ISSUER DIRECT CORP
Form 10-Q
August 02, 2018

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, 2018

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, 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 3,106,772 shares of common stock were issued and outstanding as of August 2, 2018.

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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,	December 31,
	2018	2017
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$6,834	$4,917
Accounts receivable (net of allowance for doubtful accounts of $428 and $425, respectively)	1,642	1,275
Income tax receivable	534	725
Other current assets	189	193
Total current assets	9,199	7,110
Capitalized software (net of accumulated amortization of $898 and $497, respectively)	2,348	2,749
Fixed assets (net of accumulated amortization of $417 and $388, respectively)	155	145
Other long-term assets	17	18
Goodwill	4,070	4,070
Intangible assets (net of accumulated amortization of $3,949 and $3,699, respectively)	2,608	2,858
Total assets	$18,397	$16,950
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$356	$666
Accrued expenses	653	613
Current portion of note payable (See Note 3)	288	288
Income taxes payable	68	65
Deferred revenue	1,273	887
Total current liabilities	2,638	2,519
Note payable – long-term (net of discount of $57 and $70, respectively) (See Note 3)	583	570
Deferred income tax liability	565	573
Other long-term liabilities	56	77
Total liabilities	3,842	3,739
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 1,000,000 shares authorized, no shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively.	—	—

Common stock $0.001 par value, 20,000,000 shares authorized, 3,103,370 and 3,014,494 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively.	3	3
Additional paid-in capital	11,396	10,400
Other accumulated comprehensive income	1	34
Retained earnings	3,155	2,774
Total stockholders' equity	14,555	13,211
Total liabilities and stockholders' equity	$18,397	$16,950

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

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2018	2017	2018	2017
Revenues	$3,799	$3,443	$7,329	$6,298
Cost of revenues	1,030	909	2,051	1,655
Gross profit	2,769	2,534	5,278	4,643
Operating costs and expenses:				
General and administrative	948	855	1,952	1,767
Sales and marketing expenses	799	714	1,549	1,307
Product development	285	129	583	254
Depreciation and amortization	142	103	284	208
Total operating costs and expenses	2,174	1,801	4,368	3,536
Operating income	595	733	910	1,107
Other income (expense):				
Other expense	—	(17)	—	(28)
Interest income (expense), net	(5)	1	(10)	2
Total other expense	(5)	(16)	(10)	(26)
Net income before income taxes	590	717	900	1,081
Income tax expense	224	224	214	264
Net income	$366	$493	$686	$817
Income per share – basic	$0.12	$0.17	$0.22	$0.28
Income per share – fully diluted	$0.12	$0.16	$0.22	$0.27
Weighted average number of common shares outstanding – basic	3,074	2,940	3,055	2,920
Weighted average number of common shares outstanding – fully diluted	3,137	3,021	3,123	3,002

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,
	2018	2017	2018	2017
Net income	$366	$493	$686	$817
Foreign currency translation adjustment	(76)	27	(33)	34
Comprehensive income	$290	$520	$653	$851

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,	June 30,
	2018	2017
Cash flows from operating activities:		
Net income	$686	$817
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	680	350
Bad debt expense	93	87
Deferred income taxes	(17)	(5)
Non-cash interest expense (See Note 3)	13	—
Stock-based compensation expense	286	260
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(467)	(116)
Decrease (increase) in deposits and prepaid assets	194	(171)
Increase (decrease) in accounts payable	(304)	293
Increase (decrease) in accrued expenses	31	(255)
Increase (decrease) in deferred revenue	394	197
Net cash provided by operating activities	1,589	1,457
Cash flows from investing activities:		
Capitalized software	—	(624)
Purchase of fixed assets	(39)	(6)
Net cash used in investing activities	(39)	(630)
Cash flows from financing activities:		
Proceeds from exercise of stock options, net of income taxes	709	214
Payment of dividends	(305)	(291)
Net cash provided by (used in) financing activities	404	(77)
Net change in cash	1,954	750
Cash – beginning	4,917	5,339
Currency translation adjustment	(37)	36
Cash – ending	$6,834	$6,125

Supplemental disclosures:

Cash paid for income taxes	$31	$437
Non-cash activities:		
Stock-based compensation - capitalized software	$—	$56

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

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ISSUER DIRECT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation

The unaudited interim consolidated balance sheet as of June 30, 2018 and statements of operations, comprehensive income, and cash flows for the three and six-month periods ended June 30, 2018 and 2017 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 2017 audited financial statements of Issuer Direct Corporation (the “Company”, “We”, or “Our”) filed on 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 41,000 were excluded in the computation of diluted earnings per common share during the three and six-month periods ended June 30, 2018, because their impact was anti-dilutive. Shares issuable upon the exercise of stock options and restricted stock units totaling 49,500 and 55,167 were excluded in the computation of diluted earnings per common share during the three and six-month periods ended June 30, 2017, respectively, because their impact was anti-dilutive.

Revenue Recognition

The Company adopted ASC Topic 606, Revenue from Contracts with Customers, on January 1, 2018, using the modified retrospective approach.

