

ISSUER DIRECT CORP  
Form 10-Q  
August 06, 2015

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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: June 30, 2015  
or

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date 2,334,832 shares of common stock were issued and outstanding as of August 6, 2015.

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Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002

Exhibit 32.1 CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE  
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Exhibit 32.2 CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE  
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EX-101.SCH XBRL TAXONOMY EXTENSION SCHEMA

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

ISSUER DIRECT CORPORATION  
CONSOLIDATED BALANCE SHEETS

	June 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,449,020	\$ 1,721,343
Accounts receivable, (net of allowance for doubtful accounts of \$443,324 and \$460,564, respectively)	1,562,072	2,013,464
Deferred income tax asset – current	91,118	7,290
Other current assets	415,770	311,666
<b>Total current assets</b>	<b>5,517,980</b>	<b>4,053,763</b>
Fixed assets, net	415,184	145,384
Goodwill	2,241,872	2,241,872
Intangible assets (net of accumulated amortization of \$2,008,802 and \$1,517,366, respectively)	3,242,198	3,733,634
Other noncurrent assets	28,364	28,286
<b>Total assets</b>	<b>\$ 11,445,598</b>	<b>\$ 10,202,939</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 344,536	\$ 255,615
Accrued expenses	1,149,932	1,105,122
Income tax payable	164,088	135,533
Note payable – related party (net of debt discount of \$118,727 and \$535,397, respectively)	1,547,945	1,131,276
Deferred revenue	995,892	877,120
<b>Total current liabilities</b>	<b>4,202,393</b>	<b>3,504,666</b>
Deferred tax liability	506,944	633,778
Other long term liabilities	42,436	56,733
<b>Total liabilities</b>	<b>4,751,773</b>	<b>4,195,177</b>
Stockholders' equity:		
Preferred stock, \$0.001 par value, 30,000,000 shares authorized, no shares issued and outstanding as of June 30, 2015 and December 31, 2014	-	-
Common stock \$0.001 par value, 100,000,000 shares authorized, 2,330,832 and 2,316,743 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively.	2,331	2,317

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Additional paid-in capital	6,108,448	5,725,470
Other accumulated comprehensive loss	(45,905)	(47,283)
Retained earnings	628,951	327,258
Total stockholders' equity	6,693,825	6,007,762
Total liabilities and stockholders' equity	\$ 11,445,598	\$ 10,202,939

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

ISSUER DIRECT CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

	For the three months ended		For the six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenues	\$3,106,389	\$3,638,269	\$6,150,171	\$7,132,625
Cost of services	899,541	1,069,405	1,812,418	2,096,996
Gross profit	2,206,848	2,568,864	4,337,753	5,035,629
Operating costs and expenses:				
General and administrative	907,341	911,992	1,787,123	2,120,334
Sales and marketing	644,564	905,418	1,210,620	1,428,941
Product Development	94,464	91,619	193,096	169,530
Depreciation and amortization	263,399	280,767	531,740	562,633
Total operating costs and expenses	1,909,768	2,189,796	3,722,579	4,281,438
Operating income	297,080	379,068	615,174	754,191
Other income (expense):				
Interest income (expense), net	(241,025 )	(360,676 )	(485,875 )	(722,731 )
Total other income (expense)	(241,025 )	(360,676 )	(485,875 )	(722,731 )
Income before taxes	56,055	18,392	129,299	31,460
Income tax benefit (expense)	8,973	49,631	172,394	(379 )
Net income	\$65,028	\$68,023	\$301,693	\$31,081
Income per share – basic	\$0.03	\$0.03	\$0.13	\$0.02
Income per share - fully diluted	\$0.03	\$0.03	\$0.13	\$0.02
Weighted average number of common shares outstanding - basic	2,322,240	2,042,494	2,320,344	2,039,771
Weighted average number of common shares outstanding - fully diluted	2,359,836	2,106,837	2,361,026	2,111,699

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

ISSUER DIRECT CORPORATION  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (UNAUDITED)

	For the three months ended		For the six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net income	\$65,028	\$68,023	\$301,693	\$31,081
Foreign currency translation adjustment	(6,900 )	(3,886 )	1,378	(10,420 )
Comprehensive income	\$58,128	\$64,137	\$303,071	\$20,661

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



ISSUER DIRECT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Six months ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$301,693	\$31,081
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	531,740	563,036
Bad debt expense	94,276	104,929
Deferred income taxes	(209,898 )	(768 )
Stock-based compensation expense	278,931	210,183
Non-cash interest expense	416,670	625,000
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	366,150	(752,861 )
Decrease (increase) in deposits and other current assets	(104,022 )	(106,158 )
Increase (decrease) in accounts payable	85,936	137,505
Increase (decrease) in accrued expenses	47,837	(817,067 )
Increase (decrease) in deferred revenue	106,862	272,192
Net cash provided by operating activities	1,916,175	267,072
Cash flows from investing activities:		
Purchase of fixed assets	(228,025 )	(47,029 )
Net cash used in investing activities	(228,025 )	(47,029 )
Cash flows from financing activities:		
Proceeds from exercise of stock options	7,025	119,015
Tax benefit on stock-based compensation awards	16,191	109,755
Net cash provided by financing activities	23,216	228,770
Net change in Cash	1,711,366	448,813
Cash – beginning	1,721,343	1,713,479
Currency translation adjustment	16,311	(1,299 )
Cash – ending	\$3,449,020	\$2,160,993
Supplemental disclosure for non-cash investing and financing activities		
Cash paid for interest	\$66,667	\$100,000
Cash paid for income taxes	\$34,500	\$556,600
Non cash activities		
Stock-based compensation capitalized as software development costs	\$80,845	\$-

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 consolidated balance sheet as of June 30, 2015 and statements of operations, of comprehensive income, and of cash flows for the three and six-month periods ended June 30, 2015 and 2014 included herein, have been prepared in accordance with the instructions for Form 10-Q under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Article 10 of Regulation S-X under the Exchange Act. In the opinion of management, they include all normal recurring adjustments necessary for a fair presentation of the financial statements. Results of operations reported for the interim periods are not necessarily indicative of results for the entire year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations relating to interim financial statements. The interim financial information should be read in conjunction with Issuer Direct Corporation’s (the “Company”, “We”, or “Our”) 2014 audited financial statements filed on Form 10-K.

