

ISSUER DIRECT CORP  
Form 10-Q  
May 04, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

\_\_\_\_\_  
FORM 10-Q  
\_\_\_\_\_

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

For the quarterly period ended: March 31, 2011

or

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

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

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

Delaware  
(State or Other Jurisdiction  
of Incorporation)

1-10185  
(Commission  
File Number)

26-1331503  
(I.R.S. Employer  
Identification No.)

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

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

N/A  
(Former name, former address and former fiscal year, if changed since last report)  
\_\_\_\_\_

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date 17,560,312 shares of common stock were issued and outstanding as of May 4, 2011.

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## TABLE OF CONTENTS

### PART I - FINANCIAL INFORMATION

|          |                                                                                                    |    |
|----------|----------------------------------------------------------------------------------------------------|----|
| Item 1.  | Financial Statements.                                                                              | 2  |
|          | Consolidated Balance Sheets as of March 31, 2011 (Unaudited) and December 31, 2010                 | 2  |
|          | Unaudited Consolidated Statements of Operations for the Three Months Ended March 31, 2011 and 2010 | 3  |
|          | Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010 | 4  |
|          | Notes to Unaudited Consolidated Financial Statements                                               | 5  |
| Item 2.  | Management's Discussion and Analysis of Financial Condition and Results of Operations.             | 8  |
| Item 3   | Quantitative and Qualitative Disclosures About Market Risk.                                        | 15 |
| Item 4T. | Controls and Procedures.                                                                           | 15 |

### PART II – OTHER INFORMATION

|          |                                                              |    |
|----------|--------------------------------------------------------------|----|
| Item 1.  | Legal Proceedings.                                           | 16 |
| Item 1A. | Risk Factors.                                                | 16 |
| Item 2.  | Unregistered Sales of Equity Securities and Use of Proceeds. | 16 |
| Item 3.  | Defaults Upon Senior Securities.                             | 16 |
| Item 4.  | (Removed and Reserved).                                      | 16 |
| Item 5.  | Other Information.                                           | 16 |
| Item 6.  | Exhibits                                                     | 16 |
|          | Signatures                                                   | 17 |
|          | Exhibit 31.1                                                 |    |
|          | Exhibit 31.2                                                 |    |
|          | Exhibit 32.1                                                 |    |
|          | Exhibit 32.2                                                 |    |
|          | EX-101.INS XBRL INSTANCE DOCUMENT                            |    |
|          | EX-101.SCH XBRL TAXONOMY EXTENSION SCHEMA                    |    |
|          | EX-101.CAL XBRL TAXONOMY EXTENSION CALCULATION LINKBASE      |    |

EX-101.DEF XBRL TAXONOMY EXTENSION DEFINITION LINKBASE

EX-101.LAB XBRL TAXONOMY EXTENSION LABEL LINKBASE

EX-101.PRE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

ISSUER DIRECT CORPORATION  
CONSOLIDATED BALANCE SHEETS

|                                                                                                                                                                                                            | March 31,<br>2011<br>(unaudited) | December<br>31,<br>2010 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------|
| <b>ASSETS</b>                                                                                                                                                                                              |                                  |                         |
| Current assets:                                                                                                                                                                                            |                                  |                         |
| Cash and cash equivalents                                                                                                                                                                                  | \$501,893                        | \$504,713               |
| Accounts receivable, (net of allowance for doubtful accounts of \$74,008 and \$56,024, respectively)                                                                                                       | 222,650                          | 175,336                 |
| Deferred income tax asset – current                                                                                                                                                                        | 102,400                          | 102,400                 |
| Other current assets                                                                                                                                                                                       | 20,510                           | 16,581                  |
| Total current assets                                                                                                                                                                                       | 847,453                          | 799,030                 |
| Furniture, equipment and improvements, net                                                                                                                                                                 | 75,598                           | 53,375                  |
| Deferred income tax – noncurrent                                                                                                                                                                           | 118,400                          | 118,400                 |
| Intangible assets (net of accumulated amortization of \$60,000 and \$55,166, respectively)                                                                                                                 | 88,196                           | 93,029                  |
| Other noncurrent assets                                                                                                                                                                                    | 16,106                           | 15,576                  |
| Total assets                                                                                                                                                                                               | \$1,145,753                      | \$1,079,410             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                                |                                  |                         |
| Current liabilities:                                                                                                                                                                                       |                                  |                         |
| Accounts payable                                                                                                                                                                                           | \$89,367                         | \$65,570                |
| Accrued expenses                                                                                                                                                                                           | 34,228                           | 34,918                  |
| Deferred revenue                                                                                                                                                                                           | 88,606                           | 51,382                  |
| Total current liabilities                                                                                                                                                                                  | 212,201                          | 151,870                 |
| Other long term liabilities                                                                                                                                                                                | 32,258                           | 19,810                  |
| Total liabilities                                                                                                                                                                                          | 244,459                          | 171,680                 |
| Stockholders' equity:                                                                                                                                                                                      |                                  |                         |
| Preferred stock, \$1.00 par value, 30,000,000 shares authorized – Series A, 60 shares designated, no shares issued and outstanding; Series B, 476,200 shares designated, no shares issued and outstanding. | -                                | -                       |
| Common stock \$.001 par value, 100,000,000 shares authorized, 17,685,312 shares issued and outstanding as of March 31, 2011 and December 31, 2010.                                                         | 17,685                           | 17,685                  |
| Additional paid-in capital                                                                                                                                                                                 | 1,680,558                        | 1,661,212               |
| Accumulated deficit                                                                                                                                                                                        | (796,949 )                       | (771,167 )              |
| Total stockholders' equity                                                                                                                                                                                 | 901,294                          | 907,730                 |
| Total liabilities and stockholders' equity                                                                                                                                                                 | \$1,145,753                      | \$1,079,410             |