Substantially all of the Company’s revenue comes from contracts with customers for subscriptions to its cloud-based products or contracts to perform compliance or other services. Customers consist primarily of corporate issuers and professional firms, such as investor relations and public relations firms and in the case of our news distribution offering, our customers also include private companies. The Company accounts for a contract with a customer when there is an enforceable contract between the Company and the customer, the rights of the parties are identified, the contract has economic substance, and collectability of the contract consideration is probable. The Company's revenues are measured based on consideration specified in the contract with each customer.

The Company's contracts include either a subscription to our entire platform or certain modules within our platform, or an agreement to perform services or any combination thereof, and often contain multiple subscriptions and services. For these bundled contracts, the Company accounts for individual subscriptions and services as separate performance obligations if they are distinct, which is when a product or service is separately identifiable from other items in the bundled package, and a customer can benefit from it on its own or with other resources that are readily available to the customer. The Company separates revenue from its contracts into two revenue streams: i) Platform and Technology and ii) Services. Performance obligations of Platform and Technology contracts include providing subscriptions to certain modules or the entire Platform id. system, distributing press releases on a per release basis or conducting webcasts on a per event basis. Performance obligations of Service contracts include obligations to deliver compliance services and annual report printing and distribution on either a stand ready obligation or on a per project or event basis. Set up fees for compliance services are considered a separate performance obligation and are satisfied upfront. Set up fees for our transfer agent module and investor relations content management module are immaterial. The Company’s subscription and service contracts are generally for one year, with automatic renewal clauses included in the contract until the contract is cancelled. The contracts do not contain any rights of returns, guarantees or warranties. Since contracts are generally for one year, all of the revenue is expected to be recognized within one year from the contract start date. As such, the Company has elected the optional exemption that allows the Company not to disclose the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of each reporting period.

The Company recognizes revenue for subscriptions evenly over the contract period, upon distribution for per release contracts and upon event completion for webcasting events. For service contracts that include stand ready obligations, revenue is recognized evenly over the contract period. For all other services delivered on a per project or event basis, the revenue is recognized at the completion of the event. The Company believes recognizing revenue for subscriptions and stand ready obligations using a time-based measure of progress, best reflects the Company's performance in satisfying the obligations.

For bundled contracts, revenue is allocated to each performance obligation based on its relative standalone selling price. Standalone selling prices are based on observable prices at which the Company separately sells the subscription or services. If a standalone selling price is not directly observable, the Company uses the residual method to allocate any remaining costs to that subscription or service. The Company regularly reviews standalone selling prices and updates these estimates if necessary.

The Company invoices its customers based on the billing schedules designated in its contracts, typically upfront on either a monthly, quarterly or annual basis or per transaction at the completion of the performance obligation. Deferred revenue for the periods presented was primarily related to subscription and service contracts, which are billed upfront, quarterly or annually, however the revenue has not yet been recognized. The associated deferred revenue is generally recognized ratably over the billing period. Deferred revenue as of June 30, 2018 and December 31, 2017 was $1,273,000 and $887,000, respectively, and is expected to be recognized within one year. Revenue recognized for the six months ended June 30, 2018 and 2017, that was included in the deferred revenue balance at the beginning of each reporting period, was $714,000 and $706,000, respectively. Accounts receivable related to contracts with customers was $1,642,000 and $1,275,000 as of June 30, 2018 and December 31, 2017, respectively. Since substantially all of the contracts have terms of one year or less, the Company has elected to use the practical expedient regarding the existence of a significant financing.

The Company has determined that costs to obtain contracts with customers are immaterial or would be amortized over 1 year due to the short nature of most of the contracts. Therefore, the Company has elected to use the practical expedient allowing the recognition of incremental costs of obtaining a contract as an expense when incurred. The Company has considered historical renewal rates, expectations of future renewals and economic factors in making this determination.

Allowance for Doubtful Accounts

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

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 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 are capitalized when the preliminary project phase is complete, management commits to fund the project and it is probable the project will be completed and used for its intended purposes. Once the software is substantially complete and ready for its intended use, the software is amortized over its estimated useful life. Costs related to design or maintenance of the software are expensed as incurred. Capitalized costs and amortization for the three and six-month periods ended June 30, 2018 and 2017, are as follows (in thousands)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Capitalized software development costs	$—	$314	$—	$680
Capitalized costs related to stock-based compensation	—	(20)	—	56
Amortization included in cost of revenues	198	82	396	141
Amortization included in depreciation and amortization	2	2	5	5

Fair Value Measurements

As of June 30, 2018 and December 31, 2017, 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, accounts payable, our line of credit and notes payable approximate their carrying amounts.

Translation of Foreign Financial Statements

The financial statements of the foreign subsidiary of the Company have been translated into U.S. dollars. All assets and liabilities have been translated at current rates of exchange in effect at the end of the period. Income and expense items have been translated at the average exchange rates for the year or the applicable interim period. The gains or losses that result from this process are recorded as a separate component of other accumulated comprehensive income 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 (7-10 years), customer lists (3 years) and software and technology (3-5 years) are amortized over their estimated useful lives. In 2015, it was determined that the trademarks associated with the PIR acquisition were no longer indefinite-lived, and as such began to be amortized over 3-5 years.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income or loss 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.

