

STOCKGROUP INFORMATION SYSTEMS INC

Form 10QSB

May 12, 2005

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

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STREET 1:

SUITE 500 - 750 W PENDER STREET

STREET 2:

VANCOUVER BRITISH COLUMBIA

CITY:

CANADA V6C 2T7

STATE:

A2

BUSINESS PHONE:

6043310995

MAIL ADDRESS:

STREET 1:

SUITE 500 - 750 W PENDER STREET

STREET 2:

VANCOUVER BRITISH COLUMBIA

CITY:

CANADA V6C 2T7

STATE:

A2

FORMER COMPANY:

FORMER CONFORMED NAME:

STOCKGROUP COM HOLDINGS INC

DATE OF NAME CHANGE:

20010920

FORMER COMPANY:

FORMER CONFORMED NAME:

I TECH HOLDINGS INC

DATE OF NAME CHANGE:

19990506

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Page 1 of 23

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

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 March 31, 2005.

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)

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Colorado 84-1379282

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

SUITE 500 - 750 W PENDER STREET

VANCOUVER BRITISH COLUMBIA CANADA V6C 2T7 A2

(Address of principal executive offices) (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 equity, as of the latest practicable date: 34,075,346

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

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Stockgroup Information Systems Inc.

FORM 10-QSB

INDEX

PART I. FINANCIAL INFORMATION

4

Item 1. Financial Statements (unaudited)

4

CONSOLIDATED BALANCE SHEETS

4

CONSOLIDATED STATEMENTS OF OPERATIONS

5

CONSOLIDATED STATEMENTS OF CASH FLOWS

6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7

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

12

Item 3. Controls and Procedures

17

Part II. OTHER INFORMATION

18

Item 1. Legal Proceedings

18

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

18

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

19

Item 6. Exhibits and Reports on Form 8-K

19

SIGNATURES

20

Exhibit 31. Section 302 Certifications

21

Exhibit 32. Section 906 Certification

23

Page 3 of 23

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

Stockgroup Information Systems Inc.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED - Expressed in U.S. Dollars)

March 31,

December 31,

2005

2004 (1)

ASSETS

CURRENT

Cash and cash equivalents

\$

2,034,911

\$

1,837,012

Marketable securities

7,361

7,361

Accounts receivable [net of allowances for doubtful

accounts of \$130,080;

December 31, 2004 \$107,344](note 4)

709,908

595,848

Prepaid expenses

79,096

114,426

--

TOTAL CURRENT ASSETS

\$

2,831,276

\$

2,554,647

Property and equipment, net

\$

213,078

\$

287,073

--

\$

3,044,354

\$

2,841,720

=====

==

=====

LIABILITIES AND SHAREHOLDERS EQUITY

CURRENT

Accounts payable and accrued liabilities

\$

358,017

\$

319,846

Accrued payroll liabilities

98,813

104,230

Deferred revenue

930,430

804,061

TOTAL LIABILITIES

\$

1,387,260

\$

1,228,137

COMMITMENTS AND CONTINGENCIES (note 5)

SHAREHOLDERS EQUITY (note 2)

Common Stock, No Par Value

Authorized shares

Issued and outstanding shares 33,982,846 at

March 31, 2005 [33,931,221 December 31, 2004]

\$

13,583,140

\$

13,568,499

Additional paid-in capital

3,115,373

3,099,314

Accumulated deficit

(15,041,419)

(15,054,230)

--

TOTAL SHAREHOLDERS EQUITY

\$

1,657,094

\$

1,613,583

\$

3,044,354

\$

2,841,720

=====

==

=====

(1)

The balance sheet at December 31, 2004 has been derived from the audited consolidated financial statements at that date.

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

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Stockgroup Information Systems Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED - Expressed in U.S. Dollars)

Three Months Three Months

Ended Ended

March 31, March 31,

2005 2004

REVENUE

Revenues (note 4)

\$

1,456,675

\$

1,046,231

Cost of revenues (note 4)

270,983

203,397

Gross profit \$ 1,185,692 \$ 842,834

EXPENSES

Sales and marketing

\$

413,276

\$

316,758

General and administrative

\$

763,401

\$

588,592

\$

1,176,677

\$

905,350

INCOME(LOSS) FROM OPERATIONS

\$

9,015

\$

(62,516)

Interest income

3,834

4,871

Interest expense

(38)

(1,296)

Other income

-

633

NET INCOME (LOSS) AND COMPREHENSIVE

INCOME (LOSS)

\$

12,811

\$

(58,308)

=====

=====

BASIC AND DILUTED INCOME

(LOSS) PER SHARE

\$ 0.00

\$

(0.00)