Note 2. Summary of Significant Accounting Policies

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

Earnings per Share (EPS)

We calculate EPS in accordance with Financial Accounting Standards Board (FASB) ASC No. 260 – EPS, which requires that basic net income per common share be computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income for the period by the weighted average number of common and dilutive common equivalent shares outstanding during the period. Shares issuable upon the exercise of stock options and restricted stock units totaling 245,000 and 136,000, respectively, were included in the computation of diluted earnings per common share during the three and six-month periods ended June 30, 2015, to the extent they represented dilutive common stock equivalents. Shares issuable upon the exercise of stock options totaling 180,000 were excluded in the computation of diluted earnings per common share during three and six-month periods ended June 30, 2014 because their impact was anti-dilutive. The Company has a convertible note outstanding as of June 30, 2015 that can be converted into 417,712 shares of common stock, which were excluded from the calculation of diluted EPS, as the impact is anti-dilutive.

Reclassifications

The Company has reclassified certain amounts as previously reported as general and administrative expenses to product development expenses, in order to conform to current year presentation. This reclassification has no impact on revenue, net income, assets, liabilities, shareholders’ equity, or earnings per share. In particular, the Company is now presenting product development cost as a separate line on the consolidated statement of operations, whereas they were previously included in general and administrative expenses.

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 and where collectability is probable. Deferred revenue primarily consists of upfront payments for annual service contracts, and is recognized throughout the year as the services are performed.

#### Allowance for Doubtful Accounts

We 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 client account balances, and a reserve based on our historical experience.

ISSUER DIRECT CORPORATION  
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#### Capitalized Software Development Costs

In accordance with FASB ASC No. 350 – Intangibles – Goodwill and Other, costs incurred to develop our cloud-based platform products and order management system are capitalized and amortized over the estimated useful life of the software once the software is substantially complete and ready for its intended use. Costs related to design or maintenance of the software are expensed as incurred. During the three and six-month periods ended June 30, 2015, the Company capitalized \$283,252 of software development costs, including \$80,845 related to stock-based compensation.

#### Use of Estimates

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

#### 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, and then adjusted for any discrete period items.

#### Fair Value Measurements

As of June 30, 2015 and December 31, 2014, 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 fiscal period. Income and expense items have been translated at the average exchange rates for the period. The gains or losses that result from

this process are recorded as a separate component of stockholders' equity until the entity is sold or substantially liquidated.

#### Goodwill

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment, and any such impairment will be recognized in the period identified.

#### Comprehensive Income

Comprehensive income consists of net income and other comprehensive income related to changes in the cumulative foreign currency translation adjustment.

#### Business Combinations and Intangible Assets

We account for our business combinations in accordance with the authoritative guidance for business combinations, and the related acquired intangible assets and goodwill in accordance with the authoritative guidance for intangibles — goodwill and other. The authoritative guidance for business combinations specifies the accounting for business combinations and 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. Intangible assets consist of client relationships, customer lists, software, technology and trademarks that are initially measured at fair value. The trademarks have an indefinite life and are not amortized. The trademarks 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, customer lists, software and technology are amortized over their estimated useful lives.

ISSUER DIRECT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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#### Advertising

The Company expenses advertising as incurred, except for direct-response advertising, which is capitalized and amortized over its expected period of future benefits.

#### Stock-based compensation

We account for stock-based compensation under FASB ASC No. 718 – Compensation – Stock Compensation. The authoritative guidance for stock compensation requires that companies estimate the fair value of share-based payment awards on the date of the grant using an option-pricing model. The cost is to be recognized over the period during which an employee is required to provide service in exchange for the award. The authoritative guidance for stock compensation also requires the benefit of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under previous accounting rules. This requirement reduces net operating cash flows and increases net financing cash flows in periods subsequent to adoption, only if excess tax benefits exist.

#### Recent Accounting Pronouncements

The FASB has issued Accounting Standards Update (“ASU”) 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. The amendments in ASU 2015-05 provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments do not change the accounting for a customer’s accounting for service contracts. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. ASU 2015-05 is effective for public entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The Company does not anticipate that ASU 2015-05 will have a significant impact on their financial statements.

The FASB has issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The FASB issued this ASU as part of its initiative to reduce complexity in accounting standards. The objective of the simplification initiative is to identify, evaluate, and improve areas of U.S. GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to the users of financial statements. The amendments in ASU 2015-01 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not anticipate that ASU 2015-01 will have a significant impact on their financial statements.

The FASB has issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. The amendments in this ASU do not change the current criteria in U.S. GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. The amendments clarify how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all

relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not anticipate that ASU 2014-16 will have a significant impact on their financial statements.

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The FASB has issued ASU 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The issue is the result of a consensus of the FASB Emerging Issues Task Force (EITF). The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The Company will apply the provisions of ASU 2014-12 to any future performance based stock awards, but does not anticipate that the impact will have a significant impact on their financial statements.

The FASB has issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 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. ASU 2014-09 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. The amendments in the ASU 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 is currently evaluating the impact of ASU 2014-09, which is currently effective for the Company in our fiscal year beginning on January 1, 2018.

### Note 3: Intangible Assets and Goodwill

#### Acquisition of Accesswire

On October 29, 2014, the Company completed its acquisition of all of the assets relating to the “Accesswire” business (as defined below) owned and operated by Baystreet.ca Media Corp., a British Columbia company (“Baystreet”) for consideration totaling \$1,840,000. Accesswire is a corporate news and content distribution and dissemination business (“Accesswire”). In consideration of the assets related to Accesswire, the Company paid to Baystreet on the closing date the following: (i) \$1,700,000 in cash from the Company’s current cash reserves and (ii) 15,385 shares of the Company’s common stock with a value of \$140,000 based on the Company’s stock price at the time of closing.