Recently adopted accounting pronouncements

In June 2018, the FASB announced Accounting Standards Update (“ASU”) 2018-07 Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 expands the scope of Topic 718, Compensation—Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The ASU supersedes Subtopic 505-50, Equity—Equity-Based Payments to Non-Employees. ASU 2018-07 is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than a company’s adoption date of Topic 606, Revenue from Contracts with Customers. The Company elected to adopt ASU 2018-07 as of January 1, 2018. The adoption did not require the Company to restate any previously reported periods of the Statement of Operations or Balance Sheet. The Company has one contract with a non-employee to perform services for share-based payments, the compensation of which is properly accounted for in the Statement of Operations for the three and six month periods ended June 30, 2018 as well as the Balance Sheet as of June 30, 2018.

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. In-depth reviews of customer contracts were completed and analyzed to meet the standard’s reporting and disclosure requirements. Disclosures related to the nature, amount and timing of revenue and cash flows arising from contracts with customers are included in this Note under the subheading Revenue Recognition as well as Note 6, Revenues.

The adoption did not require the Company to restate any previously reported periods of the Statement of Operations or Balance Sheet related to a change in the timing of revenue recognition, nor did the adoption affect liquidity. However, the adoption did impact the allocation of revenue associated with the Company’s shareholder outreach offering that included both electronic dissemination and physical delivery of a customer’s annual reports. Historically, revenue from these bundled contracts was reported in the Services revenue stream because an allocation between electronic and physical hardcopy distribution was not made, however, under ASC 606, a portion of the revenue from these contracts is required to be allocated to the Platform and Technology revenue stream in accordance with stand-alone contracts for the shareholder outreach subscription. A comparison of revenue under previously reported legacy GAAP and revenue under current GAAP is provide below for comparability purposes (in 000’s):

	For the Three Months Ended June 30, 2018			For the Six Months Ended June 30, 2018		
	Legacy		Current	Legacy		Current
Revenue:	GAAP	Adjustments	GAAP	GAAP	Adjustments	GAAP
Platform and Technology	$2,126	$120	$2,246	$4,023	$254	$4,277
Services	1,673	(120)	1,553	3,306	(254)	3,052
Total Revenue	$3,799	$—	$3,799	$7,329	$—	$7,329

	For the Three Months Ended June 30, 2017			For the Six Months Ended June 30, 2017		
	Legacy		Current	Legacy		Current
Revenue:	GAAP	Adjustments	GAAP	GAAP	Adjustments	GAAP
Platform and Technology	$1,704	$186	$1,890	$3,117	$393	$3,510
Services	1,739	(186)	1,553	3,181	(393)	2,788
Total Revenue	$3,443	$—	$3,443	$6,298	$—	$6,298

In analyzing the impact of adoption, the Company used the practical expedient that allows the Company to only apply the new revenue standard to contracts that are not completed as of the date of initial application, January 1, 2018. A completed contract is defined as a contract for which all (or substantially all) of the revenue was recognized in accordance with revenue guidance that was in effect before the date of initial application.

Recently issued accounting pronouncements not yet adopted

In March 2018, the FASB announced ASU 2018-05 Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No.118 (“SAB 118”). ASU 2018-05 adds guidance indicated in Questions 1 and 2 from SAB 118 to the codification. SAB 118 addresses the application of US GAAP in situations when a registrant does not have all of the necessary information available, prepared and analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act of 2017 (the “2017 Act”), which was signed into law on December 22, 2017. The Company has calculated its best estimate of the impact of the 2017 Act in its quarterly provision in accordance with its understanding of the 2017 Act and guidance available as of the date of this filing and does not believe it will have a material impact to its results of operations to date. Additional work is necessary to do a more detailed analysis of historical foreign earnings as well as potential correlative adjustments. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2018 when the analysis is complete. ASU 2018-05 is effective immediately upon addition to the FASB codification.

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

Note 3: Acquisition of Interwest Transfer Company, Inc.

On October 2, 2017, the Company entered into a Stock Purchase Agreement (the “Purchase Agreement’) with Kurtis D. Hughes whereby the Company purchased all of the outstanding equity securities of Interwest Transfer Company, Inc., a Utah corporation (“Interwest”) a transfer agent business located in Salt Lake City, Utah. Under the terms of the Purchase Agreement, the Company paid $1,935,000 at closing and will pay $320,000 on each of the first, second and third anniversary dates of the closing and issued 25,235 shares of restricted common stock of the Company to Mr. Hughes at closing.

The acquisition was accounted for under the acquisition method of accounting for business combinations in accordance with FASB ASC 805, Business Combinations, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Acquisition-related costs, which totaled approximately $20,000, are not included as a component of the acquisition accounting, but are recognized as expenses in the periods in which the costs are incurred. Any changes within the measurement period resulting from facts and circumstances that existed as of the acquisition date may result in retrospective adjustments to the provisional amounts recorded at the acquisition date. During the year ended December 31, 2017, the Company employed a third party valuation firm to assist in determining the purchase price allocation of assets and liabilities acquired from Interwest. The income approach was used to determine the value of Interwest’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 transaction resulted in recording intangible assets and goodwill at a fair value of $3,680,000 as follows (in 000's):

Initial payment	$1,935
Fair value of restricted common stock issued	318
Fair value of anniversary payments	851
Total Consideration	3,104
Plus: excess of liabilities assumed over assets acquired	576
Total fair value of Interwest intangible assets and goodwill	$3,680