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



ISSUER DIRECT CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

|                                                                      | For the Three Months<br>Ended |                   |
|----------------------------------------------------------------------|-------------------------------|-------------------|
|                                                                      | March 31,<br>2011             | March 31,<br>2010 |
| Revenues                                                             | \$513,556                     | \$605,081         |
| Cost of services                                                     | 232,096                       | 199,255           |
| Gross profit                                                         | 281,460                       | 405,826           |
| Operating costs and expenses:                                        |                               |                   |
| General and administrative                                           | 233,736                       | 160,301           |
| Sales and marketing expenses                                         | 64,549                        | 64,192            |
| Depreciation and amortization                                        | 11,819                        | 11,399            |
| Total operating costs and expenses                                   | 310,104                       | 235,892           |
| Net operating income (loss)                                          | (28,644 )                     | 169,934           |
| Other income (expense):                                              |                               |                   |
| Interest income (expense), net                                       | 2,862                         | (35,270 )         |
| Total other income (expense)                                         | 2,862                         | (35,270 )         |
| Net income (loss)                                                    | \$(25,782 )                   | \$134,664         |
| Income (loss) per share - basic                                      | \$(0.00 )                     | \$0.01            |
| Income (loss) per share - fully diluted                              | \$(0.00 )                     | \$0.01            |
| Weighted average number of common shares outstanding - basic         | 17,685,312                    | 16,843,108        |
| Weighted average number of common shares outstanding - fully diluted | 17,685,312                    | 16,887,181        |

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

## ISSUER DIRECT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

|                                                                                    | Three Months Ended<br>March 31, |           |
|------------------------------------------------------------------------------------|---------------------------------|-----------|
|                                                                                    | 2011                            | 2010      |
| Cash flows from operating activities:                                              |                                 |           |
| Net income (loss)                                                                  | \$(25,782 )                     | \$134,664 |
| Adjustments to reconcile net loss to net cash<br>provided by operating activities: |                                 |           |
| Depreciation and amortization                                                      | 11,818                          | 11,399    |
| Bad debt expense                                                                   | 21,182                          | 32,111    |
| Non-cash interest expense                                                          | -                               | 34,179    |
| Stock-based expense                                                                | 19,346                          | 27,000    |
| Changes in operating assets and liabilities:                                       |                                 |           |
| Decrease (increase) in accounts receivable                                         | (68,496 )                       | (77,633 ) |
| Decrease (increase) in deposits and prepaids                                       | (4,459 )                        | 193       |
| Increase (decrease) in accounts payable                                            | 23,797                          | 9,827     |
| Increase (decrease) in accrued expenses                                            | 11,758                          | 4,555     |
| Increase (decrease) in deferred revenue                                            | 37,224                          | -         |
| Net cash provided by operating activities                                          | 26,388                          | 176,295   |
| Cash flows from investing activities:                                              |                                 |           |
| Purchase of property and equipment                                                 | (29,208 )                       | (6,958 )  |
| Net cash used in investing activities                                              | (29,208 )                       | (6,958 )  |
| Cash flows from financing activities:                                              |                                 |           |
| Net cash used in financing activities                                              | -                               | -         |
| Net change in cash                                                                 | (2,820 )                        | 169,337   |
| Cash – beginning                                                                   | 504,713                         | 146,043   |
| Cash – ending                                                                      | \$501,893                       | \$315,380 |
| Supplemental disclosure for non-cash investing and financing activities:           |                                 |           |
| Cash paid for interest                                                             | \$-                             | -         |
| Cash paid for income taxes                                                         | \$-                             | -         |
| Non-cash activities:                                                               |                                 |           |
| Related party notes payable and accrued interest converted to common shares        | \$-                             | 59,666    |
| Related party notes payable and accrued interest converted to preferred shares     | \$-                             | 27,780    |

