

ISSUER DIRECT CORP
Form 10-Q
August 03, 2017

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, 2017

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 (Commission (I.R.S. Employer
of Incorporation) File Number) 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | |
|-------------------------|---|---------------------------|
| Large accelerated filer | | Accelerated filer |
| Non-accelerated filer | (Do not check if a smaller reporting company) | Smaller reporting company |
| | | Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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. 2,954,092 shares of common stock were issued and outstanding as of August 3, 2017.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ISSUER DIRECT CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

| | June 30, 2017 | December 31, 2016 |
|--|------------------|-------------------------|
| ASSETS | | |
| | (unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$6,125 | \$5,339 |
| Accounts receivable (net of allowance for doubtful accounts of \$432 and \$429, respectively) | 1,334 | 1,300 |
| Other current assets | 358 | 189 |
| Total current assets | 7,817 | 6,828 |
| Capitalized software (net of accumulated amortization of \$353 and \$207, respectively) | 2,582 | 2,048 |
| Fixed assets (net of accumulated amortization of \$355 and \$318, respectively) | 173 | 204 |
| Deferred income tax asset | 137 | 141 |
| Other long-term assets | 20 | 18 |
| Goodwill | 2,242 | 2,242 |
| Intangible assets (net of accumulated amortization of \$3,490 and \$3,324, respectively) | 1,214 | 1,380 |
| Total assets | \$14,185 | \$12,861 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$643 | \$344 |
| Accrued expenses | 601 | 806 |
| Income taxes payable | 84 | 112 |
| Deferred revenue | 1,040 | 843 |
| Total current liabilities | 2,368 | 2,105 |
| Deferred income tax liability | 54 | 66 |
| Other long-term liabilities | 95 | 112 |
| Total liabilities | 2,517 | 2,283 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value, 1,000,000 and 30,000,000 shares authorized, no shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively. | - | - |
| Common stock \$0.001 par value, 20,000,000 and 100,000,000 shares authorized, 2,954,092 and 2,860,944 shares issued and outstanding as of June 30, 2017 and December 31, 2016, | 3 | 3 |

respectively.

| | | |
|--|----------|----------|
| Additional paid-in capital | 9,650 | 9,120 |
| Other accumulated comprehensive loss | (2) | (36) |
| Retained earnings | 2,017 | 1,491 |
| Total stockholders' equity | 11,668 | 10,578 |
| Total liabilities and stockholders' equity | \$14,185 | \$12,861 |

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

ISSUER DIRECT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands, except per share amounts)

| | For the Three Months Ended | | For the Six Months Ended | |
|--|-------------------------------|----------|-----------------------------|----------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | \$3,443 | \$3,134 | \$6,298 | \$6,411 |
| Cost of revenues | 909 | 824 | 1,655 | 1,594 |
| Gross profit | 2,534 | 2,310 | 4,643 | 4,817 |
| Operating costs and expenses: | | | | |
| General and administrative | 855 | 800 | 1,767 | 1,642 |
| Sales and marketing expenses | 714 | 672 | 1,307 | 1,296 |
| Product development | 129 | 90 | 254 | 159 |
| Depreciation and amortization | 103 | 282 | 208 | 564 |
| Total operating costs and expenses | 1,801 | 1,844 | 3,536 | 3,661 |
| Operating income | 733 | 466 | 1,107 | 1,156 |
| Other income (expense) | (16) | 83 | (26) | 84 |
| Income before taxes | 717 | 549 | 1,081 | 1,240 |
| Income tax expense | 224 | 192 | 264 | 390 |
| Net income | \$493 | \$357 | \$817 | \$850 |
| Income per share – basic | \$0.17 | \$0.13 | \$0.28 | \$0.30 |
| Income per share – fully diluted | \$0.16 | \$0.12 | \$0.27 | \$0.29 |
| Weighted average number of common shares outstanding – basic | 2,940 | 2,795 | 2,920 | 2,792 |
| Weighted average number of common shares outstanding – fully diluted | 3,021 | 2,918 | 3,002 | 2,888 |

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

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|-------------------------------|----------|-----------------------------|----------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2017 | 2016 | 2017 | 2016 |
| Net income | \$493 | \$357 | \$817 | \$850 |
| Foreign currency translation adjustment | 27 | 2 | 34 | 13 |
| Comprehensive income | \$520 | \$359 | \$851 | \$863 |

