin percentage for the year ended December 31, 2016, would have been 74%.

Gross margin percentage from Platform and Technology was 82% for the year ended December 31, 2017, as compared to 83% for 2016. The decrease in gross margin percentage for the year ended December 31, 2017, is primarily due to increased distribution costs associated with our ACCESSWIRE platform as well as increased amortization of capitalized software related to our platforms.

Gross margin percentage from our Services revenue decreased to 64% during the year ended December 31, 2017, as compared to 71% during 2016. Excluding the benefit associated with the release of the unused postage credits, gross margins for the year ended December 31, 2016, would have been 69%. The decrease in gross margin percentage is primarily due to lower revenue associated with delivering ARS, print and proxy and XBRL services, which include certain fixed costs.

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 were $3,384,000 for the year ended December 31, 2017, an increase of $199,000, or 6%, as compared to the prior year. This increase is primarily due to an increase in professional fees for legal, consulting and recruiting services, offset by a decrease in management bonus expense and stock compensation.

As a percentage of revenue, General and Administrative expenses were 27% for the year ended December 31, 2017, as compared to 26% for 2016.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, stock based compensation, sales commissions, advertising expenses, tradeshow expenses and other marketing expenses. Sales and marketing expenses were $2,604,000 for the year ended December 31, 2017, essentially the same as $2,601,000 during the year ended December 31, 2016.

As a percentage of revenue, sales and marketing expenses decreased to 21% during the year ended December 31, 2017, as compared to 22% during the year ended December 31, 2016.

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Product Development

Product development expenses consist primarily of salaries, stock based compensation, bonuses and licenses to develop new products and technology to complement and/or enhance Platform id. Product development costs increased $359,000, or 89%, to $763,000 during the year ended December 31, 2017, as compared to 2016. The increase is the result of less capitalization of costs as certain projects were completed and placed into production during 2017. During the year ended December 31, 2017, the Company capitalized $991,000 of software development costs, compared to $1,507,000 during the prior year.

As a percentage of revenue, Product Development expenses were 6% for the year ended December 31, 2017, as compared to 3% for 2016.

Depreciation and Amortization

During the year ended December 31, 2017, Depreciation and amortization expenses decreased by $455,000, or 50%, to $454,000, as compared to $909,000 during 2016. The decrease is primarily due to lower amortization of certain intangible assets acquired in the PIR acquisition, which became fully amortized during the year ended December 31, 2016.

Other income (expense)

Other income (expense), net

Other income (expense), net, is primarily the result of the change in fair value of stock received, in lieu of cash, to settle an outstanding receivable. As of December 31, 2017, all of the stock acquired has been sold.

Interest income (expense), net

Interest income (expense), net, represents the non-cash interest associated with the present value of the remaining anniversary payments of the Interwest acquisition, partially offset by interest income on deposit accounts.

Income Taxes

We recorded income tax expense of $131,000 during the year ended December 31, 2017, compared to $464,000 during the year ended December 31, 2016. During the year ended December 31, 2017, the Company recognized an income tax benefit of $351,000 related to the re-measurement of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future as a result of the passage of the Tax Cuts and Jobs Act of 2017 which, among other things, reduces the U.S. corporate tax rate to 21%. The Company also recorded an income tax benefit of $182,000 attributable to equity-based compensation in connection with the FASB issuance of ASU 2016-09, which requires all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement, as opposed to being recorded to APIC in the prior years. During the year ended December 31, 2016, the Company released a portion of the valuation allowance related to federal and state net operating losses, which resulted in a net benefit of $214,000. This release comprised a full valuation release of the previously reserved tax benefits from US net operating losses that were acquired as part of the acquisition of PIR. At the date of acquisition, management believed it was more likely than not that the benefits would not be used due to the uncertainty of future profitability and also due to statutory limitations on the amount of net operating losses that can be carried forward in an acquisition.

The aforementioned reasons, as well as foreign statutory tax rate differentials and tax credits are the reasons for the variance between the Company's effective tax rate and the statutory rate of 34%.

Net Income

Net income for the year ended December 31, 2017 was $1,871,000 as compared to $1,555,000 in 2016. Although the Company achieved increases in revenue and gross margin, the decrease in net income is primarily attributable to higher operating expenses, primarily the result of less capitalization of software development costs as projects are substantially completed and placed into production as well as an increase in professional services, offset by a decrease in amortization expense and income tax expense.

Liquidity and Capital Resources

As of December 31, 2017, we had $4,917,000 in cash and cash equivalents and $1,275,000 in net accounts receivable. Current liabilities at December 31, 2017, totaled $2,519,000 including our accounts payable, deferred revenue, accrued payroll liabilities, income taxes payable, current portion of remaining payments for Interwest and other accrued expenses. At December 31, 2017, our current assets exceeded our current liabilities by $4,591,000.

Effective September 1, 2017, the Company renewed its Line of Credit, which increased the amount of funds available for borrowing from $2,000,000 to $2,500,000. The interest rate remained at LIBOR plus 2.50%. As of December 31, 2017, the interest rate was 4.06% and the Company did not owe any amounts on the Line of Credit.

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We believe we have sufficient cash to manage the business under our current operating plan through March 31, 2019. 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 fund any future acquisitions or meet future obligations. There can be no assurance that cash generated from operations will be sufficient to fund our operating expenses, to allow us to pay 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.

Disclosure about Off-Balance Sheet Arrangements

We do not have any transactions, agreements or other contractual arrangements that constitute off-balance sheet arrangements.

Outlook

Overall, the demand for our platforms continues to be stable in the majority of the segments we serve. In a portion of our business, we will continue to see demand shift from traditional printed and service-based engagements to a cloud-based subscription model, as well as digital distribution offerings. We are positioned well in this space to be both competitive and agile to deliver these platforms to the market. As we have seen over the last several quarters, the transition to our platforms has had a negative effect on our revenue from our services business, something we expect will continue over the next few quarters.

One of our competitive strengths is that we embraced cloud computing early on in our strategy. Making the pivot to a subscription model has been and will continue to be key for the long-term sustainable growth management expects from our new platforms.

We will continue to focus on the following key strategic initiatives during the remainder of 2018:

Strategic re-alignment and investment in our Platform and Technology sales team,

Expand customer base,

Continue to migrate acquired businesses to our current platform,

Further expand our newswire distribution and customers,

Invest in technology advancements and upgrades,

Generate profitable, sustainable growth,

Generate cash flows from operations

We believe there is significant demand for our products among the middle, small and micro-cap markets globally, that are seeking to find better platforms and tools to disseminate and communicate their respective messages and that we have the capacity to meet the demand.

We have invested and will continue to invest in our product sets, platforms and intellectual property development. These developments are key to our overall offerings in the market and necessary to keep our competitive advantages and sustain the next round of growth that management believes it can achieve. If we are successful in this development effort, we believe we can achieve increases in revenues per user as we move through 2018 and beyond.

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 and Risk Factors included in this report.

Critical Accounting Policies and Estimates

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Significant intercompany accounts and transactions are eliminated in consolidation.

Revenue Recognition

We recognize revenue in accordance with accounting principles generally accepted in the United States (“US GAAP”), including 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 and/or delivered, where collectability is probable. Deferred revenue primarily consists of advance billings for annual contracts for our legacy annual report service and licenses of our cloud-based platforms.

Allowance for Doubtful Accounts

We provide an allowance for doubtful accounts, which is based upon a review of outstanding receivables as well as historical collection information. Credit is granted on an unsecured basis. In determining the amount of the allowance, management is required to make certain estimates and assumptions. The allowance is made up of specific reserves, as deemed necessary, on customer account balances, and a reserve based on our historical experience.

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Income Taxes

We comply with the 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.

Capitalized Software

In accordance with FASB ASC No. 350 – Intangibles – Goodwill and Other, costs incurred to develop our cloud-based platform products and disclosure management system components are capitalized when the preliminary project phase is complete, management commits to fund the project and it is probable the project will be completed and used for its intended purposes. Once the software is substantially complete and ready for its intended use, the software is amortized over its estimated useful life. Costs related to design or maintenance of the software are expensed as incurred.

Impairment of Long-lived Assets

In accordance with the authoritative guidance for accounting for long-lived assets, assets such as property and equipment, trademarks, and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of asset groups to be held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount of an asset group exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of an asset group exceeds fair value of the asset group.

Fair Value Measurements

As of December 31, 2017 and 2016, we do not have any financial assets or liabilities that are required to be, or that we elected to measure, at fair value. We believe that the fair value of our financial instruments, which consist of cash and cash equivalents, accounts receivable, our line of credit, notes payable, and accounts payable approximate their carrying amounts.

Translation of Foreign Financial Statements

The financial statements of the foreign subsidiaries of the Company have been translated into U.S. dollars. All assets and liabilities have been translated at current rates of exchange in effect at the end of the period. Income and expense items have been translated at the average exchange rates for the year or the applicable interim period. The gains or losses that result from this process are recorded as a separate component of other accumulated comprehensive income (loss) until the entity is sold or substantially liquidated.

Business Combinations, Goodwill and Intangible Assets

We account for business combinations under FASB ASC No. 805 – Business Combinations and the related acquired intangible assets and goodwill under FASB ASC No. 350 – Intangibles – Goodwill and Other. The authoritative guidance for business combinations specifies the criteria for recognizing and reporting intangible assets apart from goodwill. We record the assets acquired and liabilities assumed in business combinations at their respective fair values at the date of acquisition, with any excess purchase price recorded as goodwill. Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Intangible assets consist of client relationships, customer lists, software, technology and trademarks that are initially measured at fair value. At the time of the business combination the trademarks are considered an indefinite-lived asset and, as such, are not amortized as there is no foreseeable limit to cash flows generated from them. The goodwill and intangible assets are assessed annually for impairment, or whenever conditions indicate the asset may be impaired, and any such impairment will be recognized in the period identified. The client relationships (7-10 years), customer lists (3 years) and software and technology (3-5 years) are amortized over their estimated useful lives. In 2015, it was determined that the trademarks associated with the PIR acquisition were no longer indefinite-lived, and as such began to be amortized over 3-5 years.

