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STOCKGROUP INFORMATION SYSTEMS INC

Form 10QSB

August 14, 2003

Form 10-QSB  
U.S. Securities and Exchange Commission  
Washington, D.C. 20549

(Mark One)

Quarterly report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2003.

Transition report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934

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

Commission file number: 0-23687

Stockgroup Information Systems Inc.  
(Exact name of small business issuer as specified in its charter)

Colorado  
(State or other jurisdiction of  
incorporation or organization)

84-1379282  
(I.R.S. Employer  
Identification No.)

SUITE 500 - 750 W PENDER STREET  
VANCOUVER BRITISH COLUMBIA CANADA V6C 2T7  
(Address of principal executive offices)

A2  
(Zip Code)

Issuer's telephone number, (604) 331-0995

(Former name or address, if changed since last report)

Check whether the issuer

(1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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:

Applicable only to issuers involved in bankruptcy  
proceedings during the preceding five years

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by court. Yes  No

Applicable only to corporate issuers

State the number of shares outstanding of each of the issuer's classes of common

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equity, as of the latest practicable date: 29,418,371

Transitional Small Business Disclosure Format (check one): Yes: \_\_\_ No: X

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Stockgroup Information Systems Inc.  
FORM 10-QSB

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PART I. FINANCIAL INFORMATION  
 Item 1. Financial Statements (unaudited)

Stockgroup Information Systems Inc.  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED - Expressed in U.S. Dollars)

[See Note 1 - Nature of Business and Basis of Presentation]

	June 30, 2003	December 31, 2002
	-----	-----
ASSETS		
CURRENT		
Cash and cash equivalents. . . . .	\$ 553,358	\$ 539,970
Marketable securities. . . . .	4,312	1,198
Accounts receivable [net of allowances for doubtful accounts of \$93,519; December 31, 2002 \$40,866] .	359,589	169,675
Prepaid expenses . . . . .	84,178	102,118
	-----	-----
TOTAL CURRENT ASSETS . . . . .	\$ 1,001,437	\$ 812,961

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Property and equipment, net. . . . .	\$	466,452	\$	638,665
		-----		-----
	\$	1,467,889	\$	1,451,626
		=====		=====
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)				
CURRENT				
Accounts payable . . . . .	\$	293,767	\$	313,272
Accrued payroll liabilities. . . . .		56,419		109,930
Deferred revenue . . . . .		312,839		320,900
Current portion of capital lease obligation. . . . .		79,430		103,205
Current portion of notes payable . . . . .		223,994		95,371
Current portion of convertible notes (note 2). . . . .		-		81,328
		-----		-----
TOTAL CURRENT LIABILITIES. . . . .	\$	966,449	\$	1,024,006
Capital lease obligation . . . . .		-		31,844
Notes Payable. . . . .		-		159,787
Convertible notes (note 2) . . . . .		-		1,486,806
		-----		-----
TOTAL LIABILITIES. . . . .	\$	966,449	\$	2,702,443
		=====		=====
COMMITMENTS AND CONTINGENCIES (note 6)				
SHAREHOLDERS' EQUITY (DEFICIENCY) (note 3)				
COMMON STOCK, No Par Value				
Authorized shares - 75,000,000				
Issued and outstanding shares - 28,422,371				
at June 30, 2003 [19,552,596- December 31, 2002]. . . . .	\$	12,237,274	\$	9,203,235
ADDITIONAL PAID-IN CAPITAL . . . . .		3,067,471		2,987,331
ACCUMULATED DEFICIT. . . . .		(14,803,305)		(13,441,383)
		-----		-----
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY). . . . .	\$	501,440	\$	(1,250,817)
		-----		-----
	\$	1,467,889	\$	1,451,626
		=====		=====

The Accompanying Notes Are An Integral Part  
Of These Unaudited Financial Statements.

Stockgroup Information Systems Inc.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED - Expressed in U.S. Dollars)

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
	-----	-----	-----	-----
REVENUE				
Revenues. . . . .	\$ 688,529	\$ 407,703	\$ 1,290,241	\$ 849,944
Cost of revenues. . . . .	176,332	169,258	333,686	333,506
	-----	-----	-----	-----
Gross profit. . . . .	\$ 512,197	\$ 238,445	\$ 956,555	\$ 516,438

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EXPENSES				
Sales and marketing . . . . .	\$ 166,041	\$ 137,451	\$ 324,815	\$ 229,511
General and administrative . . . . .	574,050	432,188	1,111,789	814,226
	<u>740,091</u>	<u>569,639</u>	<u>1,436,604</u>	<u>1,043,737</u>
LOSS FROM OPERATIONS . . . . .	\$ (227,894)	\$ (331,194)	\$ (480,049)	\$ (527,299)
Interest income . . . . .	-	22	-	168
Interest expense ordinary . . . . .	(11,789)	(4,095)	(24,647)	(9,881)
Interest on conversion of 8% convertible notes (note 2)	(656,707)	(33,966)	(860,351)	(52,330)
Interest on conversion of 3% convertible debentures . . . . .	-	-	-	(160,209)
Loss on warrants liability . . . . .	-	-	-	(55,000)
Gain on restructuring of convertible notes . . . . .	-	-	-	1,088,586
Other income . . . . .	2,653	(1,671)	3,125	2,279
NET INCOME (LOSS) . . . . .	<u>\$ (893,737)</u>	<u>\$ (370,904)</u>	<u>\$ (1,361,922)</u>	<u>\$ 286,314</u>
BASIC AND DILUTED EARNINGS				
(LOSS) PER SHARE:				
Loss from operations . . . . .	\$ (0.01)	\$ (0.03)	\$ (0.02)	\$ (0.04)
Income (loss) interest and other . . . . .	\$ (0.03)	\$ (0.00)	\$ (0.04)	\$ 0.06
Net income (loss) . . . . .	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ 0.02</u>
Weighted average shares outstanding for the period . . . . .	<u>24,199,767</u>	<u>13,841,482</u>	<u>22,371,013</u>	<u>12,313,576</u>

The Accompanying Notes Are An Integral Part  
Of These Unaudited Financial Statements.