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

ISSUER DIRECT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

| | For the Six Months Ended | |
|---|-----------------------------|------------------|
| | June 30, 2017 | June 30, 2016 |
| Cash flows from operating activities: | | |
| Net income | \$817 | \$850 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 350 | 637 |
| Bad debt expense | 87 | 88 |
| Deferred income taxes | (5) | 75 |
| Stock-based compensation expense | 260 | 337 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | (116) | (133) |
| Decrease (increase) in deposits and prepaid assets | (171) | (151) |
| Increase (decrease) in accounts payable | 293 | (80) |
| Increase (decrease) in accrued expenses | (255) | (343) |
| Increase (decrease) in deferred revenue | 197 | 206 |
| Net cash provided by operating activities | 1,457 | 1,486 |
| Cash flows from investing activities: | | |
| Capitalized software | (624) | (518) |
| Purchase of fixed assets | (6) | (45) |
| Net cash used in investing activities | (630) | (563) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options, net of income taxes | 214 | 32 |
| Payment of dividend | (291) | (167) |
| Net cash used in financing activities | (77) | (135) |
| Net change in cash | 750 | 788 |
| Cash – beginning | 5,339 | 4,215 |
| Currency translation adjustment | 36 | (13) |
| Cash – ending | \$6,125 | \$4,990 |
| Supplemental disclosures: | | |
| Cash paid for income taxes | \$437 | \$263 |

Non-cash activities:

| | | |
|---|------|-------|
| Stock-based compensation - capitalized software | \$56 | \$268 |
|---|------|-------|

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

ISSUER DIRECT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation

The unaudited interim consolidated balance sheet as of June 30, 2017 and statements of operations, comprehensive income, and cash flows for the three and six-month periods ended June 30, 2017 and 2016 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 ("US GAAP") 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 the 2016 audited financial statements of Issuer Direct Corporation (the "Company", "We", or "Our") filed on Form 10-K and Form 10-K/A.

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 earnings per share in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 49,500 and 201,250 were excluded in the computation of diluted earnings per common share during the three-month period ended June 30, 2017 and 2016, respectively, because their impact was anti-dilutive. Shares issuable upon the exercise of stock options and restricted stock units totaling 55,167 and 201,250 were excluded in the computation of diluted earnings per common share during the six-month period ended June 30, 2017 and 2016, respectively, because their impact was anti-dilutive.

Revenue Recognition

We recognize revenue in accordance with US GAAP, including SEC Staff Accounting Bulletin No. 104, "Revenue Recognition," which requires that: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. We recognize revenue when services are rendered and/or delivered and where collectability is probable. Deferred revenue primarily consists of advance billings for licenses of our cloud-based platforms and annual contracts for our legacy annual report service.

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.

Use of Estimates

The preparation of financial statements in conformity with US 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 capitalized software, goodwill, intangible assets, deferred tax assets, and stock-based compensation. Actual results could differ from those estimates.

Income Taxes

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

Capitalized Software

In accordance with FASB ASC No. 350 – Intangibles – Goodwill and Other, costs incurred to develop our cloud-based platform products and disclosure management system components are capitalized when the preliminary project phase is complete, management commits to fund the project and it is probable the project will be completed and used for its intended purposes. Once the software is substantially complete and ready for its intended use, the software is amortized over its estimated useful life. A majority of the amortization expense is recorded in cost of revenues on the Consolidated Statements of Operations, however, amortization related to back-office supporting systems is included in depreciation and amortization. Costs related to design or maintenance of the software are expensed as incurred. Capitalized costs and amortization for the three and six-month periods ended June 30, 2017 and 2016, are as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------|------------------|----------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2017 | 2016 | 2017 | 2016 |
| Capitalized software development costs | \$314 | \$260 | \$680 | \$786 |
| Capitalized costs related to stock-based compensation | (20) | 88 | 56 | 268 |
| Amortization included in cost of revenues | 82 | 48 | 141 | 74 |
| Amortization included in depreciation and amortization | 2 | 3 | 5 | 6 |

Fair Value Measurements

As of June 30, 2017 and December 31, 2016, we do not have any financial assets or liabilities that are required to be, or that we elected to measure, at fair value. We believe that the fair value of our financial instruments, which consist of cash and cash equivalents, accounts receivable, and accounts payable approximate their carrying amounts.

Translation of Foreign Financial Statements

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

Business Combinations, Goodwill and Intangible Assets

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

Comprehensive Income

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

Advertising

The Company expenses advertising costs 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 associated cost is recognized over the period during which an employee is required to provide service in exchange for the award.