During the year ended December 31, 2014, the Company employed a third party valuation firm to assist in determining the purchase price allocation of assets acquired from Accesswire. The income approach was used to determine the value of Accesswire’s trademarks and client relationships. The income approach determines the fair value for the asset based on the present value of cash flows projected to be generated by the asset. Projected cash



flows are discounted at a rate of return that reflects the relative risk of achieving the cash flow and the time value of money. Projected cash flows for each asset considered multiple factors, including current revenue from existing customers; analysis of expected revenue and attrition trends; reasonable contract renewal assumptions from the perspective of a marketplace participant; expected profit margins giving consideration to marketplace synergies; and required returns to contributory assets. The cost approach was used to determine the value of Accesswire's technology. The cost approach is based on replacement cost as an indicator of value. It assumes that a prudent investor would pay no more for an asset than the amount for which it could be replaced new. Further, to the extent a particular asset provides less utility than a new one, its value will be less than its replacement cost new. To account for this difference, the replacement cost new is adjusted for losses in value that is depreciated. No liabilities or tangible assets were assumed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The transaction resulted in recording intangible assets and goodwill at a fair value of \$1,840,000 as follows:

Total Consideration	\$ 1,840,000
Allocation of Accesswire intangible assets and goodwill:	
Amortizable intangible assets	\$ 423,000
Trademarks	232,000
Goodwill	1,185,000
Total fair value of Accesswire intangible assets and goodwill	\$ 1,840,000

The identifiable amortizable intangible assets created as a result of the acquisition will be amortized straight line over their estimated useful life as follows:

	Asset Amount	Useful Life (years)
Client relationships	\$242,000	7
Software	181,000	5
	\$423,000	

The Company has elected not to provide unaudited pro forma financial information for the Accesswire acquisition, as management determined that providing useful, accurate pro-forma information would be impracticable, and because the acquisition was not considered a significant acquisition in accordance with Rule 3-05 of the SEC's Regulation S-X. Because the Accesswire news distribution service was just one of many services offered by Baystreet Media ca., separate financial information was not maintained, and creating separate financials statements would include too many estimates and assumptions to be portrayed as useful and accurate.

#### Note 4: Stock-based Compensation

##### 2014 Equity Incentive Plan

On May 23, 2014, the shareholders of the Company approved the 2014 Equity Incentive Plan (the "2014 Plan"). Under the terms of the 2014 Plan, the Company is authorized to issue incentive awards for common stock up to 200,000 shares to employees and other personnel. The awards may be in the form of incentive stock options, nonqualified stock options, restricted stock, restricted stock units and performance awards. The 2014 Plan is effective through March 31, 2024. As of June 30, 2015, 14,000 stock options and 136,000 restricted stock units had been issued under the 2014 Plan.

##### Stock Awards

The following table summarizes information about stock options outstanding and exercisable at June 30, 2015:

Exercise Price Range	Number	Options Outstanding		Options Exercisable Number
		Weighted Average	Weighted Average	

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	Remaining Contractual Life (in Years)	Exercise Price			
0.01 - \$1.00	19,700	6.56	\$	0.01	19,700
1.01 - \$2.00	4,550	5.90	\$	1.70	4,550
2.01 - \$3.00	14,000	2.35	\$	2.73	4,000
3.01 - \$4.00	14,000	6.76	\$	3.33	14,000
4.01 - \$8.00	98,750	5.82	\$	7.76	42,501
8.01 - \$9.00	40,000	3.15	\$	8.25	20,000
9.01 - \$10.00	14,000	9.49	\$	9.26	0
10.01 - \$13.49	40,000	3.70	\$	13.49	12,500
<b>Total</b>	<b>245,000</b>	<b>5.16</b>	<b>\$</b>	<b>7.58</b>	<b>117,251</b>

ISSUER DIRECT CORPORATION  
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As of June 30, 2015, the Company had unrecognized stock compensation related to stock options and restricted stock units of \$1,821,017, a portion of which is expected to be capitalized as software development costs in the future.

Note 5: Income Taxes

We recognized income tax benefits of \$8,973 and \$172,394 during the three and six-month periods ended June 30, 2015, respectively. We recognized income tax benefit (expense) of \$49,631 and (\$379) during the three and six-month periods ended June 30, 2014, respectively. The variation between the Company's estimated annual effective tax rate and the US Statutory rate of 34% is due primarily to state income taxes, non-deductible expenses related to stock compensation, foreign rate differentials, and non-cash interest.

During the six-month period ended June 30, 2015, the Company released a portion of its valuation allowance related to federal and state net operating losses, which resulted in a net benefit of \$210,370. The tax benefits from US net operating losses that were previously reserved were acquired as part of the acquisition of PrecisionIR (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. During the three-month period ended March 31, 2015, the Company performed a detailed analysis to determine its ability to utilize the tax benefits and determined that portions of the tax benefits could be used. Therefore, the Company released portions of the reserve related to tax years through 2015 based on current best estimates of profitability. The remaining reserve will be evaluated each quarter based on projections of future profitability as new services and initiatives are rolled out.

Note 6: Operations and Concentrations

For the three and six-month periods ended June 30, 2015 and 2014, we earned revenues (as a percentage of total revenues) in the following categories:

Revenue Streams	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Disclosure management	22.2%	24.1%	23.0%	25.6%
Shareholder communications	68.4%	67.3%	68.1%	66.1%
Platform & technology	9.4%	8.6%	8.9%	8.3%
Total	100.0%	100.0%	100.0%	100.0%

No customers accounted for more than 10% of the consolidated revenues during the three and six-month periods ended June 30, 2015 or 2014. We did not have any customers that comprised more than 10% of our total accounts receivable balances at June 30, 2015 or December 31, 2014.

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.

Note 7: Line of Credit

Effective June 24, 2015, the Company renewed its Line of Credit and removed the limitation of the borrowing base calculation, such that the amount of funds available for future borrowings increased to \$2,000,000. The interest rate remained at LIBOR plus 3.0%, and therefore was 3.19% at June 30, 2015. The Company did not owe any amounts on the Line of Credit at June 30, 2015.

Note 8: Note Payable – Related Party

On August 22, 2013, in connection with and to partially fund the acquisition and simultaneously with the Acquisition of PIR, the Company entered into a Securities Purchase Agreement (the “8% Note Purchase Agreement”) relating to the sale of \$2,500,000 aggregate principal amount of the Company’s 8% convertible secured promissory note (“8% Note”) with Red Oak Partners LP (“Red Oak”). The 8% Note pays interest on each of March 31, June 30, September 30 and December 31, beginning on September 30, 2013, at a rate of 8% per year. The 8% Note will mature on August 22, 2015. If an event of default occurs pursuant to the terms of the 8% Note, the interest rate immediately increases to 18%. The 8% Note is secured by all of the assets of the Company and is subordinated to the Company’s obligations to its primary financial institution. Furthermore, in connection with the 8% Note Purchase Agreement, a partner of Red Oak was appointed to the Company’s Board of Directors. On November 10, 2014, Red Oak assigned the 8% Note between the Red Oak Fund, LP; Pinnacle Opportunities, LP; and the Red Oak Long Fund, LP; all of which are under management by Red Oak.