Stockgroup Information Systems Inc.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED - Expressed in U.S. Dollars)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
	<u>-----</u>	<u>-----</u>
OPERATING ACTIVITIES		
Net income (loss) . . . . .	\$(1,361,922)	\$ 286,314
Add (deduct) non-cash items		
Amortization . . . . .	189,853	76,399
Gain on restructuring of convertible notes . . . . .	-	(1,088,586)
Loss on warrants liability . . . . .	-	55,000
Effective interest on convertible notes and debentures . . . . .	860,351	212,539

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Bad debt expense. . . . .	52,653	(42,468)
Common stock and equivalents issued for services. . . .	-	167,500
Stock based compensation	-	38,878
Unrealized foreign exchange (gain) loss . . . . .	23,762	-
	\$ (235,303)	\$ (294,424)
Net changes in non-cash working capital		
Marketable securities . . . . .	(3,114)	8,545
Accounts receivable . . . . .	(242,567)	53,367
Prepaid expenses. . . . .	17,940	(75,747)
Accounts payable. . . . .	(19,505)	(82,776)
Accrued payroll liabilities . . . . .	(53,511)	(64,166)
Accrued interest on notes payable . . . . .	(7,927)	1,018
Deferred revenue. . . . .	(8,061)	123,761
	\$ (552,048)	\$ (330,422)
FINANCING ACTIVITIES		
Issuance of common stock and warrants (net) . . . . .	625,281	390,920
Proceeds on exercise of warrants. . . . .	83,775	-
Proceeds on exercise of stock options . . . . .	11,970	-
Repayment of convertible debt . . . . .	(35,332)	(23,340)
Repayment of notes payable. . . . .	(47,000)	-
Repayment of capital lease obligation . . . . .	(55,619)	(4,062)
Repayment of bank indebtedness. . . . .	-	(2,717)
	\$ 583,075	\$ 360,801
INVESTING ACTIVITIES		
Property and equipment (net). . . . .	(17,639)	(10,690)
	\$ (17,639)	\$ (10,690)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS. . . . .		
Cash and cash equivalents, beginning of period. . . . .	13,388	19,689
	539,970	126,618
	\$ 553,358	\$ 146,307
	\$ 553,358	\$ 146,307

The Accompanying Notes Are An Integral Part  
Of These Unaudited Financial Statements.

Stockgroup Information Systems Inc.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Six Months Ended June 30, 2003  
(UNAUDITED)

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Stockgroup Information Systems Inc. (the "Company") is a financial media and technology company that provides various financial software solutions, tools, content and services to media, corporate, and financial services companies. The Company employs proprietary technologies that enable its clients to provide financial data streams and news combined with fundamental, technical, productivity, and disclosure tools to their customers, shareholders, and employees in a cost effective manner. The Company also provides Internet communications products for publicly traded companies and an online research

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center for the investment community through its Stockhouse and Smallcapcenter financial web sites.

The Company was incorporated under the laws of Colorado on December 6, 1994.

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003.

The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements.

These interim financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2002.

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

These financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

The Company incurred an operating loss of \$480,049 for the six months ended June 30, 2003, and had working capital of \$34,990 as at June 30, 2003. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management has been able, thus far, to finance the losses, as well as the growth of the business, through a series of equity and debt private placements. The Company is continuing to seek other sources of financing in order to grow the business to the greatest possible extent. There are no assurances that the Company will be successful in achieving its goals.

In view of these conditions, the ability of the Company to continue as a going concern is uncertain and dependent upon achieving a profitable level of operations and on the ability of the Company to obtain necessary financing to fund ongoing operations. Management believes that its current and future plans provide an opportunity to continue as a going concern. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

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June 30, 2003      December 31, 2002

-----			
8% Convertible notes, maturing December 31, 2005			
Principal . . . . .	\$	-	\$ 1,704,000
Unamortized debt discount . . . . .		-	(135,866)
-----			
Subtotal . . . . .	\$	-	\$ 1,568,134
Current portion . . . . .		-	81,328
Long Term Portion . . . . .		-	1,486,806
=====			

On January 28, 2003, one of the noteholders converted its entire principal balance of \$392,984 into 1,228,075 common shares at a negotiated conversion price of \$0.32. The discount on the conversion price was deemed an inducement to convert, resulting in an interest expense of \$145,895 representing the excess of the fair value of the notes after inducement over the fair value before inducement. The unamortized debt discount on the portion of the total principal was fully expensed on the conversion date, resulting in an interest expense of \$31,711.

On May 12 and May 28, 2003, the remaining noteholder converted its entire principal balance of \$1,225,684 into 4,380,000 common shares at a negotiated conversion price of \$0.28. The discount on the conversion price was deemed an inducement to convert, resulting in an interest expense of \$578,590 representing the excess of the fair value of the notes after inducement over the fair value before inducement. The unamortized debt discount on the portion of the total principal was fully expensed on the conversion date, resulting in an interest expense of \$69,437.

### 3. SHARE CAPITAL

The Company is authorized to issue up to 75,000,000 shares of common stock and 5,000,000 shares of preferred stock.

At June 30, 2003, in addition to the 28,422,371 common shares outstanding, there were also 2,504,200 stock options and 6,634,013 warrants outstanding.

Issues of common shares and common share equivalents for the six-month period ended June 30, 2003 are summarized as follows:

On January 28, 2003, we issued 1,228,075 common shares pursuant to a conversion of \$392,984 of principal of convertible notes at \$0.32.

On February 3, 2003 we issued 100,000 common shares pursuant to a conversion of \$50,000 of principal of convertible notes at \$0.50.

During Q1 2003, 335,100 common shares were issued pursuant to exercises of warrants at \$0.25 for gross proceeds of \$83,775.

On March 28, 2003, 4,800 common shares were issued to an employee pursuant to an exercise of options at \$0.15, for gross proceeds of \$720.

On April 24, 2003, we issued 75,000 common shares to an employee pursuant to an exercise of options at \$0.15, for gross proceeds of \$11,250.

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On May 12 and May 28, 2003, we issued a total of 4,380,000 common shares pursuant to a conversion of \$1,225,684 of principal of convertible notes at \$0.28.

On June 4, 2003 we issued 2,746,800 units at C\$0.37 (approximately \$0.27), for gross proceeds of C\$1,016,316 (approximately \$748,723) under a Short Form Offering. Each unit consists of one common share and one non-transferable share purchase warrant. Each two warrants are exercisable at C\$0.75 (approximately \$0.55) until June 4, 2004. We also issued Agent Options to acquire 274,680 units, exercisable at C\$0.37 until June 4, 2005.