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



ISSUER DIRECT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Accounting Policies

Basis of Presentation

The unaudited interim balance sheet as of March 31, 2011 and statements of operations and cash flows for the periods ended March 31, 2011 and 2010 included herein, have been prepared in accordance with the instructions for Form 10-Q under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Article 10 of Regulation S-X under the Exchange Act. In the opinion of the management, they include all normal recurring adjustments necessary for a fair presentation of the financial statements. Results of operations reported for the interim periods are not necessarily indicative of results for the entire year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations relating to interim financial statements. The interim financial information should be read in conjunction with Issuer Direct Corporation's (the Company's) 2010 audited financial statements filed on Form 10-K.

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

Note 2. Summary of Significant Accounting Policies

Earnings per Share (EPS)

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted shares for the three months ended March 31, 2011 excludes the effect of 1,000,000 shares of common stock issuable upon the exercise of outstanding stock options agreements because the impact is anti-dilutive. Diluted income per share for the three months ending March 31, 2010 gives effect to the weighted average of 258,323 shares issuable upon conversion of the Company's shares of preferred stock.

Revenue Recognition

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

Allowance for Doubtful Accounts

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

#### Use of Estimates

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

## Income Taxes

We comply with FASB ASC No. 740 – Income Taxes which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amounts expected to be realized. For any uncertain tax positions, we recognize the impact of a tax position, only if it is more likely than not of being sustained upon examination, based on the technical merits of the position. Our policy regarding the classification of interest and penalties is to classify them as income tax expense in our financial statements, if applicable.

At the end of each interim period, we estimate the effective tax rate we expect to be applicable for the full fiscal year and this rate is applied to our results for the interim year to date period. Based upon our evaluation of possible future events and transactions, and expected changes to our valuation allowance and utilization of our net operating loss carryforwards, we currently estimate our effective tax rate for the 2011 fiscal year will be 0%.

## Fair Value Measurements

As of March 31, 2011 and December 31, 2010, we do not have any financial assets or liabilities that are required to be, or that we elected to measure, at fair value.

We adopted the fair value provisions applicable to nonfinancial assets and nonfinancial liabilities in fiscal 2009. Our assets and liabilities that are subject to these provisions include our intangible assets, consisting of goodwill, domain names and software, and our long-lived assets. The adoption of the fair value provisions applicable to nonfinancial assets and liabilities did not have a significant impact on the determination or reporting of our financial results.

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

## Stock-based compensation

We account for stock-based compensation under the authoritative guidance for stock compensation. The authoritative guidance for stock compensation requires that companies estimate the fair value of share-based payment awards on the date of the grant using an option-pricing model. The cost is to be recognized over the period during which an employee is required to provide service in exchange for the award. The valuation provisions of the authoritative guidance for stock compensation apply to new grants and grants modified after the adoption date that were outstanding as of the effective date. The authoritative guidance for stock compensation also requires the benefit of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under previous accounting rules. This requirement reduces net operating cash flows and increases net financing cash flows in periods subsequent to adoption. The Company recognized stock based expense of \$19,346 and \$27,000 during the three month periods ended March 31, 2011 and March 31, 2010, respectively.

## Recent Accounting Pronouncements

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



## Note 3. Preferred stock and common stock

We did not have any preferred or common stock transactions during the three month period ended March 31, 2011.