=====

=====

Basic weighted average shares outstanding

for the period

33,954,977

32,556,809

Fully diluted weighted average shares

outstanding for the period

35,173,397

32,556,809

=====

=====

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

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Stockgroup Information Systems Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED - Expressed in U.S. Dollars)

Three Months

Three Months

Ended March

Ended March

31, 2005

31, 2004

OPERATING ACTIVITIES

Net income (loss)

\$

12,811

\$

(58,308)

Add non-cash items

Amortization

92,756

87,077

Bad debt expense

22,736

5,782

Stock-based compensation

16,059

-

\$

144,363

\$

34,551

Net changes in non-cash working capital

Marketable securities

-

(582)

Accounts receivable

(136,796)

(2,299)

Prepaid expenses

35,330

(55,169)

Accounts payable and accrued liabilities

38,171

47,203

Accrued payroll liabilities

(5,417)

15,559

Deferred revenue

126,369

88,801

CASH PROVIDED BY

OPERATIONS

\$

202,019

\$

127,264

INVESTING ACTIVITIES

Property and equipment (net)

\$

(18,761)

\$

(30,969)

CASH USED IN INVESTING

\$

(18,761)

\$

(30,969)

FINANCING ACTIVITIES

Proceeds on exercise of warrants

\$

5,478

\$

-

Proceeds on exercise of stock options

9,163

20,175

Repayment of capital lease obligation

-

(23,759)

CASH PROVIDED BY (USED IN) FINANCING

\$

14,641

\$

(3,584)

INCREASE IN CASH AND CASH EQUIVALENTS

\$

197,899

\$

92,711

Cash and cash equivalents, beginning of period

1,837,012

1,400,195

CASH AND CASH EQUIVALENTS,

END OF PERIOD

\$

2,034,912

\$

1,492,906

=====

=====

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

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Stockgroup Information Systems Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2005

(UNAUDITED)

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Stockgroup Information Systems Inc. (the Company) provides various financial market data, software, tools, and content to its customers in media, corporate, and financial services companies. In addition, the Company provides advertising services and automated investor disclosure tools to companies through its Web site properties, including StockHouse.com, and through hosted services to its customers' Web sites. All services are delivered via the Internet.

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

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States 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 annual financial statements and 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, 2004. In the opinion of management, the adjustments considered necessary for fair presentation, all of which are of a normal and recurring nature have been included in these financial statements. Operating results for the three month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ended December 31, 2005.

The balance sheet at December 31, 2004 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.

2. 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.

Issues of common shares for the three-month period ended March 31, 2005 are summarized as follows:

On February 14, 2005, 18,000 common shares were issued to an Agent pursuant to an exercise of Warrants at C\$0.37 (\$0.30), for gross proceeds of C\$6,660 (\$5,478).

On February 18, 2005, 28,000 common shares were issued to an employee pursuant to an exercise of options at \$0.27, for gross proceeds of \$7,560.

On March 14, 2005, 5,625 common shares were issued to an employee pursuant to an exercise of options at \$0.285, for gross proceeds of \$1,603.

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Stock Options

The Company's 1999, 2000, 2001, 2002, and 2003 Stock Option Plans (collectively the "Plans") authorize a total of 5,186,975 common shares for issuance. Activity under the Plans is set forth below.

Options Outstanding

Weighted

Shares

Average

Available

Number of

Price Per

Exercise

For Grant

Shares

Share

Price

#

#

\$

\$

 Balance at December 31, 2004

1,622,500

3,598,100

\$0.12 - \$0.59

\$0.25

Options granted

(805,000)

805,000

\$0.29 - \$0.53

\$0.39

Options exercised

-

(33,625)

\$0.27 - \$0.29

\$0.27

Options forfeited

84,375

(84,375)

\$0.29 - \$0.39

\$0.31

 Balance at March 31, 2005 901,875 4,285,100 \$0.12 - \$0.59 \$0.27

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The Company discontinued the granting of options under the 1999, 2000, 2001 and 2002 Stock Option Plans in December 2002. Options outstanding under these Plans continue to be exercisable as vested until exercised or forfeited, and if forfeited, they are no longer available for future grants. Stock options forfeited under the 2003 Plan are available for future grants.