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The tangible assets and liabilities acquired were as follows (in 000’s):

Cash	$63
Accounts receivable, net	84
Prepaid expenses	17
Total assets	164
Accounts payable and accrued expenses	12
Deferred revenue	21
Deferred tax liability	707
Total liabilities	740
Excess of liabilities assumed over assets acquired	$(576)

The identified intangible assets as a result of the acquisition are as follows (in 000’s):

Customer relationships	$1,677
Tradename	176
Goodwill	1,827
	$3,680

Select Pro-Forma Financial Information (Unaudited)

The following represents our unaudited condensed pro-forma financial results as if the acquisition with Interwest and the Company had occurred as of January 1, 2017. Unaudited condensed pro-forma results are based upon accounting estimates and judgments that we believe are reasonable. The condensed pro-forma results are not necessarily indicative of the actual results of our operations had the acquisitions occurred at the beginning of the period presented, nor does it purport to represent the results of operations for future periods.

$ in 000’s	Three months ended June 30, 2017	Six months ended June 30, 2017
Revenues	$3,898	$7,105
Net Income	$644	$1,099
Basic earnings per share	$0.21	$0.37
Diluted earnings per share	$0.21	$0.36

Note 4: 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, 2018, 339,000 awards had been granted under the 2014 Plan.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2018:

	Options Outstanding			Options Exercisable
Exercise Price Range	Number	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Number
$0.01 - $1.00	7,850	3.56	$0.01	7,850
$1.01 - $7.00	10,000	7.39	$6.80	7.500
$7.01 - $8.00	20,313	5.24	$7.76	20,313
$8.01 - $13.00	36,250	8.92	$12.66	4,250
$13.01 - $17.40	32,000	9.92	$17.40	—
Total	106,413	7.98	11.63	39,913

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As of June 30, 2018, the Company had unrecognized stock compensation related to the options of $278,000, which will be recognized through 2019.

On January 29, 2018, the Company granted 1,000 restricted stock units with an intrinsic value of $17.65 to a certain employee of the Company. The restricted stock units vest one-half annually over two years. On June 1, 2018, the Company granted 8,000 restricted stock units with an intrinsic value of $17.40 to each of the four non-employee members of the Company's board of directors. The restricted stock units vest upon the earlier of (i) the date of the Company's 2019 annual meeting of stockholders (but only if the director ceases to be a member of the board of directors at such annual meeting as a result of not standing for re-election or not being re-elected) or (ii) June 1, 2019. During the six-month period ended June 30, 2018, 27,001 restricted stock units with an intrinsic value of $5.59 vested. No restricted stock units vested during the three-month period ended June 30, 2018. As of June 30, 2018, there was $273,000 of unrecognized compensation cost related to our unvested restricted stock units, which will be recognized through 2020.

Note 5: Income taxes

We recognized income tax expense of $224,000 and $214,000 during the three and six-month periods ended June 30, 2018, respectively, compared to $224,000 and $264,000 during the same periods of 2017. 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-month period ended June 30, 2018, the variance between the Company's effective tax rate and the U.S. statutory rate of 21% is primarily attributable to additional expense as a result of a tax shortfall associated with stock-based compensation in the amount of $68,000, offset by foreign statutory tax rate differentials and tax credits. For the six-month period ended June 30, 2018, the impact of stock-based compensation resulted in a tax benefit of $4,000. 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 at the time of 34% is primarily attributable to the excess stock-based compensation tax benefit of $45,000 and $122,000, respectively, as well as foreign statutory tax rate differentials and tax credits.

The recently signed 2017 Act included a reduction in the federal corporate tax rate to 21% and other key provisions which were effective beginning January 1, 2018. The company has included these effects, as relevant, in the calculation of tax expense for the three and six-month periods ended June 30, 2018.

Note 6: Revenue

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 and private companies. Revenue is attributed to a particular geographic region based on where subscriptions are sold or the services are performed. The following tables present revenue disaggregated by revenue stream and geography in (000's):

	Three months ended June 30,			
Revenue Streams	2018		2017	
Platform and Technology	$2,246	59.1%	$1,890	54.9%
Services	1,553	40.0%	1,553	45.1%
Total	$3,799	100.0%	$3,443	100.0%

	Six months ended June 30,			
Revenue Streams	2018		2017	
Platform and Technology	$4,277	58.4%	$3,117	49.5%
Services	3,052	41.6%	3,181	50.5%
Total	$7,329	100.0%	$6,298	100.0%

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Geographic region				
North America	$3,599	$3,127	$6,922	$5,666
Europe	200	316	407	632
Total revenues	$3,799	$3,443	$7,329	$6,298

No customers accounted for more than 10% of the operating revenues during the three and six-month periods ended June 30, 2018 or 2017. We did not have any customers that comprised more than 10% of our total accounts receivable balance at June 30, 2018 or December 31, 2017.

We believe we did not have any financial instruments that could have potentially subjected us to significant concentrations of credit risk for any relevant period. 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 7: Line of Credit

Effective September 1, 2017, the Company renewed its Line of Credit, which increased the amount of funds available for borrowing from $2,000,000 to $2,500,000. The interest rate remained at LIBOR plus 2.50%. As of June 30, 2018, the interest rate was 4.57% and the Company did not owe any amounts on the Line of Credit.