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Beginning immediately upon the date of issuance, Red Oak or its assignees may convert the 8% Note into shares of the Company's common stock at a conversion price of \$3.99 per share. The conversion price will be adjusted for certain events, such as stock dividends and stock splits. On the date the Company entered into the 8% Note Purchase Agreement, the Company's stock price was \$8.20 per share, and therefore the Company assigned a value of \$2,500,000 to the common stock conversion feature and recorded this as debt discount and additional paid-in capital. This instrument also created a deferred tax liability of \$1,000,000 that reduced the value recorded as additional paid in capital, and therefore the net amount recorded to stockholders' equity was \$1,500,000. The debt discount of \$2,500,000 will be amortized over the two-year life of the loan as non-cash interest expense, unless the note is converted early, in which case the debt discount will be accelerated.

On November 12, 2014, Red Oak converted \$833,327 of principal and \$23,369 of accrued interest payable on the 8% Note into 214,710 shares of the Company's common stock at the conversion price of \$3.99. Following this transaction, the principal balance of the note was \$1,666,673. As a result of this transaction, the company recorded \$323,250 of non-cash interest expense due to the acceleration of debt discount on the portion of the 8% Note that was converted.

During the three and six-month periods ended June 30, 2015, the Company recorded non-cash interest expense of \$208,335 and \$416,670, respectively. During the three and six-month periods ended June 30, 2014, the Company recorded non-cash interest expense of \$312,500 and \$625,000, respectively. During the three and six-month periods ended June 30, 2015, the Company recorded cash interest expense of \$33,333 and \$66,667, respectively. During the three and six-month periods ended June 30, 2014, the Company recorded cash interest expense of \$50,000 and \$100,000, respectively.

Note 9: Geographical Information

We consider ourselves to be in a single reportable segment under the authoritative guidance for segment reporting, specifically a disclosure management and targeted communications company for publicly traded companies. Revenue is attributed to a particular geographic region based on where the services are performed. The following tables set forth revenues by domestic versus international regions:

Geographic Region	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
North America	\$ 2,564,841	\$ 2,860,789	\$ 5,038,155	\$ 5,605,995
Europe	541,548	777,480	1,112,016	1,526,630
Total	\$ 3,106,389	\$ 3,638,269	\$ 6,150,171	\$ 7,132,625

## 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).

Issuer Direct is a market leader and innovator of Disclosure Management Systems and Cloud-based Compliance Technologies. The Company’s core technology platform – the Disclosure Management System (DMS) – is a secure cloud-based workflow compliance and communications system for corporate issuers, funds, and compliance professionals.

We work with a diverse client base in the financial services industry, including brokerage firms, banks and mutual funds. We also sell products and services to corporate issuers, shareholders, investor relations officers, and professional firms such as investor relations, public relations, as well as to accountants and the legal community. Corporate issuers utilize our cloud-based core platform and related services for document creation all the way to dissemination to regulatory bodies, platforms and interested shareholders.

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

We report our product and services revenues in three revenue streams:

- Disclosure management,
- Shareholder communications and,
- Platforms and technology, formally software licensing.

We announce material financial information to our investors using our investor relations website, SEC filings, investor events, news and earnings releases, public conference calls and webcasts. We use these channels as well as social media to communicate with our investors and the public about our company, our products and services, and other issues. It is possible that the information we post on social media could be deemed to be material information. Therefore, we encourage investors, the media, and others interested in our company to review the information we post on the social media channels listed below. This list may be updated from time to time on our investor relations website:

[www.issuereirect.com/shareholder-services](http://www.issuereirect.com/shareholder-services)  
[www.facebook.com/issuereirectcorporation](http://www.facebook.com/issuereirectcorporation)  
[www.twitter.com/issuereirect](http://www.twitter.com/issuereirect)  
[www.linkedin.com/company/issuereirect-corporation](http://www.linkedin.com/company/issuereirect-corporation)  
[www.issuereirect.com/blog/](http://www.issuereirect.com/blog/)

The contents of the above websites are not intended to be incorporated by reference into this quarterly report on Form 10-Q or in any other report or document we file, and any reference to these websites are intended to be inactive textual references only.



## Disclosure management

Our core disclosure business consists of our traditional Edgarization, document management, typesetting and pre-press design services, XBRL tagging services, and the issuance of securities as it relates to our stock transfer business. These services represent our disclosure offerings that are regulated by the Securities and Exchange Commission.

We market our financial reporting solutions primarily to public companies and mutual funds that seek a workflow automation platform to prepare various regulatory filings. We developed our financial reporting engine to give customers complete control over the typical CRUD workflow process (Create, Retrieve, Update, Delete). The reporting process with EDGAR (Electronic Data Gathering, Analysis and Retrieval) and SEDAR (System for Electronic Document Analysis and Retrieval) can be complex and does require a trusted, secure platform to execute timely and accurately. With our platform, our customers can create, manage, self-file, and request specialist assistance on any form type, including Sections 16, SC-13's, correspondence, annual reports and quarterly reports in SEC EDGAR format.

A portion of our disclosure business also comes from strategic relationships, where we manage the back office functions for our partners' clients. Since we do not have the relationship with the end client, it is difficult to predict the growth from this business. We have seen some partner client attrition in the smaller cap space, due to significant pricing pressure. We expect that our reseller business will evolve beyond the core disclosure product offerings into our communications segment.

## Shareholder communications

Our shareholder communications business includes our press release distribution, investor outreach and engagement platform, webcast teleconference services, Whistleblower, investor hotline and our legacy proxy and printing services. Many of these services are marketed and bundled under multi-year agreements. Like our disclosure business, our communications offerings help make up our proprietary cloud-based platform. This platform has become a significant competitive advantage when competing in the corporate issuer marketplace.

## Press Release Distribution

Our press release platform, Accesswire, is a cost-effective FD (Fair Disclosure) news dissemination service. We acquired the business on October 29, 2014.

The Accesswire business focuses on press release distribution for both private and publicly held companies. We anticipate the press release business to be an area where we will gain the most clients for the remaining part of fiscal 2015, and as such, we will continue to brand our press release offerings under the name Accesswire, which we believe will solidify our market position in the newswire business.

## Investor Outreach and Engagement

Our Investor Outreach and Engagement offering was formally known as the Annual Report Service (ARS) from PrecisionIR. The ARS business has existed for 23 years primarily as a physical hard copy delivery of annual reports and prospectuses globally for tens of thousands of customers. As part of our integration with PrecisionIR during 2014, we updated these legacy systems and integrated them into our disclosure management platform. We intend to continue to operate a portion of this legacy system as well as migrate the install base over to our new outreach and engagement offering, which is digital delivery and not physical hard copy. We began marketing this as Investor Network during the quarter and expect this transition to continue throughout the year. Corporate information such as annual reports,

quarterly reports, fact sheets, tear sheets and investor presentations are being consumed much differently than they were 5 years ago. Over 60% percent of the consumers and investors read information on their mobile phones or tablets first, before their notebook or desktop computers as reported by Pew Research Center. The Investor Network platform and its set of mobile apps address this global shift.