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Newly Adopted Accounting Pronouncements

The FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for share-based payment award transactions including (a) income tax consequences; (b) classification of awards as either debt or equity liabilities; and (c) classification on the statement of cash flows. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company has adopted this ASU as of January 1, 2017. The primary amendment impacting the Company's financial statements is the requirement for excess tax benefits or shortfalls on the exercise of stock-based compensation awards to be presented in income tax expense in the Consolidated Statements of Operations during the period the award is exercised as opposed to being recorded in additional paid-in capital on the Consolidated Balance Sheets. The excess tax benefit or shortfall is calculated as the difference between the fair value of the award on the date of exercise and the fair value of the award used to measure the expense to be recognized over the service period. Changes are required to be applied prospectively to all excess tax benefits and deficiencies resulting from the exercise of awards after the date of adoption. The ASU requires a "modified retrospective" approach application for excess tax benefits that were not previously recognized in situations where the tax deduction did not reduce current taxes payable. For the year ended December 31, 2017, the Company recorded an income tax benefit of $182,000 related to the excess tax benefit of exercised awards during the year, that would have been recorded in additional paid-in capital during prior years. As the end result is dependent on the future value of the Company's stock as well as the timing of employee exercises, the amount of future impact cannot be quantified at this time.

The FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, on January 5, 2017. The amendments of this ASU clarify the definition of a business and affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses by first providing a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired or disposed is concentrated in a single asset or group of similar identifiable assets, the set is not a business. If the screen is not met, the amendments provide a framework for evaluating whether inputs and substantive processes are present, to assist in determining if the set is a business. The amendments are effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted and the Company has elected to early adopt the amendments in conjunction with its determination of the purchase price allocation for the acquisition of Interwest Transfer Company, Inc. (“Interwest”), which was acquired on October 2, 2017. Based on the Company’s review of ASU 2017-01, the Company concluded that the acquisition of Interwest constituted the acquisition of a business and accounted for the acquisition as a business combination in accordance with FASB ASC 805, Business Combinations.

Recent Accounting Pronouncements

The FASB issued ASU 2017-09, Compensation Stock Compensation (Topic 718): Scope of Modification Accounting on May 10, 2017. The amendments of this ASU provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. This amendment may impact the Company if a modification is made to one of its share-based payments awards, however, the impact cannot be determined at this time until such modification is known.

The FASB's new leases standard ASU 2016-02 Leases (Topic 842) was issued on February 25, 2016. ASU 2016-02 is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets referred to as "Lessees" to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. An organization is to provide disclosures designed to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements concerning additional information about the amounts recorded in the financial statements. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current US GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current US GAAP which requires only capital leases to be recognized on the balance sheet the new ASU will require both types of leases (i.e. operating and capital) to be recognized on the balance sheet. The FASB lessee accounting model will continue to account for both types of leases. The capital lease will be accounted for in substantially the same manner as capital leases are accounted for under existing US GAAP. The operating lease will be accounted for in a manner similar to operating leases under existing US GAAP, except that lessees will recognize a lease liability and a lease asset for all of those leases. Public companies will be required to adopt the new leasing standard for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For calendar year-end public companies, this means an adoption date of January 1, 2019 and retrospective application to previously issued annual and interim financial statements for 2018, however, early adoption is permitted. Lessees with a large portfolio of leases are likely to see a significant increase in balance sheet assets and liabilities. The Company currently has one long-term lease on its corporate facilities which ends October 31, 2019. Absent any renewal of the lease or new leases entered into before January 1, 2019, the Company will be required to record a right-to-use asset and corresponding lease liability associated with the remaining lease payments beginning with the first interim period of 2019. This will increase both balance sheet assets and liabilities by insignificant amounts and will not have a significant impact on the income statement or affect any covenant calculations.

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In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and subsequently issued several updates to the ASU (collectively the "New Revenue Standard"). The New Revenue Standard requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The New Revenue Standard sets forth a new revenue recognition model that requires identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price to performance obligations and recognizing the revenue upon satisfaction of performance obligations and requires companies to use more judgment and make more estimates than under current guidance. The New Revenue Standard can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. The Company will adopt the New Revenue Standard in the first quarter of fiscal year 2018 using the modified-retrospective method. The Company has utilized a comprehensive approach to assess the impact of the guidance on our contract portfolio. The Company has reviewed its current accounting policies and practices to identify potential differences resulting from the application of the new requirements to its revenue contracts, including evaluation of performance obligations in the contracts, estimating the amount of variable consideration to include in the transaction price, allocating the transaction price to each separate performance obligation and accounting treatment of costs obtain and fulfill contracts. In addition, the Company will update certain disclosures, as applicable, included in its financial statements to meet the requirements of the new guidance. The Company is substantially complete with its review of contracts with its customers and does not expect to record a cumulative effect adjustment to accumulated retained earnings upon adoption of the new revenue standard as of January 1, 2018. However, in evaluating the New Revenue Standard, the Company has identified contracts for its Investor Network offering that not only includes electronic dissemination of a customer's annual report, but also physical delivery of hardcopy annual reports. Historically, revenue from these bundled contracts were reported in the Services revenue stream because an allocation between electronic and physical hardcopy distribution was not made, however, under the New Revenue Standard, a portion of the revenue from these contracts will be allocated to the Platform and Technology revenue stream in accordance with stand-alone contracts for the Investor Network subscription. As a result, the Company estimates approximately $600,000-700,000 of Services revenue from 2017 will be reclassified to Platform and Technology revenue in 2018. For the majority of its contracts, the Company does not expect any change from the New Revenue Standard, whereby revenue is recognized based on contracted amounts or on actual monthly usage. The Company does not expect the adoption of the New Revenue Standard will have a material impact on its operating cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not believe that we face material market risk with respect to our cash or cash equivalents, which totaled $4,917,000 and $5,339,000 at December 31, 2017 and 2016, respectively. We held marketable securities of $0 and $28,000 as of December 31, 2017 or 2016, respectively.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements required by this Item 8 are set forth in Item 15 of this Annual Report. All information which has been omitted is either inapplicable or not required.

Our balance sheets as of December 31, 2017 and 2016, and the related statements of income, comprehensive income, stockholders' equity and cash flows for the two years ended December 31, 2017, and 2016, together with the independent registered public accountants' reports thereon appear beginning on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Management’s Annual Report Regarding Internal Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes, in accordance with generally accepted accounting principles. The effectiveness of any system of internal control over financial reporting is subject to inherent limitations and therefore, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of future periods are subject to the risk that the controls may become inadequate due to change in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of our management, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act") were effective as of December 31, 2017, to ensure that information required to be disclosed in reports that are filed or submitted under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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Inherent Limitations over Internal Controls

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Report of Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth by the Committee of Sponsoring Organizations ("COSO") updated Internal Control—Integrated Framework (2013). Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2017.

There were no changes in our internal controls that could materially affect the disclosure controls and procedures subsequent to the date of their evaluation, nor were there any material deficiencies or material weaknesses in our internal controls. As a result, no corrective actions were required or undertaken.

ITEM 9B. OTHER INFORMATION.

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item is set forth under the headings “Directors, Executive Officers and Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s 2018 Proxy Statement to be filed with the U.S. Securities and Exchange Commission ("SEC") within 120 days after December 31, 2017 in connection with the solicitation of proxies for the Company’s 2018 annual meeting of shareholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is set forth under the heading “Executive Compensation” and under the subheadings “Board Oversight of Risk Management,” “Compensation of Directors,” “Director Compensation-2017” and “Compensation Committee Interlocks and Insider Participation” under the heading “Directors, Executive Officers and Corporate Governance” in the Company’s 2018 Proxy Statement to be filed with the SEC within 120 days after December 31, 2017 and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item is set forth under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Company’s 2018 Proxy Statement to be filed with the SEC within 120 days after December 31, 2017 and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item is set forth under the heading “Review, Approval or Ratification of Transactions with Related Persons” and under the subheading “Board Committees” under the heading “Directors, Executive Officers and Corporate Governance” in the Company’s 2018 Proxy Statement to be filed with the SEC within 120 days after December 31, 2017 and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is set forth under the subheadings “Fees Paid to Auditors” and “Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services Performed by the Independent Registered Public Accounting Firm” under the proposal “Ratification of Appointment of Independent Registered Public Accounting Firm” in the Company’s 2018 Proxy Statement to be filed with the SEC within 120 days after December 31, 2017 and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS.

(a) Financial Statements

The financial statements listed in the accompanying index (page F-1) to the financial statements are filed as part of this Annual Report on Form 10-K.