### Stock Options

The Company's 1999, 2000, 2001, and 2002 Stock Option Plans (collectively the "Plans") authorize a total of 5,000,000 common shares for issuance. Activity under the Plans is set forth below.

	Options Outstanding			
	Shares available for grant	Number of shares	Price per share	Weighted Average Exercise Price
Balance at December 31, 2002	898,278	2,602,700	\$0.12 - 0.59	\$ 0.20
Options exercised . . . . .	-	(79,800)	0.15	0.15
Options forfeited . . . . .	-	(18,700)	0.15 - 0.31	0.21
Balance at June 30, 2003 . .	898,278	2,504,200	\$0.12 - 0.59	\$ 0.20

### Warrants

As at June 30, 2003, common stock issuable pursuant to warrants outstanding is as follows:

	Warrants Outstanding At January 1, 2003 #	Warrants Issued #	Warrants Exercised #	Warrants Cancelled #	Warrants Outstanding at June 30, 2003 #	Exercise Price \$	Expiry Date
Series 1.	281,818	-	-	-	281,818	3.00	March 31, 2003
Series 3A	500,000	-	-	-	500,000	0.25	July 31, 2003
Series 3B	300,000	-	-	-	300,000	0.50	July 31, 2003
Series 4.	2,000,000	-	335,100	-	1,664,900(1)	0.30	Sept 30, 2003
Series 5.	250,000	-	-	-	250,000	0.30	Sept 15, 2003
Series 6.	1,701,875	-	-	-	1,701,875	0.22	Dec 31, 2003
Series 7.	150,000	-	-	-	150,000	0.16	Dec 31, 2003
Series 8.	-	1,373,400	-	-	1,373,400	0.55	June 4, 2003
Series 9.	-	274,680	-	-	274,680	0.27	June 4, 2003
Series 10	-	137,340	-	-	137,340	0.55	June 4, 2003

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 5,183,693      1,785,420      335,100                      -      6,634,013  
 =====

(1) On March 30, 2003 the expiry date on the Series 4 warrants was extended from March 30, 2003 to September 30, 2003, and the exercise price was changed from \$0.25 to \$0.30.

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4. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company measures compensation expense for all of its Stock Option Plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations and complies with the disclosure provisions of Statement of Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by Statement of Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" ("SFAS 148").

The following table provides pro forma disclosures of the effect on net income and earnings per share as if the fair value-based method had been applied in measuring compensation expense:

	For the three months ended		For the six months ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Net income (loss) -				
as reported . . . . .	\$ (893,737)	\$ (370,904)	\$ (1,361,922)	\$ 286,314
Add: Stock-based employee compensation expense included in reported net income . . . . .	-	11,310	-	38,878
Deduct: Stock-based employee compensation expense determined under the fair value- based method for all awards . . . .	(5,025)	(97,087)	(13,399)	(245,603)
Net income - pro forma.	\$ (898,762)	\$ (456,681)	\$ (1,375,321)	\$ 79,589
Net income per share				
As reported . . . . .	\$ (0.04)	\$ (0.03)	\$ (0.06)	\$ 0.02
Pro forma . . . . .	(0.04)	(0.03)	(0.06)	0.01

For purposes of the pro forma disclosures, the estimated fair value of the stock options is amortized over the stock options' vesting period.

The pro forma effects of applying SFAS 123 for the periods presented are not likely to be representative of the pro forma effects of future periods as the number of stock options and the vesting schedules thereof vary widely from

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quarter to quarter. No options were granted during the six months ended June 30, 2003.

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The weighted average assumptions used and the resulting estimates of weighted average fair value of stock options granted are as follows:

	For the three and six months ended	
	June 30, 2003	June 30, 2002
Dividend yield	0%	0%
Weighted average expected life (years)	4.06	4.50
Risk-free interest rate	4.30%	3.83%
Expected volatility	121%	214%

### 5. SEGMENTED INFORMATION

SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information, requires a public business enterprise to report financial and descriptive information about its reportable operating segments. The Company has concluded that its business activities fall into one identifiable business segment with the following sources of revenue:

	For the three months ended		For the six months ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Public Company				
Disclosure and				
Awareness Products . . . . .	\$ 380,380	\$ 242,190	\$ 765,960	\$ 527,366
Financial Software and				
Content Systems . . . . .	308,149	165,513	524,281	322,578
	\$ 688,529	\$ 407,703	\$ 1,290,241	\$ 849,944

During the first six months of 2003 and 2002 the Company had no customers from whom revenue received by the Company represented greater than 10% of total revenue.

### 6. COMMITMENTS AND CONTINGENCIES

The Company is currently involved in litigation with a customer to collect amounts owing pursuant to a contract entered into in September 2000. The defendant provided a \$100,000 deposit and contracted the Company to provide certain advertising services. The Company delivered the requested services throughout October and November 2000; however, the defendant defaulted on all additional payments. The Company is suing the defendant for the \$351,800 balance owing, plus interest and costs. The defendant has filed a statement of defense and counterclaim to recover the \$100,000 deposit. No court date has been set at this time. Although management currently believes the outcome of the litigation will be in the Company's favour, they have not elected to aggressively pursue the litigation at this time. The Company has made no provision for the counterclaim in the financial statements and any settlement or final award will be reflected in the statement of operations as the litigation is resolved.

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In addition, the company is subject to various other legal matters in the ordinary course of business. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that the ultimate resolution of these matters would not have a material effect on the Company's financial position or results of operations.

### 7. RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the FASB issued FASB Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees, including indemnifications, that an entity has issued. The disclosure provisions of FIN 45 are effective for financial statements of interim periods ending after December 15, 2002; however, the provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The initial adoption of FIN 45 did not have a material impact on the Company's financial position, results of operations or cash flows.

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### 8. SUBSEQUENT EVENTS

- a) On July 4, 2003 Stockgroup notified Stockhouse Media Corporation that, in accordance with the terms of the Joint Venture Development and Operating Agreement dated June 19, 2002, we would be purchasing their remaining 35% interest in the assets contemplated in the agreement for 920,000 common shares of Stockgroup. As of August 13, 2003 the transaction had not yet taken place.
- b) On July 16, 2003 Stockgroup closed the second and final part of it's Short Form Offering, issuing 996,000 units at C\$0.37 (approximately \$0.27) for gross proceeds of C\$368,520 (approximately \$265,868). Net proceeds after issue costs were approximately \$222,058.