## Note 4. Concentrations

For the three-month periods ended March 31, 2011 and 2010, we earned revenues (as a percentage of total revenues) in the following categories:

|                                      | Three Months Ended<br>March 31, |   |       |   |
|--------------------------------------|---------------------------------|---|-------|---|
|                                      | 2011                            |   | 2010  |   |
| Revenue Streams                      |                                 |   |       |   |
| Compliance and reporting services    | 40.3                            | % | 27.0  | % |
| Printing and financial communication | 9.4                             | % | 18.9  | % |
| Fulfillment and distribution         | 25.1                            | % | 21.1  | % |
| Software licensing                   | 2.3                             | % | 11.2  | % |
| Transfer agent services              | 22.9                            | % | 21.8  | % |
| Total                                | 100.0                           | % | 100.0 | % |

No customers accounted for more than 10% of the operating revenues during the three month period ended March 31, 2011. One customer accounted for 16.7% of the operating revenues during the three month period ended March 31, 2010. At March 31, 2011, one customer accounted for 10.5% of our total accounts receivable. At March 31, 2010, two customers accounted for 32.7% (20.4% and 12.3%) of our total accounts receivable.

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

## Note 5. Subsequent events

On April 18, 2011, the Company entered into agreement whereby the Company purchased 125,000 shares of common stock at a price of \$0.22 per share. The share repurchase was part of the buy back program previously announced during the fourth quarter of 2010.

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

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

### Overview

Issuer Direct Corporation (Issuer Direct Corporation and its business are hereinafter collectively referred to as “Issuer Direct”, the “Company”, “We” or “Our” unless otherwise noted), was formed in February 2006 as My Edgar, Inc; a full-service provider of financial print and related compliance communications both online and in print. We acquired Edgarization, LLC and Basset Press in March and July 2007, respectively. In December 2007, we became publicly traded through a reverse merger transaction with Docucon Incorporated, a Delaware company. In December 2007, we changed our name to Issuer Direct Corporation.

We leverage our securities compliance and regulatory expertise to provide a comprehensive set of services that enhance a client’s ability to communicate effectively with its shareholder base while meeting all reporting regulations required. We believe our comprehensive set of services enables us to be the financial services provider of choice for our clients. For example corporate issuers utilize our services from document creation all the way to dissemination to regulatory bodies and shareholders. With this cohesive example, all of our business segments are able to generate revenues through the delivery and communication process.

As a regulatory compliance company, we are dedicated to assisting our corporate issuers in an ever-changing regulatory environment to comply with the myriad of rules imposed by regulatory bodies. The majority of our business involves the distribution of content either electronically or in traditional paper form to governing bodies and shareholders alike through our integrated back office systems and service platform. Under these regulations, we are licensed to disseminate, communicate and/or solicit on behalf of our clients.

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

### Revenue Sources

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

## Financial Reporting

As a full service compliance and regulatory filing agent, we assist corporate issuers, mutual funds, law firms, resellers, and individuals with all of their securities filing needs. Most all companies are required to file corporate documents to and with the Securities and Exchange Commission; including: registration statements, annual reports, quarterly reports, prospectuses, information statements, material event filings, proxy statements, ownership documents, and more.

Additionally, we are currently one of only a handful of compliance organizations skilled and proficient in the production of XBRL (eXtensible Business Reporting Language) consulting, taxonomy mapping and submissions. We currently have been voluntarily reporting our own quarterly and annual financial statement in XBRL since October 2009, and as such, are one of only small reporting companies currently reporting under the requirements today.

XBRL was first envisioned in 1997 to assist with corporate financial reporting. Today, the global adoption of the XBRL standard is being driven by the increasing demand by investors and regulators for transparency and more sophisticated analytics of financial assets like equities, mutual funds, and fixed income instruments. In 2008, the SEC announced a mandatory program relating to XBRL whereby registrants are required to furnish XBRL data in an exhibit to specified EDGAR filings. More specifically, commencing in 2009 and as detailed in the following paragraph, certain public companies became required to file tagged disclosures, including the companies' primary financial statements, footnotes, financial statement schedules and certain company identifier information, in an XBRL format and over the next three years, all public companies will become subject to these requirements.