(b) Exhibits

Exhibit Number	Exhibit Description
2.1	Agreement and Plan of Merger dated August 22, 2013 with ISDR Acquisition Corp. and Precision IR Group, Inc. (incorporated by reference to Exhibit 2.1 to the Form 8-K filed on August 27, 2013)
2.2	Asset Purchase Agreement dated October 2, 2014 with Baystreet.ca Media Corp. and Aaron Bodnar (incorporated by reference to Exhibit 2.1 to the Form 8-K filed on October 7, 2014)
3.1	Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Form S-3 filed on May 10, 2017)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on February 12, 2014)
4.1	Amended and Restated 8% Convertible Subordinated Secured Promissory Note dated November 13, 2013 issued to Red Oak Partners, LLC (incorporated by reference to Exhibit 4.1 to the Form 8-K filed on November 15, 2013)
10.1	Securities Purchase Agreement dated August 22, 2013 with Red Oak Partners, LLC (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on August 27, 2013)
10.2	2014 Equity Incentive Plan (incorporated by reference to Annex A to the Schedule 14A filed on April 2, 2014)
10.3	Executive Employment Agreement dated April 30, 2015 with Brian R. Balbirnie (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on May 5, 2014)
10.4	Executive Employment Agreement dated November 19, 2015 with Steven Knerr (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on November 19, 2015)
10.5	Incentive Stock Option Grant and Agreement dated November 19, 2015 with Steven Knerr (incorporated by reference to Exhibit 10.2 to the Form 8-K filed on November 19, 2015)
10.6	Indemnification Agreement dated November 19, 2015 with Steven Knerr (incorporated by reference to Exhibit 10.3 to the Form 8-K filed on November 19, 2015)
10.7	First Amendment to 2014 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on June 13, 2016)
10.8	First Amendment to Executive Employment Agreement dated May 4, 2017 with Brian R. Balbirnie (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on May 5, 2017)
10.9	First Amendment to Executive Employment Agreement dated May 4, 2017 with Steven Knerr (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on May 5, 2017)
10.10	Stock Purchase Agreement dated October 2, 2017 with Kurtis D. Hughes (incorporated by reference to Exhibit 10.1 to the Form 8-K filed on October 3, 2017)
21.1	Subsidiaries of the Registrant.*
23.1	Consent of Independent Registered Public Accounting Firm.*
31.1	Rule 13a-14(a) Certification of Principal Executive Officer.*

31.2	Rule 13a-14(a) Certification of Principal Financial Officer.*
32.1	Section 1350 Certification of Principal Executive Officer.*
32.2	Section 1350 Certification of Principal Financial Officer.*

* Filed herewith

(c) Financial Statement Schedules omitted

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 5, 2018	By:	/s/ Brian R. Balbirnie Brian R. Balbirnie Chief Executive Officer, Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of the dates set forth below.

Signature	Date	Title
/s/ Brian R. Balbirnie Brian R. Balbirnie	March 5, 2018	Director, Chief Executive Officer (Principal Executive Officer)
/s/ Steven Knerr Steven Knerr	March 5, 2018	Chief Financial Officer (Principal Accounting Officer)
/s/ William Everett William Everett	March 5, 2018	Director, Chairman of the Board and Audit Committee, Member of Strategic Advisory Committee
/s/ J. Patrick Galleher J. Patrick Galleher	March 5, 2018	Director, Chairman of the Compensation Committee and Strategic Advisory Committee
/s/ Michael Nowlan Michael Nowlan	March 5, 2018	Director, Member of the Audit Committee
/s/ Eric Frank Eric Frank	March 5, 2018	Director, Chairman of the Technology Oversight Committee and Member of the Compensation Committee

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Issuer Direct Corporation
Morrisville, North Carolina

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of Issuer Direct Corporation and subsidiaries (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2010.

/s/ CHERRY BEKAERT LLP

Raleigh, North Carolina
March 1, 2018

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ISSUER DIRECT CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016
(in thousands, except share and per share amounts)

	December 31,	
	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	$4,917	$5,339
Accounts receivable (net of allowance for doubtful accounts of $425 and $429, respectively)	1,275	1,300
Income tax receivable	725	—
Other current assets	193	188
Total current assets	7,110	6,827
Capitalized software (net of accumulated amortization of $497 and $207, respectively)	2,749	2,048
Fixed assets (net of accumulated depreciation of $388 and $318, respectively)	145	204
Deferred income tax asset - noncurrent	—	141
Other long-term assets	18	18
Goodwill	4,070	2,243
Intangible assets (net of accumulated amortization of $3,699 and $3,324, respectively)	2,858	1,380
Total assets	$16,950	$12,861
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$666	$343
Accrued expenses	613	806
Current portion of note payable (See Note 4)	288	—
Income taxes payable	65	112
Deferred revenue	887	843
Total current liabilities	2,519	2,104
Note payable – long-term (net of discount of $70 as of December 31, 2017) (See Note 4)	570	
Deferred income tax liability	573	67
Other long-term liabilities	77	112
Total liabilities	3,739	2,283
Commitments and contingencies (see Note 9)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 1,000,000 and 30,000,000 shares authorized, no shares issued and outstanding as of December 31, 2017 and 2016, respectively.	—	—
Common stock $0.001 par value, 20,000,000 and 100,000,000 shares authorized, 3,014,494 and 2,860,944 shares issued and outstanding as of December 31, 2017 and 2016, respectively.	3	3

Additional paid-in capital	10,400	9,120
Other accumulated comprehensive income (loss)	34	(36)
Retained earnings	2,774	1,491
Total stockholders' equity	13,211	10,578
Total liabilities and stockholders' equity	$16,950	$12,861

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

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ISSUER DIRECT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	Years Ended December 31,	
	2017	2016
Revenues	$12,628	$12,059
Cost of revenues	3,395	3,025
Gross profit	9,233	9,034
Operating costs and expenses:		
General and administrative	3,384	3,185
Sales and marketing	2,604	2,601
Product development	763	404
Depreciation and amortization	454	909
Total operating costs and expenses	7,205	7,099
Operating income	2,028	1,935
Other income (expense):		
Other income (expense), net	(24)	80
Interest income (expense), net	(2)	4
Total other income (expense)	(26)	84
Income before taxes	2,002	2,019
Income tax expense	131	464
Net income	$1,871	$1,555
Income per share – basic	$0.63	$0.55
Income per share – diluted	$0.62	$0.54
Weighted average number of common shares outstanding – basic	2,947	2,820
Weighted average number of common shares outstanding – diluted	3,033	2,903

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

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ISSUER DIRECT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended December 31,	
	2017	2016
Net income	$1,871	$1,555
Foreign currency translation adjustment	70	(1)
Comprehensive income	$1,941	$1,554

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

ISSUER DIRECT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016
(in thousands, except share and per share amounts)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	Total Stockholders’
	Shares	Amount	Capital	Loss	Earnings	Equity
Balance at December 31, 2015	2,785,044	$3	$8,202	$(35)	$389	$8,559
Stock-based compensation expense	—	—	882	—	—	882
Exercise of stock awards, net of tax	75,900	—	36	—	—	36
Dividends	—	—	—	—	(453)	(453)
Foreign currency translation	—	—	—	(1)	—	

Commodity contracts	Revenue	$	$ 5,518	Firm commitments	Revenue	$	$ (5,356
Commodity contracts	Cost of revenue		(369)	Firm commitments	Cost of revenue		274
Commodity contracts	Cost of revenue	36,522	6,665	Inventories	Cost of revenue	(32,847)	(3,045
		$ 36,522	$ 11,814			$ (32,847)	$ (8,127
Six months ended June 30,							
Commodity contracts	Revenue	$ 265	$ 16,205	Firm commitments	Revenue	$ (201)	$ (16,789
Commodity contracts	Cost of revenue	(1,417)	(7,830)	Firm commitments	Cost of revenue	739	8,311
Commodity contracts	Cost of revenue	10,193	(33,594)	Inventories	Cost of revenue	(3,419)	44,296
		$ 9,041	$ (25,219)			$ (2,881)	$ 35,818

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There were no gains or losses for the three and six months ended June 30, 2012 and 2011 that were excluded from the assessment of the effectiveness of our fair value hedges.

The following table presents the effect and financial statement location of our derivative instruments not designated as hedging instruments on our consolidated statements of income and comprehensive income (in thousands):

Derivatives	Location	Realized and Unrealized Gain (Loss) 2012	2011
Three months ended June 30,			
Commodity contracts	Revenue	$ (16,549)	$ 1,490
Commodity contracts	Cost of revenue	22,549	2,560
Foreign currency contracts	Revenue	824	
Foreign currency contracts	Other (expense) income, net	978	(963)
		$ 7,802	$ 3,087
Six months ended June 30,			
Commodity contracts	Revenue	$ (16,772)	$ 3,048
Commodity contracts	Cost of revenue	29,570	3,223
Foreign currency contracts	Revenue	(728)	
Foreign currency contracts	Other (expense) income, net	(684)	(2,872)
		$ 11,386	$ 3,399

We enter into derivative instrument contracts which may require us to periodically post collateral. Certain of these derivative contracts contain clauses that are similar to credit-risk-related contingent features, including material adverse change, general adequate assurance and internal credit review clauses that may require additional collateral to be posted and/or settlement of the instruments in the event an aforementioned clause is triggered. The triggering events are not a quantifiable measure; rather they are based on good faith and reasonable determination by the counterparty that the triggers have occurred. The net liability position for such contracts, the collateral posted and the amount of assets required to be posted and/or to settle the positions should a contingent feature be triggered were not significant as of June 30, 2012.

3. Debt

On April 10, 2012, we amended our senior revolving credit facility to, among other things, (i) make a $50.0 million prepayment on our senior term loan and (ii) provide for a separate $50.0 million senior term loan for one of our subsidiaries.

The following table provides additional information about our interest expense and other financing costs, net, for the periods presented (in thousands):

	For the Three Months ended	For the Six Months ended

	June 30, 2012		June 30, 2011		June 30, 2012		June 30, 2011
Interest income	$	253	$	147	$	525	$	226
Interest expense and other financing costs		(5,690)		(4,445)		(10,623)		(7,049)
	$	(5,437)	$	(4,298)	$	(10,098)	$	(6,823)

4. Other Comprehensive (Loss) Income and Accumulated Other Comprehensive Loss

Our other comprehensive (loss) income consists of foreign currency translation adjustment losses or gains related to our subsidiaries that have a functional currency other than the U.S. dollar and amounted to losses of $10.9 million and $8.1 million for the three and six months ended June 30, 2012, respectively, and gains of $0.4 million and $1.1 million for the three and six months ended June 30, 2011, respectively. The foreign currency translation adjustment losses for the three and six months ended June 30, 2012 were primarily due to the strengthening of the U.S. dollar as compared to the Brazilian Real. As of June 30, 2012 and December 31, 2011, our accumulated other comprehensive loss amounted to $14.6 million and $6.5 million, respectively.