Item 2. Management's Discussion and Analysis of Financial Condition and Results Of Operations

RESULTS OF OPERATIONS - THREE AND SIX MONTHS ENDED JUNE 30, 2003 AND JUNE 30, 2002

The results of the first six months of 2003 are a product of our continued focus on improving the balance sheet and obtaining high quality sales customers and partners for our Financial Software and Content Systems. We continued to acquire additional twelve and twenty-four month customers for our Financial Software and Content Systems, which will continue to grow our recurring revenue stream.

Overall sales are up from Q2 2002 on both a three-month and six-month basis. We continue to adapt to the changes in the markets.

Revenue and Gross Profits

-----  
Revenue Summary (\$000s)

2003	2002	Change (\$)	Change (%)

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For the 6 months ended June 30					
Total revenues . . . . .	\$	1,290	\$	850	\$ 440 +52%
Breakdown of major categories:					
Public Company Disclosure. . .		766		527	239 +45%
Financial Software and Content		524		323	201 +62%
For the 3 months ended June 30					
Total revenues . . . . .	\$	689	\$	408	\$ 281 +69%
Breakdown of major categories:					
Public Company Disclosure. . .		381		242	139 +57%
Financial Software and Content		308		166	142 +86%

Our Public Company Disclosure and Awareness Products revenue stream contains the revenue generated by the Stockhouse websites, which account for a large portion of the increase in 2003 over 2002. We acquired the Stockhouse web property late June 2002.

Financial Software and Content Systems revenue has grown at a steady rate due to its long term contractual nature. As new clients are added, the effect on revenue is felt incrementally over time rather than immediately. This gives us a good base of revenue which will recur for the life of the contract. In Q2 2003 we also earned a large development fee from National Bank Financial, for developing the portion of their public Website which will contain the Stockgroup financial tools.

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### Cost of Revenues and Gross Profit Summary (\$000s)

	2003	2002	Change (\$)	Change (%)
	-----	-----	-----	-----
For the 6 months ended June 30				
Total cost of revenues. . . . .	\$ 334	\$ 334	\$ 0	0%
Gross profit. . . . .	957	516	441	+85%
Gross margin %. . . . .	74%	61%	+13%	
For the 3 months ended June 30				
Total cost of revenues. . . . .	\$ 176	\$ 169	\$ 7	+4%
Gross profit. . . . .	512	238	274	+115%
Gross margin %. . . . .	74%	58%	+16%	

Our cost of revenues consists of bandwidth, data feeds, advertising purchased for resale, and direct production labor. Cost of revenues has remained relatively flat when comparing year over year numbers, partly a reflection of the fixed nature of our direct costs. With the acquisition of Stockhouse, a high traffic Website, our bandwidth and data costs have risen, but our decreased emphasis on highly labor-intensive revenue has caused our direct labor costs to decrease.

Because our cost of revenues have remained relatively flat while sales have increased, our gross profit has increased, both in dollar value and percentage of sales.

We are continuing to provide innovative products in our Public Company

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Disclosure and Awareness Products line, and the IntegrateIR sales remain strong, delivering high value to customers. Historically, many of our Public Company Disclosure and Awareness Products customers have come from the technology sector, and the slowdown in this sector has caused considerable attrition. As well, part of the product line has been affected adversely as public companies reduced or eliminated spending on their awareness products. However, we continue to sign new agreements for our disclosure products with major corporations. We have been diversifying our target market for some time in order to be less dependent on any one sector.

Financial Software and Content Systems continues to be a strong contributor to our overall revenue and gross profits. Our process has matured over the past year, and we are able to efficiently deliver high quality services to customers for a fraction of the cost to customers of having it done internally. We have established relationships with major sales channels, media networks, and financial companies, and have already seen significant results. Financial Software and Content Systems revenue was up this three month period 86% over the same period a year ago, and up 43% quarter over quarter from the first quarter 2003. All of this revenue is contractual, typically in 24-month terms, so we have a solid base of revenue in this area to grow from.

### Operating Expenses

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#### Operating Expenses Summary (\$000s)

	2003 -----	2002 -----	Change (\$) -----	Change (%) -----
For the 6 months ended June 30				
Total operating expenses	\$1,437	\$1,044	\$393	+38%
Breakdown:				
Sales and marketing	325	230	95	+41%
General and administrative	1,112	814	298	+37%
For the 3 months ended June 30				
Total operating expenses	\$740	\$570	\$170	+30%
Breakdown:				
Sales and marketing	166	138	28	+20%
General and administrative	574	432	142	+33%

Sales and marketing expenses increased when comparing with 2002 due to an increase in our number of sales staff. The compensation expense arising from this increase in sales staff accounts for the increase in sales and marketing expense year over year.

General and administrative expenses also increased in Q2 2003 compared to the same period 2002. This increase is due to several factors. The most notable increase has been a general increase in payroll expense, which is our largest expense category. We have also had increases in amortization as the Stockhouse website asset is being amortized over three years on a straight line basis and the related server equipment leased concurrently with the Stockhouse acquisition is being amortized over two years straight line. Other increases have been in filing, regulatory, and investor relations expenses due to our inter-listing on the TSX Venture Exchange in Canada, and bad debts expense caused by our more conservative risk assessment policies on our accounts receivable. Foreign

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exchange loss has increased as well, as the Canadian dollar has generated value relative to the United States dollar, and the majority of our expenses, including payroll, are in Canadian dollars.

### Other Income (Expense) and Income Taxes

#### Interest and Other Expenses Summary (\$000s)

	2003	2002
	-----	-----
For the 6 months ended June 30		
Total interest and other expenses	\$ (882)	\$ 814
Breakdown:		
Cash interest expense . . . . .	(25)	(10)
Non-cash interest expense on conversion of 8% convertible notes . . . . .	(860)	(52)
Non-cash interest expense on conversion of 3% convertible debentures . . . . .	-	(160)
Loss on warrants liability . . . . .	-	(55)
Gain on restructuring of convertible notes . . . . .	-	1,089
Other income . . . . .	3	2
For the 3 months ended June 30		
Total interest and other expenses	\$ (666)	\$ (40)
Breakdown:		
Cash interest expense . . . . .	(12)	(4)
Non-cash interest expense on conversion of 8% convertible notes . . . . .	(657)	(34)
Other income . . . . .	3	(2)

Cash interest, either already paid or payable after the quarter end, consists of interest on notes payable and capital leases. The remaining \$0.860 million of interest for the first six months of 2003 is non-cash interest arising out of the conversion of the 8% convertible notes and the amortization of the debt discount on the 8% convertible notes.

