

ISSUER DIRECT CORP
Form 10-Q/A
August 11, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
No. 1

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

For the quarterly period ended: June 30, 2010
or

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

For the transition period from: _____ to _____

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

Delaware
(State or Other Jurisdiction
of Incorporation)

1-10185
(Commission
File Number)

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

201 Shannon Oaks Circle Suite 105, Cary North, Carolina 27511
(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 ☐ o

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 17,535,312 shares of common stock were issued and outstanding as of August 9, 2010.

Explanatory Note

The purpose of this Amendment No. 1 to our Quarterly report on Form 10-Q for the period ended June 30, 2010, as filed with the Securities and Exchange Commission on August 9, 2010, is to furnish Exhibits 101 to the Form 10-Q as required by Rule 405 of Regulation S-T.

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<u>EX-31.1</u>	Chief Executive Officer Certification Pursuant to Section 302
<u>EX-31.2</u>	Chief Financial Officer Certification Pursuant to Section 302
<u>EX-32.1</u>	Chief Executive Officer Certification Pursuant to Section 906
<u>EX-32.2</u>	Chief Financial Officer Certification Pursuant to Section 906

EX-101.INS	XBRL INSTANCE DOCUMENT
EX-101.SCH	XBRL TAXONOMY EXTENSION SCHEMA
EX-101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
EX-101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
EX-101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ISSUER DIRECT CORPORATION
CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,623,824	\$146,043
Accounts receivable, (net of allowance for doubtful accounts of \$59,789 and \$16,785, respectively)	836,014	152,069
Security deposits	6,242	6,242
Other current assets	33,934	19,201
Total current assets	2,500,014	323,555
Furniture, equipment and improvements (net of accumulated depreciation of \$26,227 and \$18,316, respectively)	20,380	21,087
Intangible assets (net of accumulated amortization and impairment of \$81,500 and \$67,833, respectively)	106,695	120,363
Total assets	\$2,627,089	\$465,005
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,721,948	\$51,715
Accrued expenses	195,057	59,810
Notes payable – related party	-	73,525
Total liabilities	1,917,005	185,050
Stockholders' equity:		
Preferred stock, \$1.00 par value, 10,000,000 shares authorized – Series A, 60 shares designated, 31 and 5 shares issued and outstanding as of June 30, 2010 and December 31, 2009, respectively, Series B, 476,200 shares designated; no shares issued and outstanding.	31	5
Common stock \$.001 par value, 100,000,000 shares authorized, 17,535,312 and 16,826,342 shares issued and outstanding as of June 30, 2010 and December 31, 2009, respectively.	17,535	16,826
Additional paid-in capital	1,629,584	1,463,697
Accumulated deficit	(937,066)	(1,200,573)
Total stockholders' equity	710,084	279,955
Total liabilities and stockholders' equity (deficit)	\$2,627,089	\$465,005

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

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ISSUER DIRECT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenues	\$2,359,650	\$765,808	\$2,964,731	\$1,238,341
Cost of services	1,913,101	271,041	2,112,356	485,041
Gross profit	446,549	494,767	852,375	753,300
Operating costs and expenses				
General and administrative	205,678	138,527	365,979	240,125
Sales and marketing expenses	103,319	77,391	167,511	132,381
Depreciation and amortization	10,181	9,932	21,580	19,264
Total operating costs and expenses	319,178	225,850	555,070	391,770
Net operating income	127,371	268,917	297,305	361,530
Other income (expense):				
Interest income (expense), net	1,472	(65)	(33,798)	(1,336)
Total other income (expense)	1,472	(65)	(33,798)	(1,336)
Net income	\$128,843	\$268,852	\$263,507	\$360,194
Income per share - basic	\$0.01	\$0.02	\$0.02	\$0.02
Income per share - fully diluted	\$0.01	\$0.02	\$0.02	\$0.02
Weighted average number of common shares outstanding				
- basic	17,493,090	16,748,783	17,169,575	16,187,857
Weighted average number of common shares outstanding				
- fully diluted	17,751,413	16,795,573	17,321,365	16,240,388