Newly Adopted Pronouncements

The FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for share-based payment award transactions including (a) income tax consequences; (b) classification of awards as either debt or equity liabilities; and (c) classification on the statement of cash flows. The amendments are effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company has adopted this ASU as of January 1, 2017. The primary amendment impacting the Company's financial statements is the requirement for excess tax benefits or shortfalls on the exercise of stock-based compensation awards to be presented in income tax expense in the Consolidated Statements of Operations during the period the award is exercised as opposed to being recorded in Additional paid-in capital on the Consolidated Balance Sheets. The excess tax benefit or shortfall is calculated as the difference between the fair value of the award on the date of exercise and the fair value of the award used to measure the expense to be recognized over the service period. Changes are required to be applied prospectively to all excess tax benefits and deficiencies resulting from the exercise of awards after the date of adoption. The ASU requires a "modified retrospective" approach application for excess tax benefits that were not previously recognized in situations where the tax deduction did not reduce current taxes payable. For the three and six-month periods ended June 30, 2017, the Company recorded an income tax benefit of \$45,000 and \$122,000 related to the excess tax benefit of exercised awards during the period, that would have been recorded in Additional paid-in capital during prior years. As the end result is dependent on the future value of the Company's stock as well as the timing of employee exercises, the amount of future impact cannot be quantified at this time.

Recent Accounting Pronouncements

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

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

The FASB has issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and several updates to the ASU. 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 as well as the additional updates, however, does not believe it will have a significant impact on the Company's financial statements as the Company believes the current manner in which revenue is recognized will result in the same or similar timing and amount of revenue recognition as required by ASU 2014-09 and the additional amendments. These ASU's are currently effective for the Company in our year beginning on January 1, 2018.

Note 3: Stock Options and Restricted Stock Units

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. On June 10, 2016, the shareholders of the Company approved an additional 200,000 awards to be issued under the 2014 Plan, bringing the total number of shares to be awarded to 400,000. 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, 2017, 258,000 awards had been granted under the 2014 Plan.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2017:

| Exercise Price Range | Options Outstanding | | | Options Exercisable | |
|----------------------|---------------------|--|---------------------------------|---------------------|--|
| | Number | Weighted Average Remaining Contractual Life (in Years) | Weighted Average Exercise Price | Number | |
| \$0.01 - \$1.00 | 7,850 | 4.55 | \$0.01 | 7,850 | |
| \$1.01 - \$7.00 | 10,000 | 8.39 | \$6.80 | 4,167 | |
| \$7.01 - \$8.00 | 62,188 | 3.04 | \$7.76 | 57,189 | |
| \$8.01 - \$10.00 | 5,667 | 7.49 | \$9.26 | 4,167 | |
| \$10.01 - \$13.49 | 40,000 | 1.69 | \$13.49 | 32,500 | |
| Total | 125,705 | 3.33 | \$9.09 | 105,873 | |

As of June 30, 2017, the Company had unrecognized stock compensation related to the options of \$145,000, which will be recognized through 2019.

On January 24, 2017, the Company granted 9,500 restricted stock units with an intrinsic value of \$8.85 to certain employees of the Company. The restricted stock units vest one-third annually over three years. For the three and six-month periods ended June 30, 2017, 5,000 and 43,170 restricted stock units with an intrinsic value of \$8.48 and \$6.16 vested, respectively. As of June 30, 2017, there was \$284,000 of unrecognized compensation cost related to our unvested restricted stock units, which will be recognized through 2020.

Note 4: Income taxes

We recognized income tax expense of \$224,000 and \$264,000 for the three and six-month periods ended June 30, 2017, respectively, compared to income tax expense of \$192,000 and \$390,000 during the same periods of 2016. 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 year-to-date period, and then adjusted for any discrete period items. For the three and six-month periods ended June 30, 2017, the variance between the Company's effective tax rate and the U.S. statutory rate of 34% is primarily attributable to the excess stock-based compensation tax benefit of \$45,000 and \$122,000, respectively, recognized in income tax expense during the period, in connection with the Company's adoption of ASU 2016-09, as well as, foreign statutory tax rate differentials and tax credits.

During the six-month period ended June 30, 2016, the Company released \$78,000 of its valuation allowance related to federal and state net operating losses, which resulted in a net benefit of \$59,000. No valuation allowance was released during the three-month period ended June 30, 2016. 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. The remaining valuation allowance on the federal and state net operating losses related to PIR was released during the fourth quarter of 2016, as such no valuation allowance remains on those federal and state net operating losses as June 30, 2017, which is consistent with projections of future taxable domestic income.

Note 5: Operations and Concentrations

For the three and six-month periods ended June 30, 2017 and 2016, we earned revenues (as a percentage of total revenues) in the following categories:

| | Three months ended | | Six months ended | |
|-------------------------|--------------------|---------|------------------|---------|
| | June 30, | | June 30, | |
| Revenue Streams | 2017 | 2016 | 2017 | 2016 |
| Platform and Technology | 49.50% | 35.96% | 49.50% | 32.32% |
| Services | 50.50% | 64.04% | 50.50% | 67.68% |
| Total | 100.00% | 100.00% | 100.00% | 100.00% |

No customers accounted for more than 10% of the operating revenues during the three and six-month periods ended June 30, 2017 or 2016. We did not have any customers that comprised more than 10% of our total accounts receivable balance at June 30, 2017 or December 31, 2016.