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5. Income Taxes

Our income tax provision for the periods presented and the respective effective tax rates for such periods are as follows (in thousands, except for tax rates):

	For the Three Months ended June 30, 2012	For the Three Months ended June 30, 2011	For the Six Months ended June 30, 2012	For the Six Months ended June 30, 2011
Income tax provision	$ 11,951	$ 11,049	$ 18,566	$ 21,464
Effective income tax rate	17.9%	17.9%	15.2%	18.9%

Our provision for income taxes for each of the three-month and six-month periods ended June 30, 2012 and 2011 were calculated based on the estimated annual effective tax rate for the full 2012 and 2011 fiscal years. The provision for income taxes for the six-month period ended June 30, 2012 includes an adjustment for an income tax benefit of $3.3 million for a discrete item related to a change in estimate in an uncertain tax position which was recognized in the three-month period ended March 31, 2012. The actual effective tax rate for the full 2012 fiscal year may be materially different as a result of differences between estimated versus actual results and the geographic tax jurisdictions in which the results are earned.

6. Earnings per Common Share

The following table sets forth the computation of basic and diluted earnings per common share for the periods presented (in thousands, except per share amounts):

	For the Three Months ended June 30, 2012	For the Three Months ended June 30, 2011	For the Six Months ended June 30, 2012	For the Six Months ended June 30, 2011
Numerator:				
Net income attributable to World Fuel	$ 48,600	$ 50,203	$ 95,015	$ 91,312
Denominator:				
Weighted average common shares for basic earnings per common share	71,173	70,856	71,083	70,400
Effect of dilutive securities	594	702	690	899
Weighted average common shares for diluted earnings per common share	71,767	71,558	71,773	71,299
Weighted average securities which are not included in the calculation of diluted earnings per common share because their impact is anti-dilutive or their performance conditions	774	124	422	70

have not been met				
Basic earnings per common share	$ 0.68	$ 0.71	$ 1.34	$ 1.30
Diluted earnings per common share	$ 0.68	$ 0.70	$ 1.32	$ 1.28

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7. Commitments and Contingencies

Legal Matters

On April 11, 2012, Cathay Pacific Airways Limited (Cathay) filed a writ in the High Court of the Republic of Singapore against one of our subsidiaries, World Fuel Services (Singapore) Pte Ltd. (WFSS) alleging property damage and bodily injuries arising out of the emergency landing of a Cathay aircraft in Hong Kong, which Cathay alleges was caused by contaminated fuel supplied by WFSS. Although not specified in the writ, Cathay claims damages relating to the incident of approximately $34.0 million. Because the outcome of litigation is inherently uncertain, we cannot estimate the possible loss or range of loss for this matter. We intend to vigorously defend this claim, and we believe our liability in this matter (if any) should be adequately covered by insurance. As of June 30, 2012, we have not recorded any accruals associated with this claim.

We are involved in litigation and administrative proceedings primarily arising in the normal course of our business. We are not currently a party to any other pending litigation or administrative proceeding that is expected to have a material adverse effect on our business, financial condition, results of operations or cash flows. As of June 30, 2012, we had recorded certain accruals which were not significant.

8. Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts receivable, net, accounts payable and accrued expenses and other current liabilities approximate fair value based on the short-term maturities of these instruments. We believe the carrying values of our notes receivable and debt approximate fair value since these instruments bear interest either at variable rates or fixed rates which are not significantly different than market rates. Based on the fair value hierarchy, notes receivable of $6.7 million as of June 30, 2012 and $6.8 million as of December 31, 2011 are categorized in Level 3, the debt under our senior term loans of $250.0 million as of June 30, 2012 and December 31, 2011 is categorized in Level 2 and all other debt of $82.0 million as of June 30, 2012 and $37.1 million as of December 31, 2011 is categorized in Level 3.

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The following table presents information about our assets and liabilities that are measured at estimated fair value on a recurring basis (in thousands):

	Level 1	Level 2	Level 3	Sub-Total	Netting and Collateral	Total
As of June 30, 2012						
Assets:						
Commodity contracts	$ 68,793	$ 179,333	$	$ 248,126	$ (177,205)	$ 70,921
Foreign currency contracts		2,215		2,215	(1,710)	505
Hedged item inventories		5,642		5,642		5,642
Total	$ 68,793	$ 187,190	$	$ 255,983	$ (178,915)	$ 77,068
Liabilities:						
Commodity contracts	$ 94,341	$ 158,182	$	$ 252,523	$ (232,694)	$ 19,829
Foreign currency contracts		2,098		2,098	(1,710)	388
Hedged item inventories		608		608		608
Total	$ 94,341	$ 160,888	$	$ 255,229	$ (234,404)	$ 20,825
As of December 31, 2011						
Assets:						
Commodity contracts	$ 14,038	$ 51,033	$	$ 65,071	$ (43,275)	$ 21,796
Foreign currency contracts		2,994		2,994	(893)	2,101
Hedged item inventories		3,216		3,216		3,216
Hedged item commitments		206		206		206
Total	$ 14,038	$ 57,449	$	$ 71,487	$ (44,168)	$ 27,319
Liabilities:						
Commodity contracts	$ 10,148	$ 46,754	$	$ 56,902	$ (43,291)	$ 13,611
Foreign currency contracts		1,018		1,018	(893)	125
Hedged item inventories		24		24		24
Earn-out			4,194	4,194		4,194
Total	$ 10,148	$ 47,796	$ 4,194	$ 62,138	$ (44,184)	$ 17,954

Fair value of commodity contracts and hedged item commitments is derived using forward prices that take into account commodity prices, basis differentials, interest rates, credit risk ratings, option volatility and currency rates. Fair value of hedged item inventories is derived using spot commodity prices and basis differentials. Fair value of foreign currency contracts is derived using forward prices that take into account interest rates, credit risk ratings and currency rates.

For our derivative contracts, we may enter into master netting, collateral and offset agreements with counterparties. These agreements provide us the ability to offset a counterparty s rights and obligations, request additional collateral when necessary or liquidate the collateral in the event of counterparty default. We net fair value of cash collateral paid or received against fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting or offset agreement.

As of June 30, 2012, we had $139.9 million of cash collateral deposits held by financial counterparties of which $76.9 million have been offset against the total amount of commodity fair value liabilities in the above table and the remaining $63.0 million is included in other current assets in the accompanying consolidated balance sheets. In addition, as of June 30, 2012, we have offset $21.4 million of cash collateral received from customers against the total amount of commodity fair value assets in the above table. As of December 31, 2011, we had $11.8 million of cash collateral deposits held by financial counterparties and there were no significant amounts of cash collateral that were offset against the total commodity fair value assets and liabilities in the above table.

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The following table presents information about our assets and liabilities that are measured at fair value on a recurring basis that utilized Level 3 inputs for the periods presented (in thousands):

	Beginning of Period, (Liabilities) Assets	Realized and Unrealized Gains (Losses) Included in Earnings	Settlements	End of Period, Liabilities	Change in Unrealized Losses Relating to Instruments Still Held at end of Period
Three months ended June 30, 2012					
Earn-out	$ (4,323)	$ 19	$ 4,304	$	$
Three months ended June 30, 2011					
Earn-out	$ (5,151)	$ (5)	$	$ (5,156)	$ (5)
Six months ended June 30, 2012					
Earn-out	$ (4,194)	$ (110)	$ 4,304	$	$
Six months ended June 30, 2011					
Commodity contracts, net	$ 90	$	$ (90)	$	$
Earn-out	(5,012)	(144)		(5,156)	(144)
Total	$ (4,922)	$ (144)	$ (90)	$ (5,156)	$ (144)

Our policy is to recognize transfers between Level 1, 2 or 3 as of the beginning of the reporting period in which the event or change in circumstances caused the transfer to occur. There were no transfers between Level 1, 2 or 3 during the periods presented. In addition, there were no significant Level 3 purchases, sales or issuances for the periods presented.

Earn-out Relating to 2009 Acquisition

In connection with an acquisition made in 2009, we entered into an earn-out agreement with the sellers based on achieving certain operating targets over a three year period ending April 3, 2012. The earn-out liability of $4.3 million was paid during the three months ended June 30, 2012. The impact of the acquisition s revenue and net income did not have a significant impact on our results for the three and six months ended June 30, 2012 and 2011.

9. Business Segments

Based on the nature of operations and quantitative thresholds pursuant to accounting guidance for segment reporting, we have three reportable operating business segments: aviation, marine and land. Corporate expenses are allocated to the segments based on usage, where possible, or on other factors according to the nature of the activity. The results of operations of Nordic Camp Supply ApS and certain affiliates (NCS) are included in our aviation segment commencing on March 1, 2011, its acquisition date, and since January 1, 2012, a portion of NCS results is now included in our land segment. The results of operations include the results of Ascent Aviation Group, Inc. (Ascent) in our aviation segment commencing on April 1, 2011, its acquisition date. The accounting policies of the reportable operating segments are the same as those described in the Summary of Significant Accounting Policies (see Note 1).