Warrants

As at March 31, 2005, common stock issuable pursuant to warrants outstanding is as follows:

Outstanding

Outstanding

Exercise

Expiry

At December

Exercised

Forfeited

At March

Price

Date

31, 2004 #

#

#

31, 2005 #

\$

Series 1

281,818

-

281,818

-

3.00

March 31, 2005

Series 3A

500,000

-

-

500,000

0.25

July 31, 2005

Series 3B

300,000

-

-

300,000

0.50

July 31, 2005

Series 8

498,000

-

498,000

-

0.50 (C\$0.60)

January 16, 2005

Series 9

374,280

18,000

-

356,280

0.31 (C\$0.37)

June 4, 2005

and July 16, 2005

Series 10

49,800

-

49,800

-

0.50 (C\$0.60)

January 16, 2005

2,003,898

18,000

829,618

1,156,280

3. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company measures compensation expense for all of its 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 using the Black-Scholes option pricing model had been applied in measuring compensation expense:

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

For the three months ended

March 31,

March 31,

2005

2004

Net income (loss)

as reported

\$

12,812

\$

(58,308)

Deduct: Stock-based

employee compensation

expense determined

under the fair value-

based method

for all awards

(69,731)

(33,804)

Add: Stock-based

compensation included

in net income (loss)

16,059

-

Net loss pro forma

\$

(40,860)

\$

(92,112)

=====

=====

Basic and diluted loss per share

As reported

\$

0.00

\$

(0.00)

Pro forma

(0.00)

(0.00)

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, their fair value at the date of grant and the vesting schedules thereof, vary widely from quarter to quarter.

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

For the three months

ended March 31

2005

2004

Dividend yield

%0

0%

Weighted average expected life (years)

2.65

3.40

Risk-free interest rate

3.17%

3.02%

Expected volatility

62%

78%

4. 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

March 31,

March 31,

2005

2004

Financial Software and Content Systems

\$

605,766

\$

474,004

Advertising Services

850,909

572,227

\$

1,456,675

\$

1,046,231

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Beginning January 1, 2005, the Company renamed the former Public Company Disclosure and Awareness Products division as Advertising Services. It reclassified the revenue from certain products which were historically categorized as Public Company Disclosure and Awareness Products to Financial Software and Content Systems. The amount reclassified for the three months ended March 31, 2005 was \$94,861 [2004 - \$86,471].

During the three months ended March 31, 2005 and 2004, the Company had no customers from whom revenue received by the Company represented greater than 10% of total revenue. No customer constituted greater than 10% of accounts receivable at March 31, 2005 or 2004.

In the normal course of business, the Company entered into a non-monetary transaction with a bandwidth provider on March 27, 2003, in which the Company received bandwidth in exchange for advertising services on the Company's Web sites. The non-monetary transaction resulted in revenue of \$13,695 for the three months ended March 31, 2005 [2004 - \$12,870] with a corresponding expense included in cost of revenues in each period. The non-monetary pricing was at fair market prices based on equivalent services paid for in cash during the same period. No other non-monetary transactions occurred in the three-month periods ended March 31, 2005 and 2004.

5. 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 favor, 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 in the period the litigation is resolved.

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.

6. ACCOUNTING FOR AND DISCLOSURE OF GUARANTEES

The Company from time-to-time enters into certain types of contracts that contingently require the Company to indemnify parties against third party claims. These contracts primarily relate to: (i) service agreements, under which the Company may be required to indemnify clients for liabilities relating to data transmission and dissemination; and (ii) certain agreements with the Company's officers, directors and employees and third parties, under which the Company may be required to indemnify such persons for liabilities arising out of their duties to the Company.

The Company regularly enters into service level agreements with clients, under which the Company guarantees consistent streaming of data within certain pre-defined tolerances.

The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of agreements often are not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations on its balance sheet as of March 31, 2005.

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

7. RECENT ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 153, Exchange of Nonmonetary Assets, an amendment of APB No. 29, Accounting for Nonmonetary Transactions ("SFAS 153"). SFAS 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company is required to adopt SFAS 153, on a prospective basis, for nonmonetary exchanges beginning after June 15, 2005. We have not yet determined if SFAS 153 will have an impact on our results of operations or financial position.

On December 16, 2004, FASB issued FASB Statement No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which is a revision of SFAS 123. SFAS 123(R) supersedes APB 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure, as was permitted under SFAS 123, is no longer an alternative.

SFAS 123(R) must be adopted no later than January 1, 2006. Early adoption is permitted in periods in which financial statements have not yet been issued.

Statement 123(R) permits public companies to adopt its requirements using one of two methods:

A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain

unvested on the effective date. A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company expects to adopt SFAS 123(R) on January 1, 2006 using the modified-prospective method.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method, and as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123(R)'s fair value method will have a significant impact on the Company's statement of operations, although it will have no impact on the Company's overall financial position. The impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings (loss) per share in Note 8[c] to these consolidated financial statements.