Income taxes were nil in both the first six months 2003 and the same six months 2002. Due to our net loss position, we did not accrue tax in the first six months of 2003. As at the most recent year end, we had tax loss carry forwards of \$5.324 million in Canada which expire in 2006, 2007, and 2008, and tax loss carry forwards of \$3.144 million in the U.S. which expire in 2019, 2020, 2021, and 2022.

### Net Income

The net loss for the first six months of 2003 was \$1.362 million compared to a gain of \$0.286 million in the first six months 2002, a decrease of \$1.648 million. The decrease is due largely to the non-cash interest expense as described above, in 2003 combined with the large non-cash gain on restructuring of our convertible notes in 2002. The removal of the convertible notes from our balance sheet, which was completed in January and May 2003, should reduce the

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net income volatility in the future.

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### CRITICAL ACCOUNTING POLICIES

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Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in accordance with accounting policies generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We believe the following critical accounting policies affect significant judgments, estimates and assumptions used in the preparation of the consolidated financial statements.

#### Revenue

Financial Software and Content Systems and Public Company Disclosure and Awareness Products revenues are recognized as services are rendered based on contractual terms such as usage, fixed fee, or other pricing models. Financial Software and Content Systems are sold in monthly service agreements, typically twelve or twenty-four months in length. Public Company Disclosure and Awareness Products are sold in either one-off or twelve-month contract arrangements. Revenue is recognized only if a contractual arrangement is in place, no significant obligations remain, and collection of the resulting receivable is probable. Start-up fee revenues, charges for implementation and initial integration support of our products, are recognized over the initial term of the contract pursuant to the SEC Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements. Amounts received in advance are deferred and recognized over the service period.

#### Property and Equipment

We evaluate, on a periodic basis, our property and equipment, to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. We base our evaluation on certain impairment indicators, such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If these impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, we then use an estimate of the undiscounted value of expected future operating cash flows to determine whether the asset is recoverable and measure the amount of any impairment as the difference between the carrying amount of the asset and its estimated fair value. The fair value is estimated using valuation techniques such as market prices for similar assets or discounted future operating cash flows.

Amortization of property and equipment is on a straight-line basis over the asset's estimated useful life.

#### Contingencies

From time to time, we are subject to proceedings, lawsuits and other claims related to labor and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these contingencies as well as potential ranges of probable losses and establish reserves accordingly. We use professional judgement, legal advice, and estimates in the assessment of outcomes of contingencies. The amounts of reserve required, if any, may change in future periods due to new developments in each matter or changes in approach to a matter such as a change in settlement strategy.

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### LIQUIDITY AND CAPITAL RESOURCES

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We ended the second quarter of 2003 with cash and cash equivalents of \$553,358, an increase of \$375,282 from March 31, 2003. This compares with a net cash decrease of \$74,935 in Q3 2002, a net cash increase of \$468,598 in Q4 2002 and a net cash decrease of \$361,894 in Q1 2003. Although we expect to generate positive cash flow from operations, we are pursuing financing to improve our working capital position and to grow the business to the greatest possible extent.

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Our cash used in operations for the first six months of 2003 was \$552,048. We repaid \$35,332 of our convertible notes, and \$47,000 in notes payable. Another use of cash was repayment of capital leases, totaling \$55,619. Sources of cash included \$95,745 for proceeds from exercise of warrants and stock options, and \$625,281 from issuance of shares and warrants under a Short Form Offering.

You should be cautioned that there can be no assurance that revenue, margins, and profitability will increase. We have \$223,994 of notes payable and \$79,430 of capital lease obligations due within the next 12 months. As certain of these notes and capital leases, as well as certain other current liabilities are denominated in Canadian dollars, fluctuations in exchange rates with the United States can have an effect on the USD equivalent liabilities. There can be no assurance that we will be successful in raising a sufficient amount of additional capital or in internally generating a sufficient amount of capital to meet long-term requirements.

### CORPORATE DEVELOPMENTS DURING THE PERIOD

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A synopsis of corporate highlights for 2003 is as follows:

1. On January 22, 2003, we reached an agreement with AP Digital, a division of The Associated Press that distributes news and information to interactive applications, to market and resell our market information and financial content management and software system to AP's worldwide network of members and customers.
2. On January 26, 2003, we announced a licensing agreement with Global Securities Information Inc. (GSI) to provide GSI's clients with financial information powered by the software tools and content in our proprietary Financial Content Management System. Global Securities Information Inc. is an award-winning specialty provider of public-record business transaction information to law and accounting firms, investment banks, corporations, and the business press.
3. On January 31, 2003, we announced that Amro International had converted its remaining balance of \$0.4 million of its convertible debenture. The debt was converted into stock at \$0.32/share as part of a negotiation between Amro and Stockgroup to eliminate Amro's debt. Our outstanding long-term debt has been reduced from \$1.7 million to \$1.2 million.
4. On February 5, 2003, we announced an agreement with UnionBanCal Corporation's primary subsidiary, Union Bank of California, N.A. Union Bank will license our cutting-edge XML suite of financial content and software applications. We will customize a scrolling ticker and provide secure XML-based

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quotes, charts and other banking-specific financial content for Union Bank's customers and internal applications.

5. On February 18, 2003, we announced that our popular StockHouse financial Web portals, StockHouse.com and StockHouse.ca, had recorded over 6 million postings within their BullBoards(TM) message forums.

6. On March 18, 2003, we launched a financial resource portal for one of Canada's leading securities dealers, National Bank Financial. National Bank Financial's newly launched customized financial solution will provide online market data products for their clients. The complete suite of market data tools will benefit their clients by providing them with market data research tools such as, Stock Screeners, Mutual Fund Screeners, Technical stock analysis, Market Indices, Stock Charts, Stock Watch Lists, Portfolio Managers, Market Movers, Scrolling Tickers and much more.