Note 8: Subsequent Events

On July 3, 2018, the Company entered into a Stock Purchase Agreement with Fred Gautreau whereby the Company acquired all of the outstanding stock of Filing Services Canada Inc. (“FSCwire”) for $1,140,000 in cash and 3,402 shares of common stock (equivalent value of $68,000 at closing) paid at closing to Mr. Gautreau (with $180,000 of cash purchase price remaining in escrow for no more than eighteen months), resulting in a total purchase price of $1,208,000, subject to a closing working capital adjustment as outlined in the stock purchase agreement. FSCwire is located in Calgary, Canada and is focused on the Canadian press release distribution market. Subsequent to the closing date, FSCwire will be a wholly-owned subsidiary of ACCESSWIRE Canada, which was formed as a wholly-owned subsidiary of the Company for the purposes of the acquisition.

On July 10, 2018, the Company's Board of Directors approved and declared a quarterly cash dividend of $0.05 per share. The dividend is payable on August 13, 2018, to stockholders of record as of the close of business on July 24, 2018.

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 a 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 Form10-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/A for the year ended December 31, 2017, which are incorporated by reference into this Form 10-Q. 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). Our corporate offices are located at 500 Perimeter Park Drive, Suite D, Morrisville, North Carolina, 27560.

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 related matters. 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.

Issuer Direct is an industry-leading global 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 products, thus eliminating the complexity associated with producing and distributing their business communications and financial information.

We work with a diverse customer 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 firms, and the accounting and the legal communities. Corporate issuers and their service providers utilize Platform id. and related services from document creation all the way to dissemination to regulatory bodies, platforms and shareholders.

In order to provide a good representation of our business and reflect our platform first engagement strategy, we report revenue in two revenue streams: (i) Platform and Technology and (ii) Services. Due to the adoption of Accounting Standards Codification (“ASC”) 606 Revenue from Contracts with Customers as of January 1, 2018, we reclassified revenue associated with the Company’s shareholder outreach offering that included both electronic dissemination and physical delivery of a customer’s annual report. Historically, revenue from these bundled contracts was reported in the

Services revenue stream because an allocation between electronic and physical hardcopy distribution was not made, however, under ASC 606, a portion of the revenue from these contracts is required to be allocated to the Platform and Technology revenue stream in accordance with stand-alone contracts for the shareholder outreach subscription. Revenue of $186,000 and $393,000 for the three and six months ended June 30, 2017, respectively, which was previously reported as Services revenue was reclassified as Platform and Technology revenue.

Set forth below is an infographic depicting the modules included in Platform id. and the services we provide:

Platform and Technology

As we continue our transition to a cloud-based subscription business, we expect the Platform and Technology portion of our business to continue to increase over the next several years, both in terms of overall revenue and as compared to the Services portion of our business. Platform and Technology revenue grew to 59% of total revenue for the second quarter of 2018, compared to 55% of our revenue for 2017 and approximately 44% of our revenue in 2016. Our ACCESSWIRE® news business offering represented a majority of the year over year growth in our Platform and Technology revenue during 2017 and continues to lead our transition to a full platform solution.

As part of our Platform and Technology strategy, we have been working with several select stock exchanges, whereby we make available certain parts of our platform, under agreement, to integrate our offerings. Such partnerships should yield increased exposure to a targeted customer base that could impact our revenue and overall brand in the market.

Additionally, we plan to continue to invest in both our current Platform id. offering as well as additional offerings, which we believe provide 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 our primary cloud-based subscription platform that efficiently and effectively helps manage the events of our customers seeking to distribute their messaging to key constituents, investors, markets and regulatory systems around the globe. Currently, Platform id. consists of several related but distinct shareholder communications and compliance modules. Certain 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 and/or software providers to meet their investor relations, communications and compliance needs. We believe Platform id. can address all those needs in a single, secure, cloud-based platform - one that offers a company control, increases efficiencies, demonstrates a clear value 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.

Communications Modules

Our press release offering, which is marketed under the brand, ACCESSWIRE, is a cost-effective Fair Disclosure, Regulation FD, news dissemination and media outreach service. The ACCESSWIRE product offering focuses on press release distribution for both private and publicly held companies globally. ACCESSWIRE is fast becoming a competitive alternative to the traditional newswires because we have been able to integrate customer editing features and improve our targeting and growing analytics reporting systems, which we believe will enable us to add new customers for the remainder of 2018 and beyond. We have also been able to maintain flexible pricing by offering our customers the option to pay per release or enter into longer-term subscriptions. Currently, approximately 60% of our ACCESSWIRE revenue is on a subscription basis.

On July 3, 2018, we completed the acquisition of Filing Services Canada Inc. (“FSCwire”), which not only increased our customer base, but more importantly increased our global footprint, distribution capabilities and editorial team. Once the integration of FSCwire is complete it will be rebranded ACCESSWIRE Canada, which should be completed by the end of the third quarter of this year.

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. Our ACCESSWIRE news editing offering is available within our core Platform id. subscription or as a stand-alone module.

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.

Also included in Platform id. is our targeting and outreach database and intelligence analytics module. This module is centered around both our shareholder communications and news distribution offerings. We anticipate the analytics and peer review components will become a focal point for Platform id. in the future, as customers become increasingly interested in peer performance and real-time alerts to vital data points throughout the day.