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

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ISSUER DIRECT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six months ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$263,507	\$360,194
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	21,580	19,264
Bad debt expense	47,780	26,963
Non-cash interest expense	34,178	-
Stock-based expenses	45,000	-
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(731,725)	(122,564)
Decrease (increase) in deposits and prepaids	(14,733)	(21,911)
Increase (decrease) in accounts payable	1,670,233	(63,305)
Increase (decrease) in accrued expenses	149,166	(5,389)
Net cash provided by operating activities	1,484,986	193,252
Cash flows from investing activities:		
Purchase of property and equipment	(7,205)	(11,661)
Net cash used in investing activities	(7,205)	(11,661)
Cash flows from financing activities:		
Repurchase of common stock	-	(6,750)
Repayments of notes payable	-	(39,828)
Net cash used in financing activities	-	(46,578)
Net change in cash	1,477,781	135,013
Cash – beginning	146,043	50,367
Cash – ending	\$1,623,824	\$185,380
Supplemental disclosure for non-cash investing and financing activities:		
Cash paid for interest	\$518	\$1,192
Cash paid for income taxes	\$-	\$-
Non-cash activities:		
Accrued expenses settled by issuance of shares	\$-	\$25,000
Related party notes payable and accrued interest converted to common shares	\$59,666	\$-
Related party notes payable and accrued interest converted to preferred shares	\$27,780	\$-

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

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ISSUER DIRECT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Accounting Policies

Basis of Presentation

The unaudited interim balance sheet as of June 30, 2010 and statements of operations and cash flows for the periods ended June 30, 2010 and 2009 included herein, have been prepared in accordance with the instructions for Form 10-Q under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Article 10 of Regulation S-X under the Exchange Act. In the opinion of the management, they include all normal recurring adjustments necessary for a fair presentation of the financial statements. Results of operations reported for the interim periods are not necessarily indicative of results for the entire year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations relating to interim financial statements. The interim financial information should be read in conjunction with Issuer Direct Corporation's (the Company's) 2009 audited financial statements filed on Form 10-K.

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

Note 2. Summary of Significant Accounting Policies

Earnings per Share (EPS)

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Diluted income per share for the quarter and six months ending June 30, 2010, gives effect to the weighted average of 258,323 shares issuable upon conversion of the Company's shares of preferred stock. Diluted income per share for the quarter and six months ending June 30, 2009, gives effect to the weighted average of 41,665 shares issuable upon conversion of the Company's shares of preferred stock.

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 to most customers on an unsecured basis. In determining the amount of the allowance, management is required to make certain estimates and assumptions. During the three month period and six month period ended June 30, 2010, we recorded bad debt expense totaling and \$15,659 and \$47,780, respectively. During the three month period and six month period ended June 30, 2009, we recorded bad debt expense totaling \$16,158 and \$26,963, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for doubtful accounts and the valuation of goodwill and intangible assets. Actual results could differ from those estimates.

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ISSUER DIRECT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Income Taxes

We comply with FASB ASC No. 740 – Income Taxes (formerly SFAS No. 109, “Accounting for Income Taxes”) which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred income tax assets to the amounts expected to be realized. For any uncertain tax positions, we recognize the impact of a tax position, only if it is more likely than not of being sustained upon examination, based on the technical merits of the position. Our policy regarding the classification of interest and penalties is to classify them as income tax expense in our financial statements, if applicable.

At the end of each interim period, we estimate the effective tax rate we expect to be applicable for the full fiscal year and this rate is applied to our results for the interim year to date period. Based upon our evaluation of possible future events and transactions, and expected changes to our valuation allowance and utilization of our net operating loss carryforwards, we currently estimate our effective tax rate for the 2010 fiscal year will be 0%.