The Investor Network is a cloud-based platform – clients are able to reach new audiences from Chartered Financial Analysts, Registered Investment Advisors, brokers, banks and family offices to currently available retail and institutional investors. From our cloud-based analytical platform, issuers and funds are able to search, engage and analyze these audiences from any connection in the world. We believe this shareholder engagement and surveillance landscape is being under served in the under one billion dollar market cap space globally.

### Webcasting – Teleconference

There are over 4,000 companies in North America conducting earnings events that include teleconference, webcast or both as part of their events. Our platform incorporates each element of the earnings event: earnings announcement, earnings press release, EDGAR Form 8-K filing and the webcast/teleconference. There are a handful of our competitors that can offer this today, however, we believe our integrated approach offers a more effective way to attract shareholders and prospective investors. Specifically, we believe our proprietary “Investor Calendar” product offering, same day transcription and auto-posting to an investor relations platform for compliance do not exist in one solution elsewhere in the market. Additionally, all webcasts and teleconferences are broadcast live on our Investor Network properties, which allow companies to reach a broader audience. This is a significant competitive advantage for us and has proven to be effective. As of the end of 2014, we manage the calls for almost 7% of the market.

At the end of fourth quarter 2014, we expanded our webcast teleconference offering to service the European market of United Kingdom, Sweden, and Germany. This aligns with the client base we are currently serving in Europe.

### Whistleblower

Our whistleblower offering is an approved NYSE partnered product. Over the last 18 months, the majority of the recent IPOs listed on NYSE are currently utilizing this exchange subsidized offering. We are focused on converting this initial subsidized Whistleblower service into a recurring revenue stream with these clients. We are also focused on integrating this cloud-based platform into our current exchange listed install base; this initiative should be completed during fiscal 2015. As one of the only global offerings to comply with both the US Sarbanes-Oxley and Public Interest Disclosure Act in the United Kingdom, this reporting and real-time complaint platform delivers a trusted and secure incident management system.

### Investor Hotline

One of the oldest and most trusted platforms in the financial services industry is our Investor Hotline platform, used by more fortune 500 companies than any other product or service we offer. Our clients license our platform to integrate into their corporate investor relations’ platform and or utilize our call center product by including their unique toll-free number into their proxy and annual meeting services.

### Proxy – Printing

Our proxy business is marketed under the brand iProxy Direct, which is a fully integrated, real-time voting platform for our corporate issuers and their shareholders of record. This Platform is utilized for every annual meeting and or special meeting we manage for our client base. The iProxy Direct system offers both full-set mailing and notice of internet availability options, which in some instances drive additional revenues for our print and print-on-demand businesses.

### Platform & Technology (previously called Software Licensing)

Revenue from these product offerings is generally tied to our core businesses of disclosure management and shareholder communications. Our integrated software platform is licensed by our customers and used to enable efficient, centralized management of the services outlined above. Specifically, when corporate issuers conduct an annual general meeting, purchase or upgrade their investor relations system, or conduct earnings calls during annual or quarterly periods, we generally license our technology platforms for each of these services. Although revenues from this business have been relatively small historically, we expect them to grow significantly over the next fiscal year as we begin to productize some of our shareholder communications and disclosure management system offerings. We

believe that the productizing of such offerings will increase our revenue in this area because the industry we serve has tended to manage the individual events of a company's disclosure and communications process in parallel. Historically, companies have used five or six different vendors to manage their earnings events for the various elements including EDGAR, press releases, IR platform updates, webcasting, etc. Our platform streamlines this process. The old process is costly and more importantly is very inefficient compared with our centralized integrated process. Our customers license our cloud-based platform and can manage all of the above mentioned tasks with a single interface.

We continue to believe there is a significant demand for better quality datasets and we continue to build these datasets to include professionals and target audiences for our clients to reach. We will license this platform to our clients as part of their outreach initiatives. These datasets include Chartered Financial Analysts, Registered Investment Advisors, family offices and banks and brokers. Additionally, we have also integrated as part of our press release distribution upgrade a full dataset of local, regional publishers, editors and media professionals throughout North America. We believe the development of these datasets is vital to growing our press release business.

On April 16, 2015, we entered into an asset purchase agreement in the amount of \$100,000, to acquire a cloud-based reporting platform from Xselus LLC. The entire amount of the purchase price is included as software development costs as discussed in Note 2 of the accompanying Notes to Consolidated Financial Statements. The technology acquired is designed around document management, conversion and dissemination to regulatory agencies. We intend to continue to develop and incorporate it into our existing DMS, which will enable us to offer an issuer controlled reporting platform in either our disclosure platform or in a private cloud environment. The Company intends to begin marketing its reporting platform during the third quarter of this fiscal year.

During the second half of 2015, we will continue to explore how we can further license portions of our dataset business and application programming interfaces (API's) to other providers and disseminators that are seeking unique content and or a competitive replacement in the market. We are committed to continuing to expand revenue from this business.

#### Our Technology Platform - Disclosure Management System (DMS)

Our DMS is a secure cloud-based business process reporting and automation solution that gives users the ability to disclose, manage, and communicate their respective messages from our enterprise cloud-based platform. Our unique disclosure process aims to create efficiencies not previously possible in areas of normal regulatory business functions of the public markets, where we can clearly improve processes, streamline complexities, while reducing expenditures, generally associated with reporting and disclosure.

Our DMS is the only secure workflow technology available today that allows officers, directors, compliance and investor/public relations' professionals the ability to manage the entire back-office functions of their respective companies from one interface.

The industry as a whole has chosen to focus their solutions and platforms on one single business process or in some cases are dependent on a complex ERP or accounting system integration, in hopes of providing a clear ROI over a long-term period. Unfortunately, this approach requires companies to invest deeply in enterprise wide systems, for the promise of efficiencies and cost savings. Our approach has been to focus on a collection of business processes that typically overlap service organizations that have either been cumbersome, costly or broken; then, integrate, streamline and improve the flow of information in a more transparent and accurate manner, putting the control back in the hands of our clients, the corporate issuer. The result is better controls, improved processes, efficient disclosure, increased communication and access to analytics.