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

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

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 10-KSB for the year ended December 31, 2004. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

RESULTS OF OPERATIONS THREE MONTH PERIODS ENDED MARCH 31, 2005 AND MARCH 31, 2004

Our services can be categorized into two areas: (i) Financial Software and Content Systems and (ii) Advertising Services. There are basic commonalities between the two segments. All of our services relate to the financial markets and all of our services are currently delivered over the Internet.

Much of our sales are driven by popular interest in the stock markets. Our Financial Software and Content Systems business is driven by the demand for market information by our clients customers. Our Advertising Services are in greater demand when there is greater overall demand for online advertising across all industries. Our audience levels on our StockHouse Web site are closely correlated with the popularity of the stock market. We believe that greater audience levels on StockHouse will translate into larger advertising revenues for us over the long term.

The Internet is the delivery vehicle for all of our products. We believe the Internet has not yet reached maturity and continues to reach new levels of sophistication. Increasing numbers of people are using the Internet as a source of stock market information. As a result, financial content is becoming an expected standard offering for media and financial services companies. Our Financial Software and Content Systems clients, including large news Web sites,

brokerages, banks, and other media are encountering competitive pressures to improve their financial content offering. This market expansion has driven demand for our services and has resulted in continued sales growth over the past 12 months.

Revenue and Gross Profits

Revenue Summary

(thousands)

2005

2004

Change (\$)

Change (%)

For the 3 months ended March 31

Total revenues

\$

1,457

\$

1,046

\$

411

39%

Breakdown of major categories:

Financial Software and Content

606

474

132

28%

Advertising Services

851

572

279

48%

Financial Software and Content Systems (FSCS) revenue has grown by 28% when comparing the three months ended March 31, 2005 and 2004 respectively. The growth is attributable to a growing number of monthly agreements, renewals of existing agreements, and the expansion of our services to existing clients.

Page 12 of 23

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Our Advertising Services revenue includes general advertising on StockHouse and our specialty advertising products. The 48% growth between the three months ended March 31, 2005 and 2004 is due in part to increased market size for online advertising in general. It is also the result of a greater demand among companies for highly targeted advertising to the investment community, which has enabled us to extract greater returns for our advertising inventory over time. We have developed a certain level of access to the investment community through our StockHouse Web site. Our access and StockHouse brand name give us the ability to provide a range of advertising services for companies. This exposure is highly valued, and is normally sold as a comprehensive monthly program which gives the client sustained and multi-faceted exposure to potential investors.

Cost of Revenues and Gross Profit Summary

2005

2004

Change (\$)

Change (%)

For the three months ended March 31

Total cost of revenues

\$

271

\$

203

\$

68

33%

Gross profit	1,186	843	343	41%
--------------	-------	-----	-----	-----

Gross margin %

81%

81%

Our cost of revenues consists of bandwidth, data feeds, and other direct product costs. Bandwidth costs are correlated with changes in our StockHouse and Financial Software and Content Systems traffic, both of which have increased from the three months ended March 31 2004 to the three months ended March 31, 2005. We have incurred a number of incremental increases in our data feed costs as we have procured higher quality data from our vendors over the past twelve months, which account for part of the 33% increase in cost of revenues for the three months ended March 31, 2005, compared to the same three months of fiscal 2004. Overall, the increases in cost of revenue have not had an effect on gross margin as evidenced by our gross margin percentage which has stayed the same for the three month periods ended March 31, 2005 and 2004 respectively.

Operating Expenses

Operating Expenses Summary

2005

2004

Change (\$)

Change (%)

For the three months ended March 31

Total operating expenses

\$

1,177

\$

905

\$

272

30%

Breakdown:

Sales and marketing

413

317

96

30%

General and administrative

763

589

174

30%

Sales and marketing expenses increased by 30% for the three months ended March 31, 2005 when compared with the same period in 2004. The increases are due primarily to an increase in the number of sales staff between 2004 and 2005, and a greater emphasis on marketing activities. The compensation and training expense arising from this increase in sales staff accounts for the increase in sales and marketing expense year over year, and we believe this will result in an increase in revenue over the long term. In addition, we experienced increased commissions expense due to increased sales year over year.

General and administrative expense increased by 30% between three months ended March 31, 2005 and the same period in 2004. This increase is due mainly to overall expansion and increased payroll due to an increase in our support infrastructure.

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Other Income (Expense)

Interest and Other Income (Expense) Summary

2005

2004

For the 3 months ended March 31

Total interest and other income (expenses)

\$

3.8

\$

4.2

Breakdown:

Interest income

3.8

4.9

Interest expense

0.0

(1.3)

Other income

0.0

0.6

We earn interest income from our cash reserves which are held in major banks, either in interest bearing accounts or term deposits.