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7. On April 15, 2003, Stockgroup and one of its resellers, AP digital, a division of the Associated Press, signed a licensing agreement with Netster.com. As a result of the agreement Netster.com, one of the fastest growing search engines on the Web, will use AP Financial Tools, a suite of news, market data and financial applications powered by Stockgroup's Financial Content Software System and provided by AP Digital. Netster.com is now able to offer its audience these turnkey solutions that present and manage quotes, charts, user portfolios, technical analysis, watch lists and more, through its portal site [www.netster.com](http://www.netster.com).

8. On April 30, 2003, we announced that we will provide Richard Ivey School of Business, financial market content, data, and applications for the use of faculty, students and alumni as a gift to the school. Ivey's students, faculty and alumni will be able to access a suite of news, market data, financial applications and turnkey solutions that present and manage quotes, charts, user portfolios, technical analysis, watch lists and much more, powered by Stockgroup's Financial Content Software System for at least the next five years.

9. On May 9, 2003, we announced with the Associated Press that they had signed Road Runner high speed internet, owned by Time Warner cable, to a licensing agreement to use AP Financial Tools, which are powered by Stockgroup's Financial Software and Content Systems.

10. On May 23, 2003, we announced that Deephaven converted the entire remaining balance of its convertible notes into common shares. The principal balance of \$1.2MM was converted at a negotiated conversion price of \$0.28 into 4.4MM common shares. This conversion removes all the convertible debt from our balance sheet. The conversion was done through an investor group led by U.S. Global Funds (NASDAQ:GROW), an institutional fund which acquired 2.4 million shares of Stockgroup in the transaction.

11. On June 4, 2003 and July 16, 2003, we completed our Short Form Offering equity placement in two parts. The lead underwriter was First Associates Investments Inc. The offering yielded C\$1.4M in gross proceeds and aggregate net proceeds to us of approximately \$0.9M USD, and was composed of 3.7M units at C\$0.37, each unit consisting of one common share and one warrant. Each two warrants may be used to purchase one common share for C\$0.75 until 12 months after the respective completion date. We also issued as an underwriting fee agent's options to purchase 0.4M of the same units at C\$0.37 for 24 months from the completion date, and we paid 8% underwriting commissions plus we reimbursed certain expenses of the underwriter.

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### DESCRIPTION OF BUSINESS MODEL

#### GENERAL

We are a financial media and technology company. Our revenue streams can be categorized into two areas:

- Financial Software and Content Systems,
- Public Company Disclosure and Awareness Products

The clients for Financial Software and Content Systems are primarily enterprise companies from many different markets, such as media, banks and credit unions, stock brokerages, insurance, and others. Public Company Disclosure and Awareness Products are primarily investor awareness and disclosure products for public companies, and advertising on Stockhouse. These products are purchased by companies in all industries as a means of generating public interest in their company or products.

A more detailed discussion of our products follows in the Products and Services section.

#### CORPORATE BACKGROUND

Stockgroup was incorporated under the laws of Colorado on December 6, 1994 under the name I-Tech Holdings Group, Inc. ("I-Tech"), a United States non-operating

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company registered on the NASD OTC Bulletin Board. The financial statements and supporting information in this report are issued under the name of Stockgroup but are a continuation of the financial statements and report of operations of Stock Research Group, Inc. ("SRG"), a British Columbia corporation which was incorporated on May 4, 1995. On March 11, 1999, pursuant to a reverse acquisition, SRG acquired the net assets of I-Tech. For accounting purposes, SRG became a subsidiary of I-Tech.

Our name was changed from I-Tech to Stockgroup.com Holdings Inc. on May 6, 1999 and to Stockgroup Information Systems Inc. on September 20, 2001.

We are a United States publicly traded company registered on the NASD OTC Bulletin Board under the symbol SWEB. From our head office in Vancouver, we operate branch offices in San Francisco and Toronto.

As SRG, we operated from 1995 to 1997 as a profitable financial Internet technology and media company that offered proprietary financial news and tools to investors and companies. We used our experience and the funds from a public offering in spring 1999 to provide the foundation for the development and initial marketing of our products. In October 1999 we launched Smallcapcenter.com. At that time it was widely believed that a subscription/advertising model centering around Smallcapcenter was viable. While parts of this business model did not prove to be profitable, the building of Smallcapcenter and its related investment software and content aggregation & management systems gave us a strong foundation of skills and a suite of products to sell commercially. Smallcapcenter is still a high-traffic and well-maintained portal for the investment community, and its drawing power is a key driver to many of our investor awareness products. It also serves as an excellent development and testing ground for new financial software applications being developed by us on a continuing basis.

From late 1999 to early 2001 we were hired to create several large enterprise

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web sites for different clients on a contract basis. These were large contracts, and added a significant amount of revenue to the Company, but they also added instability in our cost structure. In early 2001 it was decided that this E-Business Solutions division would be de-emphasized in favour of other areas with more profit potential, namely Financial Software and Content Systems and Public Company Disclosure and Awareness Products (as described in the PRODUCTS AND SERVICES section below).

From 2000 to 2001, we expanded our awareness and disclosure product line to include Sector Supplements, and automated investor relations software applications such as the IntegrateIR. We already had a large public company customer base, so the transition into this area was a natural extension of our core competencies.

We entered the Financial Software and Content Systems market late in 2000 by licensing our proprietary financial software applications and third party content to customers that need to offer financial information to their customers or improve their content offering. We had access to a wide array of customers through our internal sales team as well as our reseller channels. Our software content model is attractive to customers because it is a comprehensive and cost effective alternative to in-house development.

Early in 2001, as the market for our products and services evolved, it became apparent to our management where the most profitable and sustainable areas of the business were. They were Financial Software and Content Systems and Public Company Disclosure and Awareness Products (including IntegrateIR and other awareness and disclosure products). Once these were identified, a more streamlined and stable cost structure was introduced to improve profitability and cash flow.

On June 24, 2002, we acquired the Stockhouse website and related assets. These assets added a new dimension to our business, that being a high-traffic, highly recognized financial community. We immediately went to work marketing products and services which leverage the Stockhouse assets. While Stockhouse began contributing to our sales revenue in the third quarter of 2002, the benefits have not yet been fully realized, and we expect solid growth in this area of the business in coming quarters.