Fair Value Measurements

As of June 30, 2010 and December 31, 2009, we do not have any financial assets or liabilities that are required to be, or that we elected to measure, at fair value.

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

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

Recent Accounting Pronouncements

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

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ISSUER DIRECT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 3. Notes payable – related party

As of December 31, 2009, we had three unsecured related party notes payable outstanding, totaling \$73,525 as follows:

	June 30, 2010	December 31, 2009
Note Payable to our Chief Executive Officer in the amount of \$25,000 for various obligations the former company was party to, including former legal counsel, former transfer agent and tax obligations with the state of Delaware. The unsecured note carries interest in the amount of 8% per annum and was due on December 31, 2008. The note was in default at December 31, 2009. The note and accrued interest was converted into 26 shares of Series A preferred stock during the six month period ended June 30, 2010.	\$	—\$ 23,525
Unsecured Note Payable to a Director of the Company in the amount of \$25,000, with interest of 8%, due on receipt by the Company or its designated escrow agent of an aggregate of \$1,000,000 in gross proceeds of the Private Placement. The note and accrued interest was converted into 229,485 shares of common stock during the six month period ended June 30, 2010.		— 25,000
Unsecured Note Payable to a Director of the Company in the amount of \$25,000, with interest of 8%, due on receipt by the Company or its designated escrow agent of an aggregate of \$1,000,000 in gross proceeds of the Private Placement. The note and accrued interest was converted into 229,485 shares of common stock during the six month period ended June 30, 2010.		— 25,000
Total notes payable - related party	\$	—\$ 73,525

Note 4. Preferred stock and common stock

During the six months ended June 30, 2010, we had the following preferred and common stock transactions:

On March 25, 2010, we issued 150,000 shares of common stock to our Chief Financial Officer in exchange for services. The fair market value of the shares totaled \$27,000, or \$0.18 per share, which represents the closing price on the date of issuance.

On March 31, 2010, we issued 458,970 shares of commons stock to two prior Directors of the Company for the conversion of notes payable totaling \$50,000 and accrued interest of \$9,666. The notes payable and accrued interest were converted at \$0.13 per share, which represents the average share price over the prior twelve months. The fair value of common stock on the date of the transaction was \$0.18. The difference of \$0.05 per share, or \$22,949, has been recorded as additional interest expense.

On March 31, 2010, we issued 26 shares of Series A preferred stock to our Chief Executive Officer for the conversion of a note payable in the amount of \$23,525 and accrued interest of \$4,245. The fair value of the preferred stock on the date of the transaction was \$39,000, which was determined based upon the number of common shares issuable upon conversion of the preferred shares into common stock, 216,666, and the market price

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of our common stock on the date of the agreement of \$0.18. The difference between the carrying value of the debt and accrued interest and the fair value of the preferred shares of \$11,230 has been recorded as additional interest expense.

On May 10, 2010, we issued 100,000 shares of common stock to our Chief Financial Officer in exchange for services. The fair market value of the shares totaled \$18,000, or \$0.18 per share, which represents the closing price on the date of issuance.

At June 30, 2010, we had 31 outstanding shares of Series A Preferred Stock. Although the Certificate of Designation of the rights, preferences and limitations of the Preferred Stock provides for dividends equal to eleven percent (11.0%) per year on the liquidation preference of \$25,000 per share, we have not declared or accrued such dividends. Under the provisions of the Certificate of Designation, dividends are an obligation only when declared, and the Board has not declared any dividends payable on the Series A Preferred Stock. Each share of Series A Preferred Stock is convertible into 8,333 shares of common stock. Of the outstanding preferred shares, 5 of these shares were issued by our predecessor company and the original documentation which would validate claims thereto is not available, and we are taking steps to retire those shares.

Note 5.

Concentrations

For the three- and six-month periods ended June 30, 2010 and 2009, 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	2010	2009	2010	2009