The SEC is requiring companies to comply with the mandate according to the following three-year phase-in schedule. In year one, the rules applied only to domestic and foreign large accelerated filers that use U.S. GAAP and had a worldwide public float above \$5 billion. These filers were required to file quarterly reports on Form 10-Q or annual reports on Form 20-F or Form 40-F containing financial statements beginning with the first fiscal period ended on or after June 15, 2009. In year two, all other domestic and foreign large accelerated filers using U.S. GAAP became subject to XBRL data reporting. These filers were required to file quarterly reports on Form 10-Q or annual reports on Form 20-F or Form 40-F containing financial statements beginning with the first fiscal period ended on or after June 15, 2010. In year three, all remaining filers using U.S. GAAP, including smaller reporting companies, and all foreign private issuers that prepare their financial statements in accordance with IFRS as issued by the IASB, will become subject to the same XBRL data reporting requirements. These filers are required to file quarterly reports on Form 10-Q or annual reports on Form 20-F or Form 40-F containing financial statements beginning with the first fiscal period ending on or after June 15, 2011.

## Transfer Agent Services

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

Our commitment to compliance and safeguarding of information goes beyond our SAS 70 business process. We maintain our client's books and records in the manner we would expect ours to be managed, and that second-to-none service has enabled us to sustain our valued clients, withstand regulatory change and competitiveness by other providers.

Corporate issuers have the ability to take advantage of the following:



Issue, manage and monitor all corporate stock of the company online

Print on Demand Digital Certificate Library

Communicate with shareholders with the click of a mouse with e-Notify

Setup, monitor and direct an annual meeting and proxy vote

Warrant, escrow and rights offerings

Corporate re-org services including CUSIP, FINRA and state filing needs

#### Financial Printing, Fulfillment & Post Sale

As one of the largest financial printers in the southeast, we are focused on both corporate issuers, and mutual funds - we pride ourselves on having our typeset, design, print and fulfillment operations under one roof; giving compliance professionals the ability to meet regulatory deadlines and take advantage of our technology and on demand facilities to communicate their message with markets, shareholders and other vital constituents.

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

During the period ended March 31, 2011 we completed the development of our post sale fulfillment module to our IFP (Interactive Fund Platform). This technology when combined with our Print-on-Demand (POD) production environment gives us a leg up on the competition in the literature fulfillment market. Our technological advancements make our process more efficient and transparent to multiple parties at the same time from one interface. As regulations continued to change and companies opt to print fewer and few large run projects, we expect print on demand to be a greater portion of our print business; this would include summary prospectuses for our mutual fund and broker clients, custom notice & access cards for corporate issuers, reminder mailings, and short run production on an one to one or one to many delivery method.

Our logistics and fulfillment services converge within our print and proxy business segments. We believe we operate one of the largest fulfillment centers for both corporate issuers and mutual funds. Through our strategic postal partnerships, our fulfillment operations can place requested materials into the mail system quicker than traditional methods. Additionally each piece of mail carries unique tracking identifiers that allow both our staff and approved constituents to request delivery confirmation of time sensitive material.

#### Proxy Systems

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

#### Shareholder Communication

As part of our commitment to shareholder disclosure and improved corporate transparency, we expanded our core news wire services into a comprehensive shareholder communication system that assist our client's investor relations departments. Our offerings include a blend of proprietary data sets such as Edgar filings, press releases, stock charts

and historical data, corporate vitals, as well as the compliance driven modules of whistle blower, corporate governance and our e-Notify request system. We have strategic partnerships with content providers whereby we re-distribute certain content to the desktops of users on an on-demand basis. Additionally, we power the financial tear sheet market by utilizing our shareholder compliance platform to parse data in a condensed format that the financial markets refer to as a tear sheet.

## Results of Operations

## Revenues

Comparison of results of operations for the three months ended March 31, 2011 and 2010

| Revenue Streams                      | Three Months Ended<br>March 31, |           |
|--------------------------------------|---------------------------------|-----------|
|                                      | 2011                            | 2010      |
| Compliance and reporting services    | \$207,009                       | \$163,196 |
| Printing and financial communication | 48,268                          | 114,108   |
| Fulfillment and distribution         | 128,829                         | 127,604   |
| Software licensing                   | 11,572                          | 67,767    |
| Transfer agent services              | 117,878                         | 132,406   |
| Total                                | \$513,556                       | \$605,081 |

Total revenue decreased by \$91,525 to \$513,556 during the three months ended March 31, 2011 as compared to \$605,081 during the same period of fiscal 2010. The overall decrease is primarily due to decreases in printing and financial communication revenue of \$65,840, and a decrease in software licensing revenue of \$56,195 in the three month period ended March 31, 2011 as compared to the same period fiscal 2010, and was partially offset by an increase in compliance and reporting services of \$43,813 as we began delivering XBRL services in fiscal 2011.