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Information concerning our revenue, gross profit and income from operations by segment is as follows (in thousands):

	For the Three Months ended June 30, 2012	For the Three Months ended June 30, 2011	For the Six Months ended June 30, 2012	For the Six Months ended June 30, 2011
Revenue:				
Aviation segment	$ 3,547,871	$ 3,364,829	$ 6,959,418	$ 6,011,421
Marine segment	3,767,144	3,532,983	7,671,335	6,532,402
Land segment	2,303,782	1,810,897	4,467,099	3,244,292
	$ 9,618,797	$ 8,708,709	$ 19,097,852	$ 15,788,115
Gross profit:				
Aviation segment	$ 69,171	$ 82,027	$ 134,085	$ 152,155
Marine segment	51,748	50,674	106,825	90,889
Land segment	51,204	32,401	88,448	58,826
	$ 172,123	$ 165,102	$ 329,358	$ 301,870
Income from operations:				
Aviation segment	$ 25,960	$ 37,624	$ 52,793	$ 75,794
Marine segment	27,931	25,763	55,376	43,118
Land segment	28,352	14,026	44,552	24,689
	82,243	77,413	152,721	143,601
Corporate overhead - unallocated	9,885	11,310	21,107	21,973
	$ 72,358	$ 66,103	$ 131,614	$ 121,628

Information concerning our accounts receivable, net and total assets by segment is as follows (in thousands):

	As of June 30, 2012	As of December 31, 2011
Accounts receivable, net:		
Aviation segment, net of allowance for bad debt of $9,234 and $8,441 as of June 30, 2012 and December 31, 2011, respectively	$ 630,719	$ 569,086
Marine segment, net of allowance for bad debt of $8,059 and $9,495 as of June 30, 2012 and December 31, 2011, respectively	1,118,106	1,261,340
Land segment, net of allowance for bad debt of $6,526 and $6,365 as of June 30, 2012 and December 31, 2011, respectively	375,820	330,135
	$ 2,124,645	$ 2,160,561
Total assets:		
Aviation segment	$ 1,420,981	$ 1,149,031
Marine segment	1,436,982	1,568,378
Land segment	896,041	816,595
Corporate	133,890	163,242
	$ 3,887,894	$ 3,697,246

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

The following discussion should be read in conjunction with our 2011 10-K Report and the consolidated financial statements and related notes in Item 1 - Financial Statements appearing elsewhere in this 10-Q Report. The following discussion may contain forward-looking statements, and our actual results may differ significantly from the results suggested by these forward-looking statements. Some factors that may cause our results to differ materially from the results and events anticipated or implied by such forward-looking statements are described in Item 1A Risk Factors of our 2011 10-K Report.

Forward-Looking Statements

Certain statements made in this report and the information incorporated by reference in it, or made by us in other reports, filings with the Securities and Exchange Commission (SEC), press releases, teleconferences, industry conferences or otherwise, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, project, could, would, will, will be, will continue, will likely result, plan, or words or phrases o

Forward-looking statements are estimates and projections reflecting our best judgment and involve risks, uncertainties or other factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. The Company s actual results may differ materially from the future results, performance or achievements expressed or implied by the forward-looking statements. These statements are based on our management s expectations, beliefs and assumptions concerning future events affecting us, which in turn are based on currently available information.

Examples of forward-looking statements in this 10-Q Report include, but are not limited to, our expectations regarding our business strategy, business prospects, operating results, effectiveness of internal controls to manage risk, working capital, liquidity, capital expenditure requirements and future acquisitions. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the cost, terms and availability of fuel from suppliers, pricing levels, the timing and cost of capital expenditures, outcome of pending litigation, competitive conditions, general economic conditions and synergies relating to acquisitions, joint ventures and alliances. These assumptions could prove inaccurate. Although we believe that the estimates and projections reflected in the forward-looking statements are reasonable, our expectations may prove to be incorrect.

Important factors that could cause actual results to differ materially from the results and events anticipated or implied by such forward-looking statements include, but are not limited to:

- customer and counterparty creditworthiness and our ability to collect accounts receivable and settle derivative contracts;
- changes in the market price of fuel;

- changes in the political, economic or regulatory conditions generally and in the markets in which we operate;
- our failure to effectively hedge certain financial risks and the use of derivatives;
- non-performance by counterparties or customers to derivative contracts;
- changes in credit terms extended to us from our suppliers;
- non-performance of suppliers on their sale commitments and customers on their purchase commitments;
- loss of, or reduced sales to a significant government customer;
- non-performance of third-party service providers;
- adverse conditions in the industries in which our customers operate, including a continuation of the global recession and its impact on the airline and shipping industries;

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- currency exchange fluctuations;
- failure of the fuel we sell to meet specifications;
- our ability to manage growth;
- our ability to integrate acquired businesses;
- material disruptions in the availability or supply of fuel;
- risks associated with the storage, transportation and delivery of petroleum products;
- risks associated with operating in high risk locations, such as Iraq and Afghanistan;
- uninsured losses;
- the impact of natural disasters, such as hurricanes;
- our failure to comply with restrictions and covenants in our senior revolving credit facility (Credit Facility) and our senior term loans (Term Loans);
- the liquidity and solvency of banks within our Credit Facility and Term Loans;
- increases in interest rates;

- declines in the value and liquidity of cash equivalents and investments;

- our ability to retain and attract senior management and other key employees;

- changes in U.S. or foreign tax laws or changes in the mix of taxable income among different tax jurisdictions;

- our ability to comply with U.S. and international laws and regulations including those related to anti-corruption, economic sanction programs and environmental matters;

- increased levels of competition;

- the outcome of litigation; and

- other risks, including those described in Item 1A - Risk Factors in our 2011 10-K Report and those described from time to time in our other filings with the SEC.

We operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for us to predict all of those risks, nor can we assess the impact of all of those risks on our business or the extent to which any factor may cause actual results to differ materially from those contained in any forward-looking statement. The forward-looking statements in this 10-Q Report are based on assumptions management believes are reasonable. However, due to the uncertainties associated with forward-looking statements, you should not place undue reliance on any forward-looking statements. Further, forward-looking statements speak only as of the date they are made, and unless required by law, we expressly disclaim any obligation or undertaking to publicly update any of them in light of new information, future events, or otherwise.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act).

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Overview

We are a leading global fuel logistics company, principally engaged in the marketing, sale and distribution of aviation, marine, and land fuel products and related services on a worldwide basis. We compete by providing our customers value-added benefits, including single-supplier convenience, competitive pricing, the availability of trade credit, price risk management, logistical support, fuel quality control and fuel procurement outsourcing. We have three reportable operating business segments: aviation, marine, and land. We primarily contract with third parties for the delivery and storage of fuel products and in some cases own storage and transportation assets for strategic purposes. In our aviation segment, we offer fuel and related services to major commercial airlines, second and third-tier airlines, cargo carriers, regional and low cost carriers, airports, fixed based operators, corporate fleets, fractional operators, private aircraft, military fleets and the U.S. and foreign governments, and we also offer a private label charge card to customers in the general aviation industry and charge card processing services in connection with the purchase of aviation fuel and related services. In our marine segment, we offer fuel and related services to a broad base of marine customers, including international container and tanker fleets, commercial cruise lines, yachts and time-charter operators, as well as to the U.S. and foreign governments. In our land segment, we offer fuel and related services to petroleum distributors operating in the land transportation market, retail petroleum operators, and industrial, commercial and government customers. Additionally, we engage in crude oil marketing activities.

In our aviation and land segments, we primarily purchase and resell fuel, and we do not act as brokers. Profit from our aviation and land segments is primarily determined by the volume and the gross profit achieved on fuel resales, and in the case of the aviation segment, a percentage of processed charge card revenue. In our marine segment, we primarily purchase and resell fuel and also act as brokers for others. Profit from our marine segment is determined primarily by the volume and gross profit achieved on fuel resales and by the volume and commission rate of the brokering business. Our profitability in our segments also depends on our operating expenses, which may be significantly affected to the extent that we are required to provide for potential bad debt.

Our revenue and cost of revenue are significantly impacted by world oil prices, as evidenced in part by our revenue and cost of revenue fluctuations in recent fiscal years, while our gross profit is not necessarily impacted by changes in world oil prices. However, significant movements in fuel prices during any given financial period can have a significant impact on our gross profit, either positively or negatively depending on the direction, volatility and timing of such price movements.

We may experience decreases in future sales volumes and margins as a result of the ongoing deterioration in the world economy and transportation industry, natural disasters and continued conflicts and instability in the Middle East, Asia and Latin America, as well as potential future terrorist activities and possible military retaliation. In addition, because fuel costs represent a significant part of our customers operating expenses, volatile and/or high fuel prices can adversely affect our customers businesses, and, consequently, the demand for our services and our results of operations. Our hedging activities may not be effective to mitigate volatile fuel prices and may expose us to counterparty risk. See Item 1A Risk Factors of our 2011 10-K Report.

Reportable Segments

We have three reportable operating segments: aviation, marine and land. Corporate expenses are allocated to each segment based on usage, where possible, or on other factors according to the nature of the activity. We evaluate and manage our business segments using the performance measurement of income from operations. Financial information with respect to our business segments is provided in Note 8 to the accompanying consolidated financial statements included in this 10-Q Report.

Results of Operations

The results of operations of Nordic Camp Supply ApS and certain affiliates (NCS) are included in our aviation segment commencing on March 1, 2011, its acquisition date, and since January 1, 2012, a portion of NCS results is now included in our land segment. The results of operations include the results of Ascent Aviation Group, Inc. (Ascent) in our aviation segment commencing on April 1, 2011, its acquisition date.

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Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011

Revenue. Our revenue for the second quarter of 2012 was $9.6 billion, an increase of $0.9 billion, or 10.5%, as compared to the second quarter of 2011. Our revenue during these periods was attributable to the following segments (in thousands):

	For the Three Months ended June 30, 2012	2011	$ Change
Aviation segment	$ 3,547,871	$ 3,364,829	$ 183,042
Marine segment	3,767,144	3,532,983	234,161
Land segment	2,303,782	1,810,897	492,885
	$ 9,618,797	$ 8,708,709	$ 910,088

Our aviation segment contributed $3.5 billion in revenue for the second quarter of 2012, an increase of $0.2 billion, or 5.4% as compared to the second quarter of 2011. The increase in aviation segment revenue was due to $0.4 billion in increased volume attributable to new and existing customers, which was partially offset by decreased revenue of $0.2 billion due to a decrease in the average price per gallon sold as a result of lower world oil prices in the second quarter of 2012 as compared to the second quarter of 2011.

Our marine segment contributed $3.8 billion in revenue for the second quarter of 2012, an increase of $0.2 billion, or 6.6%, as compared to the second quarter of 2011. The increase in marine segment revenue was due to an increase in the average price per metric ton sold in the second quarter of 2012 as compared to the second quarter of 2011.

Our land segment contributed $2.3 billion in revenue for the second quarter of 2012, an increase of $0.5 billion, or 27.2%, as compared to the second quarter of 2011. The increase in land segment revenue was due to $0.3 billion in increased volume attributable to new and existing customers and $0.2 billion in increased volume attributable to crude oil marketing activities.