Today, the platform that makes up our disclosure management system which is used by thousands of officers, directors and compliance and communication professionals, includes the following:

- Regulatory compliance (Edgar & XBRL)
- Real-time Financial Reviewers Guide
- Investor Relation Content Management (CMS - content management system)
- Webcasting teleconference
- News / earnings distribution
- Shareholder Outreach
- Investor Network
- Annual meeting planning and real-time proxy voting system
- Stock issuances, and shareholder reporting
- Whistleblower compliance
- Print on demand & digital document library

#### Our Brands & Subsidiaries

- Issuer Direct
- Investor Network
- Accesswire
- PrecisionIR Group, Inc., and its subsidiaries
- Direct Transfer (Wholly owned subsidiary – Direct Transfer, LLC.)
- QX Interactive (Wholly owned subsidiary – QX Interactive, LLC.)

Issuer Services  
iProxy Direct  
iR Direct  
Annual Report Service (ARS)  
Company Spotlight  
XBRL Check

## Results of Operations

Comparison of results of operations for the three and six-months ended June 30, 2015 and 2014

Revenue Streams	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
<b>Disclosure management</b>				
Revenue	\$ 690,212	\$ 877,182	\$ 1,413,412	\$ 1,825,066
Gross Margin	\$ 502,070	\$ 653,062	\$ 1,008,759	\$ 1,332,751
Gross Margin %	73%	74%	71%	73%
<b>Shareholder communications</b>				
Revenue	\$ 2,125,537	\$ 2,446,580	\$ 4,189,737	\$ 4,716,441
Gross Margin	\$ 1,465,352	\$ 1,645,626	\$ 2,878,385	\$ 3,245,355
Gross Margin %	69%	67%	69%	69%
<b>Platform &amp; technology</b>				
Revenue	\$ 290,640	\$ 314,507	\$ 547,022	\$ 591,118
Gross Margin	\$ 239,426	\$ 270,176	\$ 450,609	\$ 457,523
Gross Margin %	82%	86%	82%	77%
<b>Total</b>				
Revenue	\$ 3,106,389	\$ 3,638,269	\$ 6,150,171	\$ 7,132,625
Gross Margin	\$ 2,206,848	\$ 2,568,864	\$ 4,337,753	\$ 5,035,629
Gross Margin %	71%	71%	71%	71%

## Revenues

Total revenue decreased by \$531,880, or 15%, to \$3,106,389 during the three-month period ended June 30, 2015, as compared to \$3,638,269 during the same period of fiscal 2014. Total revenue decreased by \$982,454, or 14%, to \$6,150,171 during the six-month period ended June 30, 2015, as compared to \$7,132,625 during the same period of fiscal 2014. The overall decreases in revenue during the three and six-month periods ended June 30, 2015 as compared to the same periods of fiscal 2014 is attributable to all three revenue streams.

Disclosure management revenue decreased \$186,970, or 21%, and \$411,654, or 23% during the three and six-month periods ended June 30, 2015, respectively, as compared to the same periods of fiscal 2014. The decreases are attributable to several factors. Revenue from our Edgar business decreased \$15,978 during the three-month period ended June 30, 2015 and \$112,227 during the six-month period ended June 30, 2015, as we had more business from resellers and special projects, such as restatements, during the same periods of 2014 as compared to 2015. Revenue from our XBRL services decreased \$128,210 during the three-month period ended June 30, 2015 and \$170,169 during the six-month period ended June 30, 2015, as the company continued to experience pricing pressure on these services as the market becomes more mature. The transfer agent business decreased \$42,782 during the three-month period ended June 30, 2015 and \$129,258 during the six-month period ended June 30, 2015, as we had a greater numbers of corporate directives, and corporate actions in the same periods of 2014 as compared to 2015. The timing of these corporate directives and actions are difficult to predict as they are controlled by our clients and the conditions of the market, and therefore fluctuate from quarter to quarter.

Shareholder communication revenue decreased \$321,043, or 13% and \$526,704, or 11% during the three and six-month periods ended June 30, 2015, respectively, as compared to the same periods of fiscal 2014. The decrease in shareholder communication revenue is due to a decline in revenue associated with our ARS service offerings as issuers shift from hardcopy fulfillment of annual reports to digital fulfillment. As a result, certain customers have either downgraded their service or elected not to continue with the service. As we re-brand the existing ARS as Investor Network and integrate it with our DMS platform, those revenues associated with digital fulfillment that were historically reported as shareholder communications revenue associated with ARS will be recorded in platform & technology revenue as the delivery of shareholder materials shifts almost entirely to electronic delivery through our platform. We expect this to begin in the third quarter of 2015 as we begin to renew contracts and migrate customers to Investor Network. The decrease in shareholder communication revenue is also attributable to less proxy printing and distribution as compared to the same fiscal period in 2014 as more companies move to electronic dissemination of proxy materials. These decreases were partially offset by an increase in revenue related to our press release business, which increased \$263,868 and \$523,029, during the three and six-month periods ended June 30, 2015, respectively, compared to the same periods in fiscal 2014, primarily due to the acquisition of Accesswire.



Platform & technology revenues decreased by \$23,867, or 8% and \$44,096, or 7% during the three and six-month periods ended June 30, 2015, respectively, as compared to the same periods of fiscal 2014. The decreases are primarily due to a change in the delivery of our IRDirect platform to a subscription model and as a result, the revenue is deferred over the contract period as opposed to being recognized upon delivery. This caused the deferral of approximately \$45,000 of revenue which would have otherwise been recognized during the three and six-month periods ended June 30, 2015.

No customers accounted for more than 10% of the consolidated revenues during the three or six-month periods ended June 30, 2015 or 2014.

#### Revenue Backlog

At June 30, 2015, we have recorded deferred revenue of \$995,892 that we expect to recognize over the next twelve months. Deferred revenue primarily consists of advanced billings for annual ARS contracts and IR Direct platform subscriptions.

#### Cost of Revenues and Gross Margin

Cost of revenues consists primarily of direct labor costs, third party licensing, warehousing, logistics, print production materials, postage, and outside services directly related to the delivery of services to our customers. Cost of revenues decreased by \$169,864, or 16% during the three-month period ended June 30, 2015 as compared to the same period of fiscal 2014, consistent with the overall decrease in revenue. Cost of revenues decreased by \$284,578, or 14% during the six-month period ended June 30, 2015 as compared to the same period of fiscal 2014, consistent with the overall decrease in revenue. Overall gross margin remained consistent at 71% for both the three and six -month periods ended June 30, 2015, respectively, as compared to the same periods of fiscal 2014.