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

Note 6: Line of Credit

Effective September 2, 2016, the Company renewed its Line of Credit, which reduced the interest rate to LIBOR plus 2.50% from LIBOR plus 3.00%. The amount of funds available for future borrowings remained at \$2,000,000. As of June 30, 2017, the interest rate was 3.72% and the Company did not owe any amounts on the Line of Credit.

Note 7: Geographical Information

We consider ourselves to be in a single reportable segment under the authoritative guidance for segment reporting, specifically a shareholder communications and compliance 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 and international regions (in thousands):

| | Three months ended | | Six months ended | |
|--|--------------------|------|------------------|------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |

Geographic region

| | | | | |
|----------------|---------|---------|---------|---------|
| North America | \$3,127 | \$2,713 | \$5,666 | \$5,548 |
| Europe | 316 | 421 | 632 | 863 |
| Total revenues | \$3,443 | \$3,134 | \$6,298 | \$6,411 |

Note 8: Authorized Shares

On March 21, 2017, the Company filed a Certificate of Amendment to its Certificate of Incorporation reducing the number of authorized shares of preferred stock from 30,000,000 to 1,000,000 shares and the number of common stock from 100,000,000 to 20,000,000 shares.

Note 9: Subsequent Events

On July 7, 2017, the Company's Board of Directors approved and declared a quarterly cash dividend of \$0.05 per share. The dividend is payable on August 11, 2017, to stockholders of record as of the close of business on July 24, 2017.

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 Form10-Q. This Form10-Q contains forward-looking statements that involve risks and uncertainties. The statements contained in this Form10-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 Form10-Q, or in the documents incorporated by reference into this Form10-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 Form10-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 Form10-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 Form10-K for the year ended December 31, 2016, 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 subsidiaries are hereinafter collectively referred to as "Issuer Direct", the "Company", "We" or "Our" unless otherwise noted). We are a Delaware corporation formed in October 1988 under the name Docucon Incorporated. In December 2007, we changed our name to Issuer Direct Corporation. Our corporate offices are located at 500 Perimeter Park Drive, Suite D, Morrisville, North Carolina, 27560.

Issuer Direct is an industry-leading communications and compliance company focusing on the needs of corporate issuers. Issuer Direct's principal platform, Platform id.™, empowers users by thoughtfully integrating the most relevant tools, technologies and services, thus eliminating the complexity associated with producing and distributing financial and business communications.

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, professional firms, such as investor relations and public relations, and the accounting and the legal communities. Corporate issuers and their constituents utilize our cloud-based platforms and related services from document creation all the way to dissemination to regulatory bodies, platforms and shareholders.

In the past, we have reported our revenues in three different streams: disclosure management, shareholder communications and platform and technology. To more accurately reflect our business and our focus on our platform first engagement strategy, we have consolidated our reporting into the two revenue streams: (i) Platform and Technology and (ii) Services. For presentation purposes, all revenues for the three and six-month periods ended June 30, 2016, have been reclassified to accurately illustrate year over year comparisons.

We announce material financial information to our investors using our investor relations website, Securities and Exchange Commission ("SEC") filings, investor events, news and earnings releases, public conference calls, webcasts and social media. We use these channels to communicate with our investors and the public about our company, our products and services and other issues. It is possible that information we post on some of these channels 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 to all of our channels, including our social media accounts.

Platform and Technology

As the Company continues its transition to a cloud-based subscription business, we expect the Platform and Technology portion of our business to continue to expand over the next several years and become the majority of the company's revenues. Leading this transition are the technology offerings from our ACCESSWIRE news business and our core historical tools for disclosure management and shareholder communications.

Additionally, our product road map includes planned advancements in both our current Platform id. offering as well as additional offerings in which we see long term opportunity. These advancements will leverage our current application technology framework and give us an opportunity to further expand our customer and user base.

Platform id.

Platform id. is a cloud-based subscription platform that efficiently and effectively manages the events of a company that seeks to distribute its messaging to key constituents, investors, markets and regulatory systems around the globe. Currently, Platform id. consists of nine related but distinct shareholder communications and disclosure reporting modules. Part of these capabilities were historically part of our disclosure management and shareholder communications offerings, but are now included into our fully integrated platform.