We believe our data-set is 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, as well as data quality and quantity. During the fourth quarter of 2017, our dataset and analytics were integrated into our ACCESSWIRE offering as a way to add value and expand distribution via highly targeted lists of professionals from the dataset. We expect this to increase future ACCESSWIRE revenues per press release as well as ACCESSWIRE subscriptions throughout 2018.

Over the past year, we have been focused on refining the model of digital distribution of our customers' message to the investment community and beyond. This has been accomplished by integrating our shareholder outreach module, formerly known as Investor Network, into and with Platform id. Most of the customers subscribing to this module today are historical PrecisionIR ("PIR") – Annual Report Service ("ARS") users, as well as new customers purchasing the entire Platform id. subscription. We have migrated many of the 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 or shareholder interest is not present.

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. Platform id. incorporates each element of the earnings event including earnings date/call 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.

The earnings event industry is a highly competitive space with the majority of the business being driven from practitioners in the investor relations and communications firms. In the past, we invested time and financial resources developing and integrating systems and processes within Platform id. by creating an application programming interface (“API”) for the webcast marketplace, that we will begin offering to partners and publishers for their platforms under license. We believe this offering 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, under a subscription to Platform id. Additionally, as a commitment to broadening the reach of our webcast platform, all events will be broadcast live within our shareholder outreach module, which will drive new audiences and give companies the ability to view their analytics and engagement of each event. We believe these analytics will increase the demand for our webcasting platform among the corporate issuer community.

Our investor relations content network is another component of Platform id., which is used to create the investor relations’ tab of a public company’s website. This investor relations content network is a robust series of data feeds including news feeds, stock feeds, fundamentals, regulatory filings, corporate governance and many other components that are aggregated from a majority of the major exchanges and news distribution outlets around the world. Customers can subscribe to one or more of these data feeds from us or as a component of a fully designed and hosted website for pre-IPO, reporting companies and partners seeking to display our content on their corporate sites. The clear benefit to our investor relations module is its integration into and with the rest of Platform id., 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.

Compliance Modules

Platform id.’s disclosure reporting module is a document conversion, editing and filing offering, which is designed for reporting companies and professionals seeking to insource the document drafting, editing and filing processes to the SEC and SEDAR, which is the Canadian equivalent of EDGAR. This module is available in both a secure public cloud within our Platform id. subscription, as well as in a private cloud option for corporations, mutual funds and the legal community looking to further enhance their internal document process. We believe that once this module is fully marketed and adopted by our customers, we will see a negative impact on our legacy disclosure conversion services business in the future. However, the margins associated with our Platform and Technology business compared to our Services business are higher and align with our long-term strategy, and as such, we believe this module will have a positive impact on our compliance business.

Toward the latter part of 2017, we completed upgrades to our disclosure reporting product to include tagging functionality that meets newly mandated SEC requirements. On June 28, 2018, the SEC voted to adopt rules mandating the use of Inline XBRL (Inline Extensible Business Reporting Language or “iXBRL”) for the submission of financial statement information to the SEC. The new requirements for iXBRL will have a three-year phase in beginning for large accelerated filers that use U.S. GAAP to be compliant for fiscal periods ending on or after June 15, 2019, for accelerated filers to begin reporting for fiscal periods ending on or after June 15, 2020 and for all other filers to begin reporting for fiscal periods ending on or after June 15, 2021. These upgrades also include meeting new SEC mandates for foreign filers that compile financial statements using International Financial Reporting Standards (“IFRS”) to be able to utilize our cloud-based platform. Foreign filers with fiscal year’s ending on or after December 15, 2017, are now required to begin reporting their financial statements in XBRL with the SEC in 2018. Issuer Direct's Platform id. has adopted the new IFRS taxonomy into and with its new disclosure upgrade for iXBRL to ensure our customers are able to meet these new mandates.

Our whistleblower module 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 subsidized bundle product of the New York Stock Exchange (“NYSE”) offerings, we hope we will gain relationships with new IPO customers and other larger cap customers listed on the NYSE.

A valued subscription add-on in our Platform id. offering 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 stock transfer module. Managing the capitalization table of a public company or pre-IPO company is the cornerstone of corporate governance and transparency, and as such companies and community banks have chosen us to assist with their stock transfer needs, including bond offerings and dividend management. This is an industry which has experienced declining overall revenues as it was affected by the replacement of paper certificates with digital certificates. However, we have recently been focused on selling subscriptions of the stock transfer component of our 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.

On October 2, 2017, we completed the acquisition of Interwest Transfer Company, Inc. ("Interwest"), a company specializing in stock registrar and transfer agent services. During the fourth quarter of 2017 and first half of 2018, we have been combining the stock information of both the legacy Issuer Direct customers and the acquired customers from Interwest. We have also begun and will continue to market the other modules of Platform id.and services to these new customers to help them meet all of their shareholder communication and compliance needs.