Compliance and reporting service revenue increased \$43,813 during the three months ended March 31, 2011 as compared to the same period in fiscal 2010. Revenues from our traditional Edgar services have continued to decrease as (1) pricing pressures in the market have forced us to modify current agreements with corporate issuers that resulted in us changing our unlimited Edgarization services into a by the page arrangement or bundled offering; and (2) the capital markets continue to deliver less filings and a reduced number of transactional offerings. However, during the first quarter of 2011, we have begun delivering XBRL tagging services which accounted for the overall increase in compliance and reporting service revenue. XBRL services in the first quarter of 2011 consisted primarily of initial set up work for clients with whom we have entered into annual contracts. Even though we are seeing pricing pressures in this new revenue stream, we will continue to allocate a prudent amount of resources focused on new client acquisition.

Printing and financial communication revenue decreased by \$65,840 during the three months ended March 31, 2011 as compared to the same period of 2010. This business segment is difficult to predict from one month to the next when certain transactions can become delayed due to regulatory review and or compliance action. Additionally we continue to see less and less materials printed in large run quantities compared to Print on Demand offerings, that generate higher margins but lower overall revenues. During the three months ended March 31, 2010, we earned revenue from several transactional non-recurring engagements, whereas we did not have as many similar projects in the same period of 2011.

Fulfillment and distribution revenue increased slightly by \$1,225 during the three months ended March 31, 2011 as compared to the same period in fiscal 2010. Within this category, revenue from our news distribution increased by \$36,873 during the three months ended March 31, 2011 as compared to the same period in fiscal 2010. However, revenue from the distribution of print material decreased in the three months ended March 31, 2011, consistent with the decrease in printing and financial communication revenue discussed previously.

Software licensing revenues decreased by \$56,195 during the three month period ended March 31, 2011 as compared to the same period in fiscal 2010. During the first quarter of 2010, we licensed our section 16 technologies to a strategic partner. This transaction was non-recurring in nature, and therefore attributed to substantially all of the decrease in revenue during the three month period ended March 31, 2011. Although we continue to build extensive compliance technologies, we are not a software company; our developments are generally bundled into our service offerings that provide us the luxury of having a competitive advantage in the market.

Transfer agent revenue decreased by \$14,528 during the three month period ended March 31, 2011 as compared to the same period in fiscal 2010. Although our core transfer agent business continues to increase, we achieved revenue from corporate actions of \$50,000 during the three months ended March 31, 2010, but had very little revenue from corporate actions in the three months ended March 31, 2011. The timing of corporate actions is difficult to predict. However, we do anticipate that corporate actions will be a continuing source of revenue in the future.

No customers accounted for more than 10% of the operating revenues during the three month period ended March 31, 2011. One customer accounted for 16.7% of the operating revenues during the three month period ended March 31, 2010.

#### Cost of Revenues and Gross Margin

Cost of revenues consists primarily of direct labor costs, third party licensing, print production materials, postage, and outside services directly related to the delivery of services to our customers. Cost of revenues increased by \$32,841 in the three month period ended March 31, 2011 as compared to the same period in fiscal 2010. Gross margin was 55% during the three months ended March 31, 2011 as compared to 67% during the same period of 2010. Margins were high during the three months ended March 31, 2010 primarily because we licensed section 16 software to a strategic partner with very little associated costs, and because we achieved lower revenues from our transfer agent business, which has high overall margins, during the three months ended March 31, 2011 as compared to the same period of fiscal 2010. As our core service offerings continue to show signs of overall pricing pressures in the market, we believe the gross margin percentage achieved during the three months ended March 31, 2011 is more consistent with both historic and estimated future margins. During the remaining fiscal 2011 we will continue to focus on higher margin services and assess different go-to-market strategies that can enable our overall margins to increase over a comparative period.

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

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

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

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

## Operating Expenses

### General and Administrative Expense

General and administrative expenses consist primarily of salaries, insurance, fees for professional services, general corporate expenses and facility and equipment expenses. General and administrative expenses increased \$73,435 during the three month period ended March 31, 2011 as compared to the same period in fiscal 2010. The increase in fiscal 2011 is primarily due to increases in facility expenses of \$32,858, personnel expenses of \$38,843 and bad debt expense of \$8,555 during the three months ended March 31, 2011.