We achieved margins of 73% from our disclosure management services during the three-month period ended June 30, 2015 as compared to 74% in the same period of fiscal 2014. We achieved margins of 71% from our disclosure management services during the six-month period ended June 30, 2015 as compared to 73% in the same period of fiscal 2014. As previously discussed we continued to experience pricing pressure for our XBRL services and had less special projects and corporate directives which caused a slight decline in gross margin percentage. However, we anticipate that margins from our disclosure management services will still remain above 70% in the future.

Gross margins from our shareholder communications services increased to 69% in the three-month period ended June 30, 2015, as compared to 67% in the same period of fiscal 2014. For the six-month period ended June 30, 2015, gross margin remained at 69% compared to the same period of fiscal 2014. We anticipate margins in these services to increase as customers shift from hardcopy fulfillment of annual reports to electronic fulfillment.

Gross margins from platform and technology were 82% in the three-month period ended June 30, 2015, as compared to 86% in the same period of fiscal 2014. Gross margins from platform and technology were 82% in the six-month period ended June 30, 2015, as compared to 77% in the same period of fiscal 2014. During the second quarter of 2014, an agreement with a vendor was re-negotiated, which is the reason for the fluctuation in gross margin percentage during 2014 and the increase in gross margin percentage for the six-month period ended June 30, 2015 compared to the same period of 2014.

#### Operating Expenses

##### General and Administrative Expense

General and administrative expenses consist primarily of salaries, stock based compensation, insurance, fees for professional services, general corporate expenses and facility and equipment expenses. General and administrative expenses decreased \$4,651, or 1%, and \$333,211, or 16%, during the three and six-month periods ended June 30, 2015, respectively, as compared to the same period of fiscal 2014.

The decrease in general and administrative expenses during the three months ended June 30, 2015 as compared to the same period in fiscal 2014 is due to a decrease in personnel expenses of \$123,177, offset by an increase in consulting fees associated with the integration of our press release business with Accesswire, as well as the timing of professional fees associated with compliance and legal services.

The decrease during the six-month period ended June 30, 2015 as compared to the same period of fiscal 2014 was largely due to a decrease in personnel expenses of \$248,885. Additional decreases in general corporate expenses were realized as a result of streamlining costs associated with PrecisionIR offset by additional consulting fees associated with the integration of our press release business with Accesswire.

As a percentage of revenue, General and Administrative expenses were 29% for the three and six-month periods ended June 30, 2015, compared to 25% and 30% for the same periods of fiscal 2014, respectively.

### Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, stock based compensation, sales commissions, sales consultants, advertising expenses, and marketing expenses. Sales and marketing expenses for the three-month period ended June 30, 2015 decreased by \$260,854, or 29%, as compared to the same period of fiscal 2014. Sales and marketing expenses for the six-month period ended June 30, 2015 decreased by \$218,321, or 15%, as compared to the same period of fiscal 2014. These decreases are almost entirely attributable to a decrease in direct mail marketing activities in fiscal 2015 as compared to 2014 offset by an increase in personnel related expenses.

As a percentage of revenue, sales and marketing expense was 21% during the three-month period ended June 30, 2015, compared to 25% in the same period of fiscal 2014. As a percentage of revenue, sales and marketing expense was 20% during the six-month period ended June 30, 2015 and 2014.

### 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 our DMS platform. Product development costs increased \$2,845, or 3%, and \$23,566, or 14%, during the three and six-month periods ended June 30, 2015 compared to the same periods of fiscal 2014. The increase during the six-month period ended June 30, 2015 compared to the same period of the prior fiscal year is primarily due to an increase in stock compensation and bonuses.

### Depreciation and Amortization

Depreciation and amortization expenses during the three and six-month periods ended June 30, 2015 decreased by \$17,368 and \$30,893, respectively, as compared to the same period of fiscal 2014. The decrease is due to a decrease in depreciation expense, primarily associated with computer equipment acquired in the PIR acquisition, which has been fully depreciated, offset by an increase in amortization expense associated with the Accesswire acquisition in the fourth quarter of 2014.

### Interest Income and Expense, Net

Net interest expense during the three and six-month periods ended June 30, 2015 decreased \$119,651 and \$236,856, respectively, as compared to the same periods of 2014. During the three and six-month periods ended June 30, 2015, the Company recorded non-cash interest expense of \$208,335 and \$416,670, respectively, and cash interest expense of \$33,333 and \$66,667, respectively, related to the 8% Note. During the three and six-month periods ended June 30, 2014, the Company recorded non-cash interest expense of \$312,500 and \$625,000, respectively, and cash interest expense of \$50,000 and \$100,000, respectively, related to the 8% Note. The decrease is due to the conversion of \$833,327 of principal and \$23,369 of accrued interest payable on the 8% Note into 214,710 shares of the Company's common stock at the conversion price of \$3.99 on November 12, 2014. Interest expense is expected to decrease in future periods as the 8% Note matures on August 22, 2015, and there will be no further cash or non-cash interest charges associated with the 8% Note.

### Income tax benefit (expense)

We recognized income tax benefit of \$8,973 and \$172,394 during the three and six-month periods ended June 30, 2015, respectively. We recognized income tax benefit (expense) of \$49,631 and (\$379) during the three and six-month periods ended June 30, 2014. The variation between the Company's estimated annual effective tax rate and the US Statutory rate of 34% is due primarily to state income taxes, non-deductible expenses related to stock compensation, foreign rate differentials, and non-cash interest.

The tax benefit during the three-month period ended June 30, 2015 is due to foreign income taxed at a lower rate and a benefit associated with disqualifying dispositions related to employee stock options. During the six-month period ended June 30, 2015, the Company released a portion of its valuation allowance related to federal and state net operating losses, which resulted in a net benefit of \$210,370. The tax benefits from US net operating losses that were previously reserved 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. During the three-month period ended March 31, 2015, the Company performed a detailed analysis to determine its ability to utilize the tax benefits and determined that portions of the tax benefits could be used. Therefore, the Company released portions of the reserve related to tax years through 2015 based on current best estimates of profitability. The remaining reserve will be evaluated each quarter based on projections of future profitability as new services and initiatives are rolled out.

## Net Income/Loss

Net income for the three-month period ended June 30, 2015 was \$65,028 compared to \$68,023 in the same period of fiscal 2014. Net income for the six-month period ended June 30, 2015 was \$301,693 compared to \$31,081 in the same period of fiscal 2014.

Although revenues were lower with sustained gross margins during the three-month period ended June 30, 2015 as compared to the same period of 2014 as previously discussed, net income remained essentially unchanged due to lower operating expenses and lower interest expense as a result of the conversion of the 8% Note. In addition to the aforementioned reasons, net income for the first six months of 2015 increased due to the income tax benefit resulting from the release of a valuation allowance on certain net operating losses during the first half of 2015.