Our proxy module is marketed as a fully integrated, real-time voting platform for our customers and their shareholders of record. This module is utilized for every annual meeting and or special meeting we manage for our customer 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 activities where substantial resources are required to perform the work for our customers 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, 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. We continue to operate a portion of this legacy system for those who opt to take advantage of physical delivery of material. Additionally, we continue to attempt to migrate the install base over to subscriptions of our digital outreach engagement module within Platform id. We believe we will continue to see further attrition of both customers and revenues in this category as we focus our efforts on our Platform and Technology business.

Results of Operations

Comparison of results of operations for the three and six months ended June 30, 2018 and 2017:

	Three months ended		Six months ended	
	June 30,		June 30,	
Revenue Streams	2018	2017	2018	2017
Platform and Technology				
Revenue	$2,246	$1,890	$4,277	$3,510
Gross margin	$1,825	$1,610	$3,432	2,985
Gross margin %	81%	85%	80%	85%
Services				
Revenue	$1,553	$1,553	$3,052	$2,788
Gross margin	$944	$924	$1,846	$1,658
Gross margin %	61%	59%	60%	59%

Total				
Revenue	$3,799	$3,443	$7,329	$6,298
Gross margin	$2,769	$2,534	$5,278	4,643
Gross margin %	73%	74%	72%	74%

Revenues

Total revenue increased by $356,000, or 10%, to $3,799,000 during the three-month period ended June 30, 2018, as compared to $3,443,000 during the same period of 2017. Total revenue increased by $1,031,000, or 16%, to $7,329,000 during the six-month period ended June 30, 2018, as compared to $6,298,000 during the same period of 2017. Revenue from customers obtained from the acquisition of Interwest was $381,000 and $799,000 during the three and six months ended June 30, 2018, respectively, of which $51,000 and $95,000 came from additional subscriptions to our platfom or services cross sold to those customers.

Platform and Technology revenue increased $356,000, or 19%, and $767,000, or 22%, during the three and six-month periods ended June 30, 2018, respectively, as compared to the same periods of 2017. A majority of the increase is due to the continued success of our ACCESSWIRE news distribution platform, which increased $195,000 and $465,000 during the three and six-month periods ended June 30, 2018, 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 2017. During the quarter we continued to focus our selling efforts on bundled subscriptions of our cloud-based offerings included in Platform id., which also lead to higher overall revenue during both the three and six-month periods ended June 30, 2018. Additional revenue associated with Interwest customers also contributed to the increase as well as additional webcasting revenue as a result of offering our webcasting product to investor relations conferences. These increases were offset by a decline in revenue from our shareholder outreach offering due to continued client attrition as revenue of this offering is typically tied-in with contracts of our annual report distribution services.

Services revenue was unchanged at $1,553,000 during the three months ended June 30, 2018, as compared to the same period of the prior year and increased $264,000, or 9%, to $3,052,000 during the six-month period ended June 30, 2018, as compared to $2,788,000 during the same period of 2017. The increase during the six-month period is primarily associated with increases in transfer agent services due to the addition of Interwest customers as well an increase in the timing of corporate actions and directives for our legacy Issuer Direct customers. These increases were partially offset by continued decline in revenue from our ARS services, as a result of continued client attrition as customers elect to leave the service or transition to digital fulfillment. We also experienced a decline in our compliance services due to continued pricing pressure in those markets and a shift of some of this revenue to the Platform and Technology revenue stream.

No customers accounted for more than 10% of revenue during the three and six-month periods ended June 30, 2018 or 2017.

Revenue Backlog

At June 30, 2018, our deferred revenue balance was $1,273,000, which is a 64% increase over the balance of $887,000 at December 31, 2017. Deferred revenue, which we expect to recognize over the next twelve months, primarily consists of advance billings for subscriptions of our cloud-based products and annual contracts for legacy ARS services. The increase since December 31, 2017 is primarily due to the sale of new subscriptions of Platform id., with annualized contract value of $564,000, to 56 new or existing customers during the six months ended June 30, 2018.

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 platform subscriptions 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 $121,000, or 13%, and $396,000, or 24%, during the three and six-month periods ended June 30, 2018, respectively, as compared to the same periods of 2017. Overall gross margin increased $235,000, or 9%, and $635,000, or 14%, during the three and six-month periods ended June 30, 2018, respectively, as compared to the same periods of 2017. However, during this period, gross margin percentage decreased to 73% and 72% for the three and six-month periods ended June 30, 2018, respectively, from 74% for the same periods of the prior year. The largest single component of the increase in cost of sales and resulting decrease in gross margin percentage was due to an increase in amortization of capitalized software costs of $116,000 and $255,000, during the three and six-month periods ended June 30, 2018, respectively, related to our platforms licensed to customers.

Gross margin percentage from Platform and Technology was 81% and 80% for the three and six-month periods ended June 30, 2018, respectively, as compared to 85% for the same periods of 2017. The decrease in gross margin percentage is primarily due to an increase in amortization of capitalized software costs of $116,000 and $255,000, during the three and six-month periods ended June 30, 2018, respectively, related to our platforms licensed to customers.

Gross margins from our Services revenue increased to 61% and 60% during the three and six-month periods ended June 30, 2018, respectively, as compared to 59% in the same periods of 2017. The increase is primarily the result of the additional transfer agent revenue resulting from the addition of Interwest customers and an increase in corporate actions and directives.