Within most of our target markets, customers require several individual services or software providers to meet their investor relations, communications and compliance needs. We believe Platform id. breaks down those barriers and combines all those needs into a single sign-on platform — one that offers a company control, increases efficiencies, demonstrates a clear ROI and, most importantly, delivers consistent and compliant messaging from one centralized platform.

While the complete platform is available for a single subscription fee, companies also have the flexibility to choose one or more of the specific modules that fit their needs based on the stage of the company's development. Set forth below are the nine modules currently included in Platform id.:

ACCESSWIRE™

Our press release platform is a cost-effective FD (Fair Disclosure) news dissemination and media outreach service. The ACCESSWIRE business focuses on press release distribution for both private and publicly held companies globally. ACCESSWIRE is fast becoming a competitive alternative to the traditional, major newswires because we have been able to expand upon our distribution with key partners, increase our analytics reporting and maintain the simple flat rate licensing and per release options. As a result, we anticipate we will continue to add new clients throughout 2017 and beyond. 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.

ACCESSWIRE is dependent upon several key partners for news distribution, some of which are also partners that we rely on for other investor outreach offerings. A disruption in any of these partnerships could have a materially adverse impact on our business.

Classify™

Classify is our buy-side, sell-side and media targeting database and intelligence analytics platform that customers can add on to their Platform id. subscription. This subscription-based platform is centered around both our shareholder communications and news distribution offerings. We hope the Classify analytics and peer review application will become the focal point for our Platform id. dashboard, as customers become increasingly interested in peer performance and real-time alerts to vital data points throughout the day. To ensure the adoption of this subscription feature, we have begun providing select clients with this dashboard on a trial basis and intend to broaden this offering to all customers this fiscal year.

We believe our data-set will be an attractive option for both investor relations and public relations firms and for customers looking for an alternative to current products in the market, based on price and flexibility, as well as data quality and quantity. Further to our strategy, the Classify dataset will be fully integrated into our ACCESSWIRE offering this year as a way to expand distribution via highly focused targeted lists of professionals from our dataset. We expect this to further drive revenues per release as well as subscriptions over the year.

Investor Network™

Over the past year, we have been focused on refining the model of digital distribution of our customer's message to the investment community. This has been accomplished by integrating Investor Networks analytics into and with our Classify dashboard. Most of the customers subscribing to this platform today, are historical Precision IR ("PIR") – Annual Report Service ("ARS") users. We have migrated many of those customers from the traditional ARS business into this new digital subscription business. However, there can be no assurances these customers will continue using this digital platform in the long term if market conditions for shareholder interest is not present.

Earnings Events

There are over 5,000 companies in North America conducting earnings events each quarter that include teleconference, webcast or both as part of their events. Along with webcasting and teleconference, our platform incorporates each element of the earnings event including earnings announcement, earnings press release and SEC Form 8-K filings. There are a handful of our competitors that can offer this today. However, we believe our real-time event setup and integrated approach offers a more effective way to manage the process as well as attract an audience of investors.

In the teleconference and webcasting space, we invested time, in the latter part of 2016, developing and integrating systems and processes with our platform and partners. The earnings event business is a highly competitive space with the majority of the business being driven from practitioners in the investor and communications firms. Toward the end of 2016, we created an application protocol interface (“API”) for the webcast marketplace, and will begin partnering with publishers and other platforms to license our datasets, which we believe will further increase our brand awareness. This API license will allow publishers to query single or multiple companies' current and past earnings calls and present those webcasts on their platforms. Additionally, as a commitment to broadening the reach of our webcast platform, all events will be broadcast live on our Investor Network platform, which will drive new audiences and give companies the ability to view their analytics and engagement of each event. We believe these competitive advantages will increase the demand for our webcasting platform among the corporate issuer community.

Investor Relations (“IR”) Websites & Data Feeds

Inside of Platform id. is our investor relations content network, which is used to create the IR tab of a public company's website. This investor relations content network is a robust market data cloud of news, stock, fundamentals, regulatory filings, corporate governance, hotlines and many other components that are aggregated from a majority of the major exchanges and news distribution outlets around the world. These data feeds are licensed individually and as a complete platform to pre-IPO reporting companies and partners seeking to display our content on their platforms. The clear benefits to our IR platform is its integration into and with the entire cloud-based system, meaning companies can produce content for public distribution and it is automatically linked to their corporate site, distributed to targeted groups and placed into and with our data feed partners.

Whistleblower Hotline

Our whistleblower platform is an add-on product within Platform id. This system delivers secure notifications and basic incident workflow management processes that align with a company's corporate governance whistleblower policy. As a supported and subsidy bundle product of the New York Stock Exchange (“NYSE”) offerings, it is our hope we will gain relationship with new IPO clients and other larger cap clients listed on the NYSE.