Gross Profit. Our gross profit for the second quarter of 2012 was $172.1 million, an increase of $7.0 million, or 4.3%, as compared to the second quarter of 2011. Our gross profit during these periods was attributable to the following segments (in thousands):

	For the Three Months ended June 30, 2012	2011	$ Change
Aviation segment	$ 69,171	$ 82,027	$ (12,856)
Marine segment	51,748	50,674	1,074
Land segment	51,204	32,401	18,803
	$ 172,123	$ 165,102	$ 7,021

Our aviation segment gross profit for the second quarter of 2012 was $69.2 million, a decrease of $12.9 million, or 15.7%, as compared to the second quarter of 2011. The decrease in aviation segment gross profit was due to $13.2 million in lower gross profit per gallon sold in our physical inventory business as a result of volatility, timing and direction of jet fuel price movements in the second quarter of 2012 as compared to the second quarter of 2011. This decrease was partially offset by $0.3 million in other increases.

Our marine segment gross profit for the second quarter of 2012 was $51.7 million, an increase of $1.1 million, or 2.1%, as compared to the second quarter of 2011. Of the increase in marine segment gross profit, $0.6 million was due to increased volume attributable to new and existing customers and $0.5 million was due to increased gross profit per metric ton sold primarily due to certain higher margin activity.

Our land segment gross profit for the second quarter of 2012 was $51.2 million, an increase of $18.8 million, or 58.0%, as compared to the second quarter of 2011. Of the increase in land segment gross profit, $13.3 million was due to increased volume attributable to crude oil marketing activities and $6.2 million was due to gross profit from acquired businesses. These increases were partially offset by $0.7 million in other decreases.

Operating Expenses. Total operating expenses for the second quarter of 2012 were $99.8 million, an increase of $0.8 million, or 0.8%, as compared to the second quarter of 2011. The following table sets forth our expense categories (in thousands):

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	For the Three Months ended June 30,		
	2012	2011	$ Change
Compensation and employee benefits	$ 56,183	$ 54,877	$ 1,306
Provision for bad debt	641	3,531	(2,890)
General and administrative	42,941	40,591	2,350
	$ 99,765	$ 98,999	$ 766

The $1.3 million increase in compensation and employee benefits and the $2.4 million increase in general and administrative expenses were primarily due to increased expenses to support our growing global business. The $2.9 million decrease in provision for bad debt was primarily due to the recording of additional provision for bad debt in the second quarter of 2011 primarily as a result of an overall increase in the accounts receivable balance.

Income from Operations. Our income from operations for the second quarter of 2012 was $72.4 million, an increase of $6.3 million, or 9.5%, as compared to the second quarter of 2011. Income from operations during these periods was attributable to the following segments (in thousands):

	For the Three Months ended June 30,		
	2012	2011	$ Change
Aviation segment	$ 25,960	$ 37,624	$ (11,664)
Marine segment	27,931	25,763	2,168
Land segment	28,352	14,026	14,326
	82,243	77,413	4,830
Corporate overhead - unallocated	9,885	11,310	(1,425)
	$ 72,358	$ 66,103	$ 6,255

Our aviation segment income from operations was $26.0 million for the second quarter of 2012, a decrease of $11.7 million, or 31.0%, as compared to the second quarter of 2011. This decrease resulted from $12.9 million in lower gross profit, which was partially offset by decreased operating expenses of $1.2 million.

Our marine segment earned $27.9 million in income from operations for the second quarter of 2012, an increase of $2.2 million, or 8.4%, as compared to the second quarter of 2011. This increase resulted from $1.1 million in higher gross profit and decreased operating expenses of $1.1 million.

Our land segment income from operations was $28.4 million for the second quarter of 2012, an increase of $14.3 million as compared to the second quarter of 2011. This increase resulted from $18.8 million in higher gross profit, which was partially offset by increased operating expenses of $4.5 million. Of the increase in land segment operating expenses, $3.0 million was related to the inclusion of acquired businesses and $1.5 million was due to increased expenses to support our growing global business.

Corporate overhead costs not charged to the business segments were $9.9 million for the second quarter of 2012, a decrease of $1.4 million, or 12.6%, as compared to the second quarter of 2011.

Non-Operating Expenses, net. For the second quarter of 2012, we had non-operating expenses, net of $5.5 million, an increase of $1.1 million as compared to the second quarter of 2011. This increase was primarily due to an increase in interest expense and other financing costs, net, as a result of higher average borrowings as compared to the second quarter of 2011.

Taxes. For the second quarter of 2012, our effective tax rate was 17.9% and our income tax provision was $12.0 million, as compared to an effective tax rate of 17.9% and an income tax provision of $11.0 million for the second quarter of 2011.

Net Income and Diluted Earnings per Common Share. Our net income for the second quarter of 2012 was $48.6 million, a decrease of $1.6 million, or 3.2%, as compared to the second quarter of 2011. Diluted earnings per common share for the second quarter of 2012 was $0.68 per common share, a decrease of $0.02 per common share, or 3.3%, as compared to the second quarter of 2011.

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Non-GAAP Net Income and Non-GAAP Diluted Earnings per Common Share. The following table sets forth the reconciliation between our net income and non-GAAP net income for the second quarter of 2012 and 2011 (in thousands):

	For the Three Months ended June 30, 2012		For the Three Months ended June 30, 2011	
Net income attributable to World Fuel	$	48,600	$	50,203
Share-based compensation expense, net of taxes		2,107		1,879
Intangible asset amortization expense, net of taxes		2,118		5,571
Non-GAAP net income attributable to World Fuel	$	52,825	$	57,653

The following table sets forth the reconciliation between our diluted earnings per common share and non-GAAP diluted earnings per common share for the second quarter of 2012 and 2011:

	For the Three Months ended June 30, 2012		For the Three Months ended June 30, 2011	
Diluted earnings per common share	$	0.68	$	0.70
Share-based compensation expense, net of taxes		0.03		0.03
Intangible asset amortization expense, net of taxes		0.03		0.08
Non-GAAP diluted earnings per common share	$	0.74	$	0.81

The non-GAAP financial measures exclude costs associated with share-based compensation and amortization of acquired intangible assets, primarily because we do not believe they are reflective of the Company s core operating results. We believe the exclusion of share-based compensation from operating expenses is useful given the variation in expense that can result from changes in the fair value of our common stock, the effect of which is unrelated to the operational conditions that give rise to variations in the components of our operating costs. Also, we believe the exclusion of the amortization of acquired intangible assets is useful for purposes of evaluating operating performance of our core operating results and comparing them period-over-period. We believe that these non-GAAP financial measures, when considered in conjunction with our financial information prepared in accordance with GAAP, are useful to investors to further aid in evaluating the ongoing financial performance of the Company and to provide greater transparency as supplemental information to our GAAP results. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. In addition, our presentation of non-GAAP net income and non-GAAP earnings per common share may not be comparable to the presentation of such metrics by other companies. Investors are encouraged to review the reconciliation of these non-GAAP measures to their most directly comparable GAAP financial measures.

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Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

Revenue. Our revenue for the first six months of 2012 was $19.1 billion, an increase of $3.3 billion, or 21.0%, as compared to the first six months of 2011. Our revenue during these periods was attributable to the following segments (in thousands):

	For the Six Months ended June 30,		
	2012	2011	$ Change
Aviation segment	$ 6,959,418	$ 6,011,421	$ 947,997
Marine segment	7,671,335	6,532,402	1,138,933
Land segment	4,467,099	3,244,292	1,222,807
	$ 19,097,852	$ 15,788,115	$ 3,309,737

Our aviation segment contributed $7.0 billion in revenue for the first six months of 2012, an increase of $0.9 billion, or 15.8% as compared to the first six months of 2011. Of the increase in aviation segment revenue, $0.8 billion was due to increased volume attributable to new and existing customers and $0.1 billion was due to an increase in the average price per gallon sold as a result of higher world oil prices in the first six months of 2012 as compared to the first six months of 2011.

Our marine segment contributed $7.7 billion in revenue for the first six months of 2012, an increase of $1.1 billion, or 17.4%, as compared to the first six months of 2011. Of the total increase in marine segment revenue, $0.9 billion was due to an increase in the average price per metric ton sold as a result of higher world oil prices in the first six months of 2012 as compared to the first six months of 2011 and $0.2 billion was due to increased volume attributable to new and existing customers.

Our land segment contributed $4.5 billion in revenue for the first six months of 2012, an increase of $1.2 billion, or 37.7%, as compared to the first six months of 2011. The increase in land segment revenue was primarily due to $0.6 billion in increased volume attributable to new and existing customers and $0.4 billion in increased volume attributable to crude oil marketing activities. Of the remaining increase in land segment revenue, $0.1 billion was due to an increase in the average price per gallon sold as a result of higher world oil prices in the first six months of 2012 as compared to the first six months of 2011 and $0.1 billion was due to revenue from acquired businesses.

Gross Profit. Our gross profit for the first six months of 2012 was $329.4 million, an increase of $27.5 million, or 9.1%, as compared to the first six months of 2011. Our gross profit during these periods was attributable to the following segments (in thousands):

	For the Six Months ended June 30,		
	2012	2011	$ Change
Aviation segment	$ 134,085	$ 152,155	$ (18,070)
Marine segment	106,825	90,889	15,936
Land segment	88,448	58,826	29,622
	$ 329,358	$ 301,870	$ 27,488

Our aviation segment gross profit for the first six months of 2012 was $134.1 million, a decrease of $18.1 million, or 11.9%, as compared to the first six months of 2011. The decrease in aviation segment gross profit was due to $15.0 million in lower gross profit per gallon sold in our physical inventory business as a result of volatility, timing and direction of jet fuel price movements in the first six months of 2012 as compared to the first six months of 2011. The remaining decrease in aviation segment gross profit of $3.1 million was primarily due to fluctuations in customer mix.