The increase in facilities is due to rent, utilities and other costs associated with our new corporate headquarters. We moved into a 16,059 square foot location in September 2010 in order to meet our expected needs associated with staffing our XBRL services, and to allow us to bring more print and fulfillment services in house. We believe that our new office space will provide us with greater capacity and flexibility to meet the needs of our customers, which we believe will lead to significant revenue opportunities in the future. The increase in personnel is due to additional administrative employees, annual merit increases, and the implementation of health insurance for employees.

### Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, sales commissions, sales consultants, advertising expenses, and marketing expenses. Sales and marketing expenses for the three month period ended March 31, 2011 increased slightly to \$64,549 as compared to \$64,192 during the same period of fiscal 2010.

### Depreciation and Amortization

Depreciation and amortization expenses during the three month period ended March 31, 2011 increased slightly to \$11,819 as compared to \$11,399 during the same period of fiscal 2010.

### Other Income (Expense)

Other income (expense) of \$2,862 during the three months ended March 31, 2011 consisted primarily of finance charges to customers with past due balances that we are reasonably assured that we will collect. Other income (expense) during the three months ended March 31, 2010 of (\$35,270) consists primarily of interest expense on related party notes payable. In fiscal 2010, we recorded non-cash interest expense of \$34,178 upon the conversion of the notes payable into shares of the company for the value of the shares received in excess of the carrying value of the notes payable and accrued interest.

### Net Income (Loss)

Net loss for the three months ended March 31, 2011 was \$25,782 as compared to net income of \$134,664 in the same period of 2010. The net loss in fiscal 2011 was primarily due to lower revenues and margins as previously discussed, and higher general and administrative expenses associated with our expansion. There can be no assurances we will achieve profitability in the near term from new regulatory compliance tagging services, as the costs associated with building this service offering is significant and complex. However, we are optimistic that the significant investments we have made in facilities and resources will help drive our growth toward profitability in 2011 and beyond.

## Liquidity and Capital Resources

As of March 31, 2011, we had \$501,893 in cash and cash equivalents and \$222,650 net accounts receivable. Current liabilities at March 31, 2011, totaled \$212,201, including accounts payable, deferred revenue, accrued payroll liabilities, and accrued expenses. At March 31, 2011, our total assets exceeded our total liabilities by \$901,294. We also have \$200,000 available to us under a working capital line of credit with no outstanding balance. Although we incurred a net loss during the three months ended March 31, 2011, our cash was relatively close to our cash balance at December 31, 2010, in part due to advance payments received for XBRL projects which were recorded as deferred revenue.

We manage our cash flow carefully with the intent to meet our obligations from cash generated from operations. However, it is possible that we will have to raise additional funds through the issuance of equity in order to meet our debt obligations. There can be no assurance that cash generated from operations will be sufficient to fund our operating expenses 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.

## 2011 Outlook

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

Our vision is to be a market leader of unified regulatory solutions for compliance professionals, by providing a true single sourced model for issuers and the capital markets. We pride ourselves on the best systems, the best service to our clients, the highest support to our staff; record results, higher returns to our shareholders, and higher rewards to our team members.

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

Despite the results for the period ended March 31, 2011, our long term focus has not changed, we are committed to profitable quarterly periods. In order to accomplish this, we have to be innovative and competitive when the overall markets show signs of change. We will continue to make prudent investments in long-term business infrastructure and identifiable market segments that support our business and leverage our emerging technology compliance platform. We will continue to focus many of our development initiatives on compliance systems that facilitate a cohesive emergence of products and services that make it easier for compliance professionals to manage an array of regulatory driven activities and shareholder demands. This focus may lead us to becoming a provider to other service providers in the issuer services marketplace. As a reseller and / or back-office provider, margins generally are lower but top line revenues should be much greater over a fiscal period.

## XBRL Reporting Business

We are focused on expanding our total XBRL customer base and expect to do work for hundreds of companies this year in this segment, either directly or indirectly through our subsidiary reseller channel. We will seek to leverage our market position, qualified staff and emerging technologies in this newly competitive landscape. Although the market price for this complex tagging service has dropped quicker than we expected, resulting in lower margins, we still

believe our core financial reporting business will see much higher revenues in 2011 compared to our past results.

#### Off-Balance Sheet Arrangements

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



ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable

ITEM 4T. CONTROLS AND PROCEDURES.

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

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time the Company may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of business. We are not currently involved in any legal proceedings that we believe could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations.

ITEM 1A. RISK FACTORS.

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. (REMOVED AND RESERVED).

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

(a) Exhibits.

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

\* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 4, 2011

ISSUER DIRECT CORPORATION

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

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