Blueprint™

Blueprint is our cloud-based document conversion, editing and filing platform. Blueprint is designed for reporting companies and professionals seeking to insource the document drafting, editing and filing processes to the SEC and SEDAR (System for Electronic Document Analysis and Retrieval), which is the Canadian equivalent of EDGAR. Blueprint is available in both a secure public cloud within our Platform id. subscription, as well as in a private cloud for corporations, mutual funds and the legal community looking to further enhance their internal document process. Our belief is that once Blueprint is fully developed and marketed, we will see a negative impact on our legacy disclosure conversion services business in the future. However, the margins associated with our subscription business compared to our services business are higher and align with our long-term strategy, and as such, we hope Blueprint will have a positive impact on our net income in the future.

Stock Transfer

A valued subscription in our Platform id. ecosystem is the ability for our customers to gain access to real-time information of their shareholders, stock ledgers, reports, and issue new shares from our cloud-based platform. Managing the capitalization table of a public company or pre-IPO company is the cornerstone of corporate governance and transparency, and as such companies, bond offerings, and community banks have chosen our transfer agent subsidiary, Direct Transfer, LLC, to assist with their stock transfer needs. This is an industry which has experienced declining revenues as it was affected by the convergence of paper certificates to digital form. However, we have

recently been focused on licensing opportunities of our stock transfer platform, allowing customers to gain access to our cloud-based system in order to move shares or query shareholders, which has significantly changed the long term dynamics for both our customers and us.

During the fourth quarter of 2016, we completed a strategic upgrade to our platform that reaches private companies seeking to raise capital under Regulation A+, and Regulation D. This cloud-based system was released during the first quarter of 2017 under the brand Transferly™. Transferly is a subscription platform that gives companies and broker dealers the ability to assist in the process of identifying, managing and completing the investment process of an offering. Once an offering is completed, companies can utilize our stock transfer system to continue the communication and compliance issuance work a company is required to manage.

Proxy – Annual General Meeting (AGM)

Our proxy platform is marketed as a fully integrated, real-time voting platform for our customers and their shareholders of record. This platform is utilized for every annual meeting and or special meeting we manage for our client base and offers both full-set mailing and notice of internet availability options.

Services

As we focus on expanding our cloud-based subscription business, we expect to see a decrease in the overall revenues associated with our Services business. Typically, Services revenues relate to where resources are required to perform the work for our clients and or hard goods are utilized as part of the engagement. To date, most of our Services have been related to converting and editing SEC documents and XBRL tagging, which has been our core disclosure business over the last 11 years. Services also include telecommunications services and print, fulfillment and delivery of stock certificates, proxy materials or annual reports depending on each customer's engagement. Services are not required, but are optional for customers that utilize our Platform id.

Our investor outreach and engagement offering, formerly known as the ARS, now known as the Investor Network, was acquired from PIR. The ARS business has existed for over 20 years primarily as a physical hard copy delivery service of annual reports and prospectuses globally for tens of thousands of customers. We continue to operate a portion of this legacy system and continue to migrate the install base over to our subscriptions business of Investor Network, which is our digital platform and outreach engagement dataset. Portions of this legacy system are still operational, specifically for those who opt to take advantage of physical delivery of material. We believe we will continue to see further attrition of both customers and revenues in this category as we focus our efforts on our digital platforms and subscription business.

Results of Operations

Comparison of results of operations for the three and six months ended June 30, 2017 and 2016 (in thousands):

| | Three months ended | | Six months ended | |
|-----------------|--------------------|------|------------------|------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Revenue Streams | 2017 | 2016 | 2017 | 2016 |

Platform and Technology

| | | | | |
|----------------|---------|---------|---------|---------|
| Revenue | \$1,704 | \$1,127 | \$3,117 | \$2,072 |
| Gross margin | \$1,424 | \$934 | \$2,592 | 1,709 |
| Gross margin % | 84% | 83% | 83% | 82% |

Services

| | | | | |
|----------------|---------|---------|---------|---------|
| Revenue | \$1,739 | \$2,007 | \$3,181 | \$4,339 |
| Gross margin | \$1,110 | \$1,376 | \$2,051 | \$3,108 |
| Gross margin % | 64% | 69% | 64% | 72% |

Total

| | | | | |
|----------------|---------|---------|---------|---------|
| Revenue | \$3,443 | \$3,134 | \$6,298 | \$6,411 |
| Gross margin | \$2,534 | \$2,310 | \$4,643 | 4,817 |
| Gross margin % | 74% | 74% | 74% | 75% |

Revenues

Total revenue increased by \$309,000, or 10%, to \$3,443,000 during the three-month period ended June 30, 2017, as compared to \$3,134,000 during the same period of 2016. Total revenue decreased by \$113,000, or 2%, to \$6,298,000 during the six-month period ended June 30, 2017, as compared to \$6,411,000 during the same period of 2016. Included in revenue during the six-month period ended June 30, 2016 is the benefit of \$316,000 related to the reversal of an accrual of unused postage credits related to ARS clients acquired from PIR. Absent this one-time benefit, revenues for the six-month period ended June 30, 2017 would have increased 3% compared to the same period in the prior year.