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 $93,000, or 11%, and $185,000, or 10%, during the three and six-month periods ended June 30, 2018, respectively, as compared to the same period of 2017. The increase is primarily due to an increase in personnel related expenses and acquisitions costs associated with the acquisition of FSCwire.

As a percentage of revenue, general and administrative expenses were 25% for both the three-month periods ended June 30, 2018 and 2017 and 27% and 28% for the six-month periods ended June 30, 2018 and 2017, respectively.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, stock-based compensation, sales commissions, advertising expenses, tradeshow expenses and marketing expenses. Sales and marketing expenses increased $85,000, or 12%, and $242,000, or 19%, for the three and six-month periods ended June 30, 2018, respectively, as compared to the same period of 2017. This increase is due to an increase in average sales personnel of approximately 20% over the prior year in an effort to increase our revenue growth in 2018 and beyond, offset by a decrease in tradeshow expenses for the three-month period ended June 30, 2018.

As a percentage of revenue, sales and marketing expenses were 21% during each of the three and six-month periods ended June 30, 2018 and 2017.

Product Development Expenses

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 expenses increased $156,000, or 121%, and $329,000, or 130%, during the three and six-month periods ended June 30, 2018, respectively, compared to the same periods in 2017. The increase is the result of less capitalization and increased maintenance costs as certain projects were completed and placed into production during 2017. The Company did not capitalize any additional development costs during the three and six-month periods ended June 30, 2018, compared to $314,000 and $680,000 during the three and six-month periods ended June 30, 2017, respectively.

As a percentage of revenue, product development expenses were 8% for both the three and six-month periods ended June 30, 2018, an increase compared to 4% for the same periods of 2017.

Depreciation and Amortization

Depreciation and amortization expenses increased $39,000, or 38%, and $72,000, or 35%, during the three and six-month periods ended June 30, 2018, as compared to the same periods of 2017. The increase is due to amortization of intangible assets acquired in the Interwest acquisition.

Other expense

For the three and six months ended June 30, 2017, other expense is primarily the result of the change in fair value of stock received, in lieu of cash, to settle an outstanding receivable.

Interest income (expense), net

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

Income tax (benefit) expense

We recognized income tax expense of $224,000 and $214,000 during the three and six-month periods ended June 30, 2018, respectively, compared to $224,000 and $264,000 during the same periods of 2017. 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-month period ended June 30, 2018, the variance between the Company’s effective tax rate and the U.S. statutory rate of 21% is primarily attributable to additional expense as a result of a tax shortfall associated with stock-based compensation in the amount of $68,000, partially offset by foreign statutory tax rate differentials and tax credits. For the six-month period ended June 30, 2018, the impact of stock-based compensation resulted in a tax benefit of $4,000. 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 at the time of 34% is primarily attributable to the excess stock-based compensation tax benefit of $45,000 and $122,000, respectively, as well as foreign statutory tax rate differentials and tax credits.

Net Income

Net income for the three and six-month periods ended June 30, 2018, was $366,000 and $686,000, respectively, compared to $493,000 and $817,000 for the same periods of 2017.

Although we achieved increases in revenue and gross margin, these increases were offset by higher operating expenses, primarily due to further investment in our cloud-based products and increased headcount of the sales team. Additionally, during the three-month period ended June 30, 2018, we recorded a higher effective tax rate and income tax expense as a result of a shortfall associated with stock-based compensation.

Liquidity and Capital Resources

As of June 30, 2018, we had $6,834,000 in cash and cash equivalents and $1,642,000 in net accounts receivable. Current liabilities at June 30, 2018, totaled $2,638,000 including our accounts payable, deferred revenue, accrued payroll liabilities, income taxes payable, current portion of remaining payments for Interwest and other accrued expenses. At June 30, 2018, our current assets exceeded our current liabilities by $6,561,000.

Effective September 1, 2017, we renewed our Line of Credit, which increased the amount of funds available for borrowing from $2,000,000 to $2,500,000. The interest rate remained at LIBOR plus 2.50%. As of June 30, 2018, the interest rate was 4.57% and we 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 fund any future acquisitions or meet future obligations. There can be no assurance that cash generated from operations will be sufficient to fund our operating expenses, 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.

2018 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 believe we are positioned well in this space to be both competitive and agile to deliver these solutions to the market. As we have seen over the last several quarters, the transition to digital platforms has had a negative effect on our revenue in the Service portion of our business 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. The transition to a subscription model has been and will continue to be key for the long-term sustainable growth management expects from our new platforms.

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

Expand our Platform and Technology business development and sales team,

Expand customer base,

Continue to migrate acquired customers to our current platform,

Continue to expand our newswire distribution,

Invest in technology advancements and upgrades, Generate profitable sustainable growth,

Generate cash flows from operations

We believe there is significant demand for our products among the middle, small and micro-cap markets globally, as they seek to find better platforms and tools to disseminate and communicate their respective messages. We believe we have the product sets, platforms and capacity to meet their requirements.

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

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 DISCLOSURESABOUT MARKET RISK.

Not applicable

ITEM 4. CONTROLS AND PROCEDURES.

As of the end of the period covered by this quarterly report on Form10-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/A filing.

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

None, except as previously disclosed on the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 5, 2018.

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
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
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

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SIGNATURES

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

Date: August 2, 2018

ISSUER DIRECT
CORPORATION

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

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