Our marine segment gross profit for the first six months of 2012 was $106.8 million, an increase of $15.9 million, or 17.5%, as compared to the first six months of 2011. Of the total increase in marine segment gross profit, $12.8 million was due to higher gross profit per metric ton sold due to certain higher margin business activity and $3.1 million was due to increased volume attributable to new and existing customers.

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Our land segment gross profit for the first six months of 2012 was $88.4 million, an increase of $29.6 million, or 50.4%, as compared to the first six months of 2011. Of the increase in land segment gross profit, $17.3 million was due to increased volume attributable to crude oil marketing activities and $12.1 million was due to gross profit from acquired businesses.

Operating Expenses. Total operating expenses for the first six months of 2012 were $197.7 million, an increase of $17.5 million, or 9.7%, as compared to the first six months of 2011. The following table sets forth our expense categories (in thousands):

	For the Six Months ended June 30,		
	2012	**2011**	**$ Change**
Compensation and employee benefits	$ 110,710	$ 101,946	$ 8,764
Provision for bad debt	782	4,327	(3,545)
General and administrative	86,252	73,969	12,283
	$ 197,744	$ 180,242	$ 17,502

The $8.8 million increase in compensation and employee benefits was primarily due to $5.9 million in increased expenses to support our growing global business and $2.9 million related to the inclusion of acquired businesses. The $3.5 million decrease in provision for bad debt was primarily due to the recording of additional provision for bad debt in the first six months of 2011 primarily as a result of an overall increase in the accounts receivable balance. The $12.3 million increase in general and administrative expenses was primarily due to $7.4 million in increased expenses to support our growing global business and $4.9 million related to the inclusion of acquired businesses.

Income from Operations. Our income from operations for the first six months of 2012 was $131.6 million, an increase of $10.0 million, or 8.2%, as compared to the first six months of 2011. Income from operations during these periods was attributable to the following segments (in thousands):

	For the Six Months ended June 30,		
	2012	**2011**	**$ Change**
Aviation segment	$ 52,793	$ 75,794	$ (23,001)
Marine segment	55,376	43,118	12,258
Land segment	44,552	24,689	19,863
	152,721	143,601	9,120
Corporate overhead - unallocated	21,107	21,973	(866)
	$ 131,614	$ 121,628	$ 9,986

Our aviation segment income from operations was $52.8 million for the first six months of 2012, a decrease of $23.0 million, or 30.3%, as compared to the first six months of 2011. This decrease resulted from $18.1 million in lower gross profit and $4.9 million in increased operating expenses attributable to the inclusion of acquired businesses.

Our marine segment earned $55.4 million in income from operations for the first six months of 2012, an increase of $12.3 million, or 28.4%, as compared to the first six months of 2011. This increase resulted from $15.9 million in higher gross profit, which was partially offset by increased operating expenses of $3.6 million primarily attributable to higher general and administrative expenses.

Our land segment income from operations was $44.6 million for the first six months of 2012, an increase of $19.9 million, or 80.5%, as compared to the first six months of 2011. This increase resulted from $29.6 million in higher gross profit, which was partially offset by increased operating expenses of $9.7 million. Of the increase in land segment operating expenses, $6.8 million was related to the inclusion of acquired businesses and $2.9 million was due to increased expenses to support our growing global business.

Corporate overhead costs not charged to the business segments were $21.1 million for the first six months of 2012, a decrease of $0.9 million, or 3.9%, as compared to the first six months of 2011.

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Non-Operating Expenses, net. For the first six months of 2012, we had non-operating expenses, net of $9.6 million, an increase of $1.8 million as compared to the first six months of 2011. This increase was attributable to a $3.3 million increase in interest expense and other financing costs, net, as a result of higher average borrowings in the first six months of 2012 as compared to the first six months of 2011, partially offset by a $1.2 million positive change related to foreign currency exchange gains of $0.5 million in the first six months of 2012 as compared to foreign currency exchange losses of $0.7 million in the first six months of 2011 and $0.3 million related to decreases in other non-operating expenses.

Taxes. For the first six months of 2012, our effective tax rate was 15.2% and our income tax provision was $18.6 million, as compared to an effective tax rate of 18.9% and an income tax provision of $21.5 million for the first six months of 2011. The lower effective tax rate for the first six months of 2012 resulted primarily from differences in the actual results of our subsidiaries in tax jurisdictions with different tax rates as compared to the first six months of 2011 and an income tax benefit of $3.3 million for a discrete item related to a change in estimate for an uncertain tax position. Excluding this discrete tax benefit, our effective tax rate for the first six months of 2012 would have been 17.9%.

Net Income and Diluted Earnings per Common Share. Our net income for the first six months of 2012 was $95.0 million, an increase of $3.7 million, or 4.1%, as compared to the first six months of 2011. Diluted earnings per common share for the first six months of 2012 was $1.32 per common share, an increase of $0.04 per common share, or 3.1%, as compared to the first six months of 2011.

Non-GAAP Net Income and Non-GAAP Diluted Earnings per Common Share. The following table sets forth the reconciliation between our net income and non-GAAP net income for the first six months of 2012 and 2011 (in thousands):

	For the Six Months ended June 30,			
	2012		2011	
Net income attributable to World Fuel	$	95,015	$	91,312
Share-based compensation expense, net of taxes		4,108		3,888
Intangible asset amortization expense, net of taxes		6,584		9,233
Non-GAAP net income attributable to World Fuel	$	105,707	$	104,433

The following table sets forth the reconciliation between our diluted earnings per common share and non-GAAP diluted earnings per common share for the first six months of 2012 and 2011:

	For the Six Months ended June 30,			
	2012		2011	
Diluted earnings per common share	$	1.32	$	1.28
Share-based compensation expense, net of taxes		0.06		0.05
Intangible asset amortization expense, net of taxes		0.09		0.13
Non-GAAP diluted earnings per common share	$	1.47	$	1.46

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The non-GAAP financial measures exclude costs associated with share-based compensation and amortization of acquired intangible assets, primarily because we do not believe they are reflective of the Company s core operating results. We believe the exclusion of share-based compensation from operating expenses is useful given the variation in expense that can result from changes in the fair value of our common stock, the effect of which is unrelated to the operational conditions that give rise to variations in the components of our operating costs. Also, we believe the exclusion of the amortization of acquired intangible assets is useful for purposes of evaluating operating performance of our core operating results and comparing them period-over-period. We believe that these non-GAAP financial measures, when considered in conjunction with our financial information prepared in accordance with GAAP, are useful to investors to further aid in evaluating the ongoing financial performance of the Company and to provide greater transparency as supplemental information to our GAAP results. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. In addition, our presentation of non-GAAP net income and non-GAAP earnings per common share may not be comparable to the presentation of such metrics by other companies. Investors are encouraged to review the reconciliation of these non-GAAP measures to their most directly comparable GAAP financial measures.

Liquidity and Capital Resources

Cash Flows

The following table reflects the major categories of cash flows for the six months ended June 30, 2012 and 2011. For additional details, please see the consolidated statements of cash flows.

	For the Six Months ended June 30, 2012	2011
Net cash used in operating activities	$ (56,923)	$ (137,699)
Net cash used in investing activities	(38,605)	(113,407)
Net cash provided by financing activities	26,296	126,318

Operating Activities. For the six months ended June 30, 2012, net cash used in operating activities totaled $56.9 million as compared to net cash used in operating activities of $137.7 million for the first six months of 2011. The $80.8 million decrease in operating cash flows was primarily due to an increase in cash collateral deposits posted with financial counterparties, as well as changes in other net operating assets and liabilities, primarily net working capital and increased net income.

Investing Activities. For the six months ended June 30, 2012, net cash used in investing activities was $38.6 million as compared to $113.4 million for the first six months of 2011. The $74.8 million decrease in cash used in investing activities was primarily due to a reduction in cash used for the acquisition of businesses in the first six months of 2012 as compared to the first six months of 2011.

Financing activities. For the six months ended June 30, 2012, net cash provided by financing activities was $26.3 million as compared to $126.3 million for the first six months of 2011. The $100.0 million decrease in financing cash flows was primarily due to lower net borrowings under our Credit Facility in the first six months of 2012 as compared to the first six months of 2011.

Other Liquidity Measures

Cash and Cash Equivalents. As of June 30, 2012 and December 31, 2011, we had cash and cash equivalents of $136.7 million and $205.4 million, respectively, of which $50.1 million of the December 31, 2011 balance was held by certain of our foreign subsidiaries and not available to fund our domestic operations without incurring additional costs. Our primary uses of cash and cash equivalents are to fund accounts receivable, purchase inventory and make strategic investments, primarily acquisitions. We are usually extended unsecured trade credit from our suppliers for our fuel purchases; however, certain suppliers require us to either prepay or provide a letter of credit. Increases in oil prices can negatively affect liquidity by increasing the amount of cash needed to fund fuel purchases as well as reducing the amount of fuel which we can purchase on an unsecured basis from our suppliers.

Credit Facility and Term Loans. We have a senior revolving credit facility (Credit Facility) which permits borrowings of up to $800.0 million with a sublimit of $300.0 million for the issuance of letters of credit and bankers acceptances. Under the Credit Facility, we have the right to request increases in available borrowings up to an additional $150.0 million, subject to the satisfaction of certain conditions. The Credit Facility expires in July 2016. We had outstanding borrowings of $48.0 million as of June 30, 2012 and no outstanding borrowings as of December 31, 2011 under our Credit Facility. Our issued letters of credit under the Credit Facility totaled $98.2 million and $45.3 million as of June 30, 2012 and December 31, 2011, respectively. We also have $250.0 million in senior term loans (Term Loans), all of which were outstanding as of June 30, 2012.

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Our liquidity consisting of cash and cash equivalents and availability under the Credit Facility fluctuate based on a number of factors, including the timing of receipts from our customers and payments to our suppliers as well as commodity prices. Our Credit Facility and our Term Loans contain certain financial covenants with which we are required to comply. Our failure to comply with the financial covenants contained in our Credit Facility and our Term Loans could result in an event of default. An event of default, if not cured or waived, would permit acceleration of any outstanding indebtedness under the Credit Facility and our Term Loans, trigger cross-defaults under other agreements to which we are a party and impair our ability to obtain working capital advances and letters of credit, which would have a material adverse effect on our business, financial condition, results of operations and cash flows. As of June 30, 2012, we were in compliance with all financial covenants contained in our Credit Facility and our Term Loans.