Platform and Technology revenue increased \$577,000, or 51%, and \$1,045,000, or 50%, during the three and six-month periods ended June 30, 2017, respectively, as compared to the same periods of 2016. A majority of the increase is due to the continued success of our ACCESSWIRE news distribution platform, which increased \$527,000 and \$944,000 during the three and six-month periods ended June 30, 2017, respectively, as compared to the same periods of the prior year. The increase is attributable to our investment in increased sales staff and distribution during the latter part of 2016 as the Company was able to continue to penetrate the newswire market. Additionally, we earned increased revenue from the same period of the prior year from other platforms including our Blueprint, whistleblower, webcasting, Classify, stock transfer and proxy platforms. These increases were offset by a decline in revenue from our Investor Network platform.

Services revenue decreased \$268,000, or 13%, and \$1,158,000, or 27% during the three and six-month periods ended June 30, 2017, as compared to the same periods of 2016. The decrease is primarily associated with a decrease in revenue from our ARS services as we continued to experience client attrition as customers elect to leave the service or transition to digital fulfillment. Additionally, as noted above, included in revenue for the six-month period ended June 30, 2016, is the benefit of \$316,000 related to the reversal of an accrual of unused postage credits. We also experienced a decline in our traditional Edgar and XBRL services due to continued pricing pressure in those markets as well as decline in our print and proxy and distribution services due to the timing of certain projects.

No customers accounted for more than 10% of the operating revenues during the three and six-month periods ended June 30, 2017 or 2016.

Revenue Backlog

At June 30, 2017, we have recorded deferred revenue of \$1,040,000 that we expect to recognize over the next twelve months, compared to \$843,000 at December 31, 2016. Deferred revenue primarily consists of advance billings for licenses of our cloud-based platforms and annual contracts for legacy ARS services.

Cost of Revenues and Gross Margin

Cost of revenues consists primarily of direct labor costs, third party licensing and amortization of capitalized software costs related to our platforms licensed to customers in our Platform and Technology stream and direct labor costs, warehousing, logistics, print production materials, postage, and outside services directly related to the delivery of services to our customers in our Services stream. Cost of revenues increased by \$85,000, or 10%, and \$61,000, or 4%, during the three and six-month periods ended June 30, 2017, as compared to the same period of 2016. Overall gross margin percentage remained the same at 74%, for the three-month period ended June 30, 2017, as compared to the same period of 2016 and decreased to 74% from 75% for the six-month period ended June 30, 2017, compared to the same period of the prior year. Excluding the benefit associated with the release of the accrual related to unused postage credits, gross margin percentage for the six-month period ended June 30, 2016, would have been 74%.

Gross margin percentages from Platform and Technology were 84% and 83% during the three and six-month periods ended June 30, 2017, respectively, as compared to 83% and 82% in the same periods of 2016, respectively. The increase in gross margin percentage is primarily due to increased revenue from our ACCESSWIRE platform partially offset by increased amortization of capitalized software related to our platforms.

Gross margin percentage from our Services revenue decreased to 64% in the three and six-month periods ended June 30, 2017, as compared to 69% and 72% during the same periods of 2016, respectively. Excluding the benefit associated with the release of the unused postage credits, gross margins for the six-month period ended June 30, 2016 would have been 69%. The decrease in gross margin percentage is primarily due to lower revenue associated with fixed costs of delivering ARS, print and proxy, Edgar and XBRL services.

Operating Expenses

General and Administrative Expense

General and administrative expenses consist primarily of salaries, stock-based compensation, insurance, fees for professional services, general corporate expenses and facility and equipment expenses. General and administrative expenses increased \$55,000, or 7%, and \$125,000, or 8%, during the three and six-month periods ended June 30, 2017, respectively, as compared to the same periods of 2016. The increase is primarily due to an increase in professional fees for legal and consulting services and bonus expense partially offset by a decrease in stock

compensation and facility and equipment expenses.