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### PRODUCTS AND SERVICES

Our understanding of internet based financial technology and media has enabled us to leverage our products and services to enter new markets and secure new clients. Using a common integrated technology platform, we have developed two main revenue sources: Financial Software and Content Systems and Public Company Disclosure and Awareness Products.

### FINANCIAL SOFTWARE AND CONTENT SYSTEMS

We have developed proprietary financial applications and tools we license to clients. The clients for Financial Software and Content Systems are from many different markets, such as media, banks and credit unions, stock brokerages, leasing, insurance, and other financial services companies.

We provide Financial Software and Content Systems on a private-labeled basis, and they are typically sold on long term (twelve-month or more) contracts, generating recurring revenue streams. Many of the software applications are data-feed driven. We either feed data from our own aggregated databases or from third parties. The advantage of using the Stockgroup system is that the

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customer is able to receive data and information from a variety of different feeds all from one point of contact, at a fraction of the cost of purchasing all feeds individually. We add value by customizing, filtering, and sorting data in the configuration the customer wants, and then adding the different software applications and hosting the entire solution. We are able to use our economies of scale and automation to give a product that is efficiently delivered and customized, and at a substantial costs savings to having the customer build and manage it internally.

Examples of some of the providers of third-party data feeds include Marketguide, Comtex, Multex, and North American Quotations.

We distribute Financial Software and Content Systems through content and application syndicates, such as Yellowbrix, through channel resellers such as The Associated Press, The Canadian Press and through our own sales team. These Financial Software and Content Systems cover the entire North American market including mutual funds, commodities, and equities.

We bring in market feeds through satellite, File Transfer Protocol (FTP), Extensible Markup Language (XML), and other delivery formats. We have built and maintain our proprietary middleware solution that aggregates the multiple feeds, translates and builds a common database infrastructure. Our system then cleans, filters, and maintains the data in a common database structure. A sophisticated server cluster and security system backs this content/data management system. The data is then streamed to our proprietary software applications.

Here are just a few of the over 25 Financial Software and Content Systems products:

- Real-time stock quotes on major U.S. exchanges
- North American 20-minute delayed stock quotes and indices
- Portfolio management, live portfolio updates and wireless portfolio updates
- Most active stock updates
- Stock watch lists
- Company fundamentals, SEC/SEDAR filings
- Daily stock market winners/losers, most actives
- Company profiles, stock screening (investment data) and technical stock analysis
- Employee stock option calculations

The Financial Software and Content Systems is delivered to customers in four different formats:

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- On an Application Service Provider (ASP) basis where the content and software is hosted by us and private-labeled to the customers Internet or Intranet site
- Through our proprietary software objects residing on the customer's servers which use a proprietary Application Protocol Interface (API) to retrieve data from our servers
- Through secured Extensible Markup Language (XML) channel
- Through different wireless devices and modes including: handheld devices, Short Message Service (SMS) paging, and Wireless Application Protocol (WAP) portals which have been built and maintained by us.

PUBLIC COMPANY DISCLOSURE AND AWARENESS PRODUCTS

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We have developed and own a large array of Public Company Disclosure and Awareness Products. These products are used by clients to either a) manage their investor relations and shareholder communications through their web site, b) generate investor interest in their company, c) improve their public disclosure compliance, or d) advertise their products and services.

Products and services offered by this revenue stream include the IntegrateIR software system, Investor Marketplace, E-Mail Distribution of Press Releases, Sector Supplements, At The Bell/Smallcap Express sponsorship, Banner and Button Advertising, Monthly Investor Marketing, Custom Web Site Development, and other online investor marketing products.

Public companies are increasingly outsourcing these activities because they lack the internal skills and resources or because it is more effective and cost efficient than in-house development and maintenance. We offer a 'one-stop shopping' package for corporate clients and provide everything from news release tracking and postings to quarterly streaming conference calls. Our understanding of this market segment and focus has resulted in a highly specialized bundle of products including: private label quotes, charts and database tools for building relationships with shareholders and traffic reports to track investor usage of Web sites and inquiries.

We recently launched version 2.01 of the IntegrateIR, an automated financial application that is licensed to public companies. The IntegrateIR updates the clients' regulated investor relations information automatically by private labeling this software application into the clients' corporate web site. The SEC has mandated fair disclosure policies that make our IntegrateIR especially attractive as it updates news releases, webcasts and SEC filings direct from the wire services as they happen and automatically sends the information to the client's shareholders and interested parties. The IntegrateIR helps to prevent mistakes and increase timeliness compared to having internal staff manually update these activities.

Our IntegrateIR system represents a way to manage shareholder communications and reach new investors. The IntegrateIR is an investor relations web page and email management system that functions as a software application - giving the Investor Relations Officer (IRO) and Chief Financial Officer (CFO) desktop control over the investor relations portion of their web site. In addition to standard features, such as dynamic quotes and charts, the IntegrateIR provides powerful new tools that automate the client's online disclosure activities including publishing their press releases, publishing of regulatory filings and distributing information requested by shareholders, all on a real-time, automated basis.

Other Public Company Disclosure and Awareness Products include the following:

Investor Marketplace (IMP), a web page which is actively marketed through advertising to draw readers, where companies can be featured online to prospective investors. Being featured on the IMP enables customers to get their name, profile, and internet link in front of a large investor audience that they may not otherwise be able to attain.

Targeted e-mail marketing, which is used to disseminate news releases to an exclusive list of opt-in investors and interested parties.

Sector Supplements, which are a spotlight feature on a certain industry sector, such as Energy, Mining, Biotech, or Technology, are an effective exposure tool for companies. In a Sector Supplement, investors are drawn to a web site which

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features up to twelve companies and contains industry-specific news and information. Investors who visit this web site can view each of the featured companies' profiles, request information, or link directly to the client's own web site.

Sponsorship of the At The Bell/Smallcap Express daily market recap mailings that goes to a large audience of e-mail readers who have signed up to receive it through Stockhouse and Smallcapcenter. A client who sponsors At The Bell/Smallcap Express gets an advertising banner at the top of each flight. This can be an effective way for the client to get their name in front of a large number of investors.

Advertising Sponsorship, both on Stockhouse and on Smallcapcenter, is a growing part of our business since the acquisition of Stockhouse. Stockhouse is a high traffic financial community. Research has shown that our traffic is composed of a high income demographic of active investors. This demographic is very attractive to advertisers. The Smallcapcenter demographic, which shares those characteristics, attracts a group whose interest is high-growth stocks. The combination of these two websites gives us a tremendous number of sales options.