Other Credit Lines. Additionally, we have other unsecured credit lines aggregating approximately $179.3 million for the issuance of letters of credit, bank guarantees and bankers acceptances. These credit lines are renewable on an annual basis and are subject to fees at market rates. As of June 30, 2012 and December 31, 2011, our outstanding letters of credit and bank guarantees under these credit lines totaled $127.0 million and $122.3 million, respectively. We also have a Receivables Purchase Agreement (RPA) to allow for the sale of up to $125.0 million of our accounts receivable. As of June 30, 2012, we had sold accounts receivable of $96.1 million and recorded a retained beneficial interest of $14.3 million under the RPA.

Short-Term Debt. As of June 30, 2012, our short-term debt of $23.8 million represents the current maturities (within the next twelve months) of certain promissory notes related to acquisitions, loans payable to noncontrolling shareholders of a consolidated subsidiary, borrowings under the Term Loans and capital lease obligations.

We believe that available funds from existing cash and cash equivalents and our Credit Facility, together with cash flows generated by operations, remain sufficient to fund our working capital and capital expenditure requirements for at least the next twelve months. In addition, to further enhance our liquidity profile, we may choose to raise additional funds which may or may not be needed for additional working capital, capital expenditures or other strategic investments. Our opinions concerning liquidity are based on currently available information. To the extent this information proves to be inaccurate, or if circumstances change, future availability of trade credit or other sources of financing may be reduced and our liquidity would be adversely affected. Factors that may affect the availability of trade credit or other forms of financing include our performance (as measured by various factors, including cash provided from operating activities), the state of worldwide credit markets, and our levels of outstanding debt. Depending on the severity and direct impact of these factors on us, financing may be limited or unavailable when needed or desired on terms that are favorable to us.

Contractual Obligations and Off-Balance Sheet Arrangements

Except for changes in the contractual obligations and off-balance sheet arrangements described below, there were no other material changes from December 31, 2011 to June 30, 2012. For a discussion of these matters, refer to Contractual Obligations and Off-Balance Sheet Arrangements in Item 7 of our 2011 10-K Report.

Contractual Obligations

Derivative Obligations. As of June 30, 2012, our net derivative obligations were $20.2 million.

Purchase Commitment Obligations. As of June 30, 2012, our purchase commitment obligations were $33.0 million.

Off-Balance Sheet Arrangements

Letters of Credit and Bank Guarantees. In the normal course of business, we are required to provide letters of credit to certain suppliers. A majority of these letters of credit expire within one year from their issuance, and expired letters of credit are renewed as needed. As of June 30, 2012, we had issued letters of credit and bank guarantees totaling $225.2 million under our Credit Facility and other unsecured credit lines. For additional information on our Credit Facility and credit lines, see the discussion thereof in Liquidity and Capital Resources above.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is included in Note 1 - Significant Accounting Policies in the Notes to the Consolidated Financial Statements in this 10-Q Report.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Derivatives

We enter into financial derivative contracts in order to mitigate the risk of market price fluctuations in aviation, marine and land fuel, to offer our customers fuel pricing alternatives to meet their needs and to mitigate the risk of fluctuations in foreign currency exchange rates. We also enter into proprietary derivative transactions, primarily intended to capitalize on arbitrage opportunities related to basis or time spreads related to fuel products we sell. We have applied the normal purchase and normal sales exception (NPNS), as provided by accounting guidance for derivative instruments and hedging activities, to certain of our physical forward sales and purchase contracts. While these contracts are considered derivative instruments under the guidance for derivative instruments and hedging activities, they are not recorded at fair value, but rather are recorded in our consolidated financial statements when physical settlement of the contracts occurs. If it is determined that a transaction designated as NPNS no longer meets the scope of the exception, the fair value of the related contract is recorded as an asset or liability on the consolidated balance sheet and the difference between the fair value and the contract amount is immediately recognized through earnings.

The following describes our derivative classifications:

Cash Flow Hedges. Includes certain of our foreign currency forward contracts we enter into in order to mitigate the risk of currency exchange rate fluctuations.

Fair Value Hedges. Includes derivatives we enter into in order to hedge price risk associated with our inventory and certain firm commitments relating to fixed price purchase and sale contracts.

Non-designated Derivatives. Includes derivatives we primarily enter into in order to mitigate the risk of market price fluctuations in aviation, marine and land fuel in the form of swaps or futures as well as certain fixed price purchase and sale contracts and proprietary trading. In addition, non-designated derivatives are also entered into to hedge the risk of currency rate fluctuations.

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As of June 30, 2012, our derivative instruments, at their respective fair value positions were as follows (in thousands, except mark-to-market prices):

Hedge Strategy	Settlement Period	Derivative Instrument	Notional	Unit	Mark-to-Market Prices	Mark-to-Market
Fair Value Hedge	2012	Commodity contracts for inventory hedging (short)	63,331	GAL	$ (0.09)	$ (5,551)
	2012	Commodity contracts for inventory hedging (short)	48	MT	(34.90)	(1,675)
						$ (7,226)
Non-Designated	2012	Commodity contracts (long)	222,725	GAL	$ (0.03)	$ (6,486)
	2012	Commodity contracts (short)	321,090	GAL	0.08	28,814
	2012	Commodity contracts (long)	4,792	MT	(19.26)	(92,284)
	2012	Commodity contracts (short)	3,366	MT	21.30	71,698
	2013	Commodity contracts (long)	16,298	GAL	(0.02)	(263)
	2013	Commodity contracts (short)	66,505	GAL	0.20	13,500
	2013	Commodity contracts (long)	1,702	MT	(28.62)	(48,704)
	2013	Commodity contracts (short)	600	MT	60.64	36,384
	2014	Commodity contracts (long)	3	MT	(42.00)	(126)
	2014	Commodity contracts (short)	6	MT	50.17	301
	2012	Foreign currency contracts (long)	13,442	CAD	0.01	110
	2012	Foreign currency contracts (short)	13,300	CAD	(0.01)	(111)
	2012	Foreign currency contracts (long)	1,758,457	CLP	(0.00)	(5)
	2012	Foreign currency contracts (short)	73,000	CLP	0.00	2
	2012	Foreign currency contracts (long)	2,069	EUR	0.01	11
	2012	Foreign currency contracts (short)	15,834	EUR	(0.00)	(74)
	2012	Foreign currency contracts (long)	19,812	GBP	0.00	6
	2012	Foreign currency contracts (short)	73,601	GBP	(0.00)	(168)
	2012	Foreign currency contracts (long)	182,641	MXN	0.00	119
	2012	Foreign currency contracts (short)	44,855	MXN	(0.00)	(17)
	2012	Foreign currency contracts (long)	491	AUD	0.02	8
	2012	Foreign currency contracts (short)	497	AUD	(0.02)	(8)
	2012	Foreign currency contracts (long)	2,336	BRL	0.01	12
	2012	Foreign currency contracts (short)	5,100	RON	(0.00)	(17)
	2012	Foreign currency contracts (short)	17,000	DKK	(0.00)	(44)
	2012	Foreign currency contracts (short)	14,200,000	COP	0.00	23
	2012	Foreign currency contracts (long)	7,000	SGD	0.00	23
	2012	Foreign currency contracts (short)	11,400	SGD	(0.01)	(109)
	2013	Foreign currency contracts (long)	27,715	GBP	(0.02)	(439)
	2013	Foreign currency contracts (short)	43,115	GBP	0.02	795
						$ 2,946

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this 10-Q Report, we evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2012.

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Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the quarter ended June 30, 2012.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only the reasonable assurance that our controls will succeed in achieving their goals under all potential future conditions.

Part II Other Information

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table presents information with respect to repurchases of common stock made by us during the quarterly period ended June 30, 2012 (in thousands, except average per share):

Period	Total Number of Common Shares Purchased (1)	Average Price Per Common Share Paid	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Total Cost of Common Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Remaining Authorized Common Stock Repurchases under Publicly Announced Plans or Programs (2)
4/1/12-4/30/12		$		$	$ 50,000
5/1/12-5/31/12	5	37.38			50,000
6/1/12-6/30/12	3	37.71			50,000
Total	8	$ 37.50		$	$ 50,000

(1) These shares relate to the purchase of common stock tendered by employees to exercise share-based payment awards and satisfy the required withholding taxes related to share-based payment awards.

(2) In October 2008, our Board of Directors authorized a $50.0 million common share repurchase program. The program does not require a minimum number of common shares to be purchased and has no expiration date but may be suspended or discontinued at any time. As of June 30, 2012, no shares of our common stock had been repurchased under this program. The timing and amount of common shares to be

repurchased under the program will depend on market conditions, share price, securities law and other legal requirements and other factors.

Item 6. Exhibits

The exhibits set forth in the following index of exhibits are filed as part of this 10-Q Report:

Exhibit No.	Description
10.1	Third Exhibit Update to the Receivables Purchase Agreement among World Fuel Services, Inc., World Fuel Services Europe, Ltd., World Fuel Services (Singapore) Pte Ltd, World Fuel Services Trading DMCC, World Fuel Services Aviation Limited as the sellers, World Fuel Services Corporation, as the parent, and Wells Fargo Bank, National Association, dated as of June 25, 2012.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d 14(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d 14(a).
32.1	Certification of Chief Executive Officer and Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.

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101*	The following materials from World Fuel Services Corporation s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language); (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Shareholders Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements.

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* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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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: August 1, 2012

World Fuel Services Corporation

/s/ Michael J. Kasbar
Michael J. Kasbar
President and Chief Executive Officer

/s/ Ira M. Birns
Ira M. Birns
Executive Vice-President and Chief Financial Officer