As a percentage of revenue, General and Administrative expenses were 25% and 28% for the three and six-month periods ended June 30, 2017, respectively, compared to 26% for both periods of 2016.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, stock-based compensation, sales commissions, advertising expenses, tradeshow expenses and other marketing expenses. Sales and marketing expenses increased \$42,000, or 6%, and \$11,000, or 1%, for the three and six-month periods ended June 30, 2017, respectively, as compared to the same periods of 2016. These increases are primarily due to an increase in tradeshow expenses.

As a percentage of revenue, sales and marketing expense were 21% during both the three and six-month period ended June 30, 2017, compared to 21% and 20% during the same periods of 2016, respectively.

Product Development

Product Development expenses consist primarily of salaries, stock-based compensation, bonuses and licenses to develop new products and technology to complement and/or enhance Platform id. Product development costs increased \$39,000, or 43%, and \$95,000, or 60%, during the three and six-month periods ended June 30, 2017, respectively, compared to the same periods in 2016. The increase is the result of higher salaries and less capitalization of costs as certain projects are completed and have been pushed into production. During the three and six-month periods ended June 30, 2017, the Company capitalized \$314,000 and \$680,000, respectively, of software development costs compared to \$260,000 and \$786,000 during the same periods of 2016.

As a percentage of revenue, Product Development expenses were 4% for both the three and six-month periods ended June 30, 2017, respectively, compared to 3% and 2% for the same periods of 2016, respectively.

Depreciation and Amortization

Depreciation and amortization expenses decreased by \$179,000, or 63%, and \$356,000, or 63%, during the three and six-month periods ended June 30, 2017, respectively, as compared to the same periods of 2016. The decrease is due to lower amortization of certain intangible assets acquired in the PIR acquisition that became fully amortized during the year ended December 31, 2016.

Other income (expense)

Other income (expense) is primarily the result of the change in fair value of stock received, in lieu of cash, to settle an outstanding receivable. As of June 30, 2017, all stock has been sold.

Income tax expense

We recognized income tax expense of \$224,000 and \$264,000 for the three and six-month periods ended June 30, 2017, respectively, compared to income tax expense of \$192,000 and \$390,000 during the same periods of 2016. 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 year-to-date period, and then adjusted for any discrete period items. For the three and six-month periods ended June 30, 2017, the variance between the Company's effective tax rate and the U.S. statutory rate of 34% is primarily attributable to the excess stock-based compensation tax benefit of \$45,000 and \$122,000, respectively, recognized in income tax expense during the period, in connection with the Company's adoption of ASU 2016-09, as well as, foreign statutory tax rate differentials and tax credits.

During the six-month period ended June 30, 2016, the Company released \$78,000 of its valuation allowance related to federal and state net operating losses, which resulted in a net benefit of \$59,000. No valuation allowance was released during the three-month period ended June 30, 2016.

Net Income

Net income was \$493,000 and \$817,000 during the three and six-month periods ended June 30, 2017, respectively, compared to \$357,000 and \$850,000 for the same periods of 2016.

As noted earlier, included in net income for the six-month period ended June 30, 2016 is the benefit of \$316,000 before taxes related to the reversal of an accrual related to unused postage credits related to ARS clients acquired from PIR. Excluding the benefit of this reversal, the Company was able to increase net income by increasing revenue, maintaining gross margin percentages and lowering operating costs.

Liquidity and Capital Resources

As of June 30, 2017, we had \$6,125,000 in cash and cash equivalents and \$1,334,000 in net accounts receivable. Current liabilities at June 30, 2017, totaled \$2,368,000 including our accounts payable, deferred revenue, accrued liabilities, income taxes payable and other accrued expenses. At June 30, 2017, our current assets exceeded our current liabilities by \$5,449,000.

Effective September 2, 2016, the Company renewed its Line of Credit, which reduced the interest rate to LIBOR plus 2.50% from LIBOR plus 3.00%. The amount of funds available for future borrowings remained at \$2,000,000. As of June 30, 2017, the interest rate was 3.72% and the Company did not owe any amounts on the Line of Credit.

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

2017 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.

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

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

We will continue to focus on the following key strategic initiatives during the remainder of 2017:

Strategic re-alignment of our Platform and Technology sales team,

Expand customer base,

Further expand our newswire distribution and clients,

Significant technology advancements and upgrades,

Profitable sustainable growth,

Generate cash flows from operations

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

We have invested and will continue to invest in our product sets, platforms and intellectual property development through the second half of 2017. These developments are key to our overall offerings in the market and necessary to keep our competitive advantages and sustain the next round of growth that management believes it can achieve. If we are successful in this development effort, we believe we can achieve increases in revenues per user as well as higher

gross margins as we move through 2017 and beyond.

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable

ITEM 4. CONTROLS AND PROCEDURES.

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

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 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.

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. ** |

* 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 3, 2017

ISSUER DIRECT
CORPORATION

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

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