The products developed by us over the past five years enable us to offer Public Company Disclosure and Awareness Products to a rapidly growing customer base while maintaining a high sales margin. The revenues derived from this source are typically contractual over a specified term. The Internet communities developed and acquired by Stockgroup host the critical mass to ensure a high level of exposure to our Public Company Disclosure and Awareness Products.

### SHARE PRICE AND VOLUME DATA

Our common stock has been quoted for trading on the OTC Bulletin Board since March 17, 1999, and on the TSX Venture Exchange since December 17, 2002. Accordingly, there has been a limited public market for our common stock.

The following table sets forth high and low bid prices for our common stock on the OTC Bulletin Board for the quarterly periods ending June 30, 2002 through to June 30, 2003. These prices represent quotations between dealers without adjustment for retail markup, markdown or commission and may not represent actual transactions.

Quarter Ending:	High	Low	Volume
June 30, 2002	\$ 0.260	\$ 0.147	2,734,400
September 30, 2002	\$ 0.200	\$ 0.125	1,785,900
December 31, 2002	\$ 0.270	\$ 0.140	6,072,100
March 31, 2003	\$ 0.380	\$ 0.205	4,858,400
June 30, 2003	\$ 0.380	\$ 0.219	7,464,200

The following table sets forth high and low bid prices for our common stock on the TSX Venture Exchange for the period from inception on December 17, 2002 to December 31, 2002, the two quarterly periods ended June 30, 2003. These prices represent quotations between dealers without adjustment for retail markup, markdown or commission and may not represent actual transactions.

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Quarter Ending:	High	Low	Volume
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December 31, 2002 (partial)	C\$ 0.45	C\$ 0.38	181,500
March 31, 2003	C\$ 0.50	C\$ 0.31	575,300
June 30, 2003	C\$ 0.49	C\$ 0.34	703,744

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### Holders

As of the date of this prospectus we had 125 registered shareholders owning 29,418,371 shares of our common stock.

### DIVIDENDS

The Company has not declared any dividends since inception, and has no intention of paying any cash dividends on its Common Stock in the foreseeable future. The payment by the Company of dividends, if any, in the future, rests with the discretion of its Board of Directors and will depend, among other things, upon the Company's earnings, its capital requirements and its financial condition, as well as other relevant factors.

### Item 4. Disclosure Controls and Procedures

In February, 2003, we carried out an evaluation, under the supervision and with the participation of the company's management, including the company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the company in the reports that the company files under the Exchange Act is accumulated and communicated to management, including the company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

However, since our evaluation, we have taken steps to further strengthen and formalize our controls. We have put forth to the board of directors for adoption a formal Corporate Governance Program, consisting of a Code of Business Conduct and Ethics and Compliance Program, An Insider Trading Policy, and the appointment of a Nominating and Corporate Governance Committee. We have also reconfirmed the appointment of our Audit Committee and Compensation Committee.

There have been no significant changes in our internal controls or in other factors, which could significantly affect internal controls subsequent to the date we carried out our evaluation.

## Part II. OTHER INFORMATION

### Item 1. Legal Proceedings

Pacific Capital Markets Inc.

We filed a statement of claim in the Supreme Court of British Columbia on January 3, 2001, against Pacific Capital Markets Inc., James King, Rick Jeffs, and Heidi Hirst. We are suing Pacific Capital Markets Inc. for \$351,800 due to it under a sales contract we signed with them on September 20, 2000. We are suing the individuals named above, who are managers of Pacific Capital Markets Inc., for general damages for misrepresentation. We are seeking payment of the \$351,800 owing, plus interest, damages, costs and such further and other relief as deemed suitable by the court.

On January 12, 2001, Pacific Capital Markets Inc., James King, Rick Jeffs, and Heidi Hirst filed a Statement of Defense and Counterclaim. At the time of this

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filing, no settlement conferences have been held and no court date has been set.

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As of July 31, 2003, no further action had been taken by either side. While we believe we have a strong case, we have not elected to aggressively pursue this litigation at this time, pending further information on the collectibility of the debt.

### Stockhouse BullBoards Legal Issues

We have been named in two lawsuits that we are aware of involving alleged defamation by users of our BullBoards on [www.Stockhouse.com](http://www.Stockhouse.com) (.ca). In one case we have received written assurance from the plaintiff that we have been removed from the list of defendants due to our non-involvement in the alleged defamation. In the other case we are co-operating with the plaintiff and expect to be removed from further action without having to incur legal costs of defense. In the future we may be named in other lawsuits, although we currently are unaware of any pending. We believe that our risk of incurring losses and/or legal expenses from such lawsuits is low.

### Item 2. Changes in Securities and Use of Proceeds

No unregistered securities were issued during the period covered by this report. There were no changes to any class of our securities.

### Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote.

### Item 6. Exhibits and Reports on Form 8-K

#### 1. Reports on Form 8-K (incorporated by reference only)

On March 31, 2003, we filed an 8-K regarding our \$0.544M private placement which closed December 31, 2002.

No other reports on form 8-K have been filed in 2003.

31 (a) CEO Section 302 Certification  
(b) CFO Section 302 Certification

32 (a) CEO Section 906 Certification  
(b) CFO Section 906 Certification

### FORWARD LOOKING STATEMENTS AND RISK FACTORS

This report includes forward-looking statements relating to, among other things, projections of future results of operations, our plans, objectives and expectations regarding our future services and operations and general industry and business conditions applicable to us. We have based these forward-looking statements on our current expectations and projections about future events. You can find many of these forward-looking statements by looking for words such as "may", "should", "believes", "expects", "anticipates", "estimates", "intends", "projects", "goals", "objectives", or similar expressions in this document or in documents incorporated herein. These forward-looking statements are subject to a number of risks, uncertainties and assumptions about us that could cause actual results to differ materially from those in such forward-looking statements. Such risks, uncertainties and assumptions include, but are not limited to, the factors that we describe in the section entitled "Risk Factors" in the Form 10K

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for the year ended December 31, 2002. Stockgroup Information Systems Inc. claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

### SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STOCKGROUP INFORMATION SYSTEMS INC.  
(Registrant)

Date: August 14, 2003

By: /s/ David Gillard, CGA

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Chief Financial Officer, Secretary &  
Treasurer