## Liquidity and Capital Resources

As of June 30, 2015, we had \$3,449,020 in cash and cash equivalents and \$1,562,072 in net accounts receivable. Current liabilities at June 30, 2015, totaled \$4,202,393 including our accounts payable, deferred revenue, accrued payroll liabilities, accrued postage, income taxes payable, other accrued expenses and our note payable. At June 30, 2015, our current assets exceeded our current liabilities by \$1,315,587.

On August 22, 2013, in connection with and to partially fund the acquisition and simultaneously with the acquisition of PIR, we entered into a Securities Purchase Agreement (the "8% Note Purchase Agreement") relating to the sale of \$2,500,000 aggregate principal amount of our 8% convertible secured promissory note ("8% Note") with Red Oak Partners LP ("Red Oak"). The 8% Note began paying quarterly interest payments on September 30, 2013. The 8% Note will mature on August 22, 2015. If an event of default occurs pursuant to the terms of the 8% Note, the interest rate immediately increases to 18%. The 8% Note is secured by all of our assets and is subordinated to our obligations to our primary financial institution. Beginning immediately upon the date of issuance, Red Oak or its assigns may convert the 8% Note into shares of our common stock at a conversion price of \$3.99 per share. The conversion price will be adjusted for certain events, such as stock dividends and stock splits. On November 12, 2014, Red Oak converted \$833,327 of principal and \$23,369 of accrued interest payable on the 8% Note into 214,710 shares of our common stock at the conversion price of \$3.99. As of June 30, 2015, the outstanding principal balance was \$1,666,673, which may be converted into 417,712 additional shares of common stock. If the current balance of the note of \$1,666,673 matures on August 22, 2015 and is not converted to equity, we believe we will have the liquidity from our cash on hand and our available line of credit to pay off the remaining balance in accordance with its terms.

Effective June 24, 2015, the Company renewed its Line of Credit and removed the limitation of the borrowing base calculation, such that the amount of funds available for future borrowings increased to \$2,000,000. The Company did not owe any amounts on the Line of Credit at June 30, 2015.

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

## 2015 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.

Although we will continue to focus on increasing our client base over prior quarters as well as increase our internal sales effort, the Company will continue to face challenges in the second half of the year as customers transition from traditional printed products to electronic dissemination of corporate information. Additionally, we will continue to face pricing pressure in our Edgar and XBRL revenue streams. Further, we expect that over the next several quarters we will generate additional revenue from the acquisition of Accesswire. We also expect to continue to control cost as we did in fiscal 2014 and the first half of 2015, and expect to continue our history of achieving positive cash flows from operations.

We have spent and will continue to spend a considerable amount of time focused on our product sets, platforms and intellectual property development through 2015. 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. By being successful in this development effort, we can achieve increases in revenues per user as we move throughout fiscal 2015 and beyond.

This strategy is the same as it has been over the past several years. We have always strived to maintain a competitive advantage by integrating, refining and delivering solutions to the corporate issuer marketplace in an offering no other provider could match. The market has begun to catch up and or has met our levels of being disruptive. Therefore, the next phase of our strategy is extremely important to bring to market as successfully as we have done in the past. It is our belief that because of our technology development focus, we will be successful in expanding the number of services per client, as well as the continued success in acquiring new clients through organic growth.

In North America we will continue to execute on our initiatives of market expansion while maintaining our overall margins from all of our revenue streams.

In Europe, we are focused on expanding new opportunities with the stock exchanges as well as the leading brokerage firms. We believe that our business will allow us to explore new markets for our core disclosure business. Prior to the acquisition of PrecisionIR, we had no presence in Europe. It is our belief that in the upcoming years that our infrastructure, partnerships and clients in the PrecisionIR business will enable us to bring our core Issuer Direct offerings to new markets, specifically our shareholder communications market data-cloud products and our disclosure reporting business. However, this is a new market for us and there can be no assurances we will be successful in this endeavor. Such factors as the deep learning curve of regulatory markets, reporting and disclosure requirements could impact this initiative if we are not adequately prepared.

Overall, the demand for corporate services continues to be stable in the segments we serve. In a portion of our business, we will continue to see demand shift from traditional printed materials to more digital delivery with a hybrid print-on-demand solution. We are positioned well in this space to be both competitive and agile to deliver these solutions to the market at the same or higher gross margins, however as we have seen over the last several quarters, the transition to digital delivery has a negative effect on our revenue and we expect this trend to continue over the next several quarters.

We expect to continue to focus on the following key strategic initiatives during 2015:

- Expansion of our Sales and Marketing teams,
- Significant technology development and advancements
- Profitable sustainable growth,
- Generate significant cash flows from operations,
- Increase average revenue per user,
- Expand customer base,
- Grow our newswire business following the acquisition of Accesswire, and,
- Integrate and market our newly acquired Cloud-based Disclosure platform.

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

#### Off-Balance Sheet Arrangements

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

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

Not applicable

ITEM 4. CONTROLS AND PROCEDURES.

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

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### 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. During the second quarter of 2015, our CFO, Wesley Pollard resigned from his position and director of the Company. Steven Knerr, the current Global Controller replaced him as interim-CFO.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

From time to time the Company may be subject to litigation from third parties. However, the Company is neither the plaintiff nor defendant in any actions at the time of this filing.

### ITEM 1A. RISK FACTORS.

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; however, there could be an increase in the number of issuers as a result of this new Regulation, thus creating opportunity.

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 filings 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 these new rules and standards, we expect there to be a decline in the number of filings made by our existing client 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.

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

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

### ITEM 4. MINE SAFETY DISCLOSURE.

Not applicable.

### ITEM 5. OTHER INFORMATION.

None.



## ITEM 6. EXHIBITS.

## (a) Exhibits.

Exhibit Number	Description
<u>31.1</u>	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<u>31.2</u>	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<u>32.1</u>	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
<u>32.2</u>	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema Document.**
101.CAL	XBRL Taxonomy Calculation Linkbase Document.**
101.LAB	XBRL Taxonomy Label Linkbase Document.**
101.PRE	XBRL Taxonomy Presentation Linkbase Document.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. **

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\* filed or furnished herewith

\*\* submitted electronically 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: August 6, 2015

ISSUER DIRECT CORPORATION

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

By: /s/ Steven Knerr  
Steven Knerr  
Interim-Chief Financial Officer