Net Income

The net income (loss) for three months ended March 31, 2005 and the same period in 2004 was \$12,811 and (\$58,308) respectively. As noted elsewhere in this Management Discussion and Analysis, the net income for three months ended March 31, 2005 was an improvement over the loss from three months ended March 31, 2004 due to increased revenue at a higher rate than increased expenses.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2005 we had cash and cash equivalents of \$2,034,911 an increase of \$197,899 from December 31, 2004. Our cash from (used in) operations for the past 4 quarters is as follows:

Q2 2004

\$

(105K)

Q3 2004

260K

Q4 2004

212K

Q1 2005

202K

Our current assets net of current liabilities at March 31, 2005 was \$1,444,016. We currently have no debt or capital lease obligations.

We have invested \$18,761 in equipment in the first three months of 2005.

Our cash balance is expected to provide enough liquidity to help us through the next twelve months of our growth and to finance any planned asset acquisitions, including computer hardware upgrades.

We do not expect to declare any cash dividends in the foreseeable future.

You should be cautioned that there can be no assurance that revenue, margins, and profitability will increase. There is a risk that our current cash balance will not be adequate for our long term needs, in which case we would need to raise additional financing through equity or debt issues.

ACCOUNTING FOR AND DISCLOSURE OF GUARANTEES

From time-to-time we enter into certain types of contracts that contingently require us to indemnify parties against third party claims. These contracts primarily relate to: (i) service agreements, under which we may be required to indemnify clients for liabilities relating to data transmission and dissemination; (ii) certain agreements with our officers, directors and employees and third parties, under which we may be required to indemnify such persons for liabilities arising out of their duties to us.

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

We regularly enter into service level agreements with clients, under which we guarantee consistent streaming of data within certain pre-defined tolerances.

The terms of such obligations vary. Generally, a maximum obligation is not explicitly stated. Because the obligated amounts of these types of agreements often are not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, we have not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations on our balance sheet as of March 31, 2005.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements at March 31, 2005.

RECENT PRONOUNCEMENTS

See note 7 to the unaudited consolidated financial statements in this quarterly report on Form 10-QSB.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our unaudited consolidated financial statements, which have been prepared in accordance with accounting policies generally accepted in the United States. The preparation of these unaudited 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 require significant judgments, estimates and assumptions used in the preparation of the unaudited consolidated financial statements.

Revenue

Financial Software and Content Systems services consist of managing, licensing, and delivering financial market information. Examples of financial market information are real time stock quotes, stock charts, public company profiles, investment information and technical stock analysis. We use formal service agreements, which are typically for 24-month terms. Under the service agreements we normally charge our clients a set up fee, a fixed monthly fee, and additional fees for usage beyond the threshold specified in the agreement. Usage usually refers to Web site page views by the client's end users. Revenue from set up fees and fixed monthly licensing fees for ongoing use of financial tools and content is recognized ratably over the agreement term.

All Financial Software and Content Systems services are delivered via the Internet from our Web servers to the clients Web sites on a continuous real time basis. Revenue is earned starting on the day the service is delivered to the customer. We monitor usage from the day the service is activated and record any usage-based revenue on a monthly basis as it occurs. Many agreements contain service level agreements which specify minimum service standards and remedies, such as billing reductions, for deficiency of service. In cases where a billing adjustment occurs due to a service level deficiency, we reverse the applicable revenue in the month where the deficiency occurred.

Investor relations Web page tools, sold under the name IntegrateIR, are delivered to the client's investor relations page of their Web site via an Internet data feed, in real time and on a continuous basis for an agreed period of time, normally 12 months. Revenue is recognized evenly, according to the agreed fixed rate, on a monthly basis once the IntegrateIR data feed has been activated. Setup fees, if any, are recognized ratably over the initial term of the agreement, on a monthly basis.

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Advertising Services consist of investor relations Web page tools, client advertising on our investment-oriented Web sites, e-mail services, sponsorships and Internet advertising services. These services are sold either individually or bundled together into comprehensive programs.

Client advertising on our investment-oriented Web sites consists of continuous or rotating client profiles on various specialized Web pages within StockHouse.com, Smallcapcenter.com and Investormarketplace.com. Delivery of these profiles is based either on a certain number of days appearing on the Web pages or a certain quantity of page views, profile views or click-throughs, depending on the agreement. A page view is a single instance of an Internet user viewing the page which contains the client's name and/or logo. A profile view is a single instance of an Internet user clicking on the client's profile link. A click-through is a single instance of an Internet user clicking on the client's profile and being redirected to the client's Web site. Revenue is recognized on such client profile programs based on delivery, and delivery is organized and measured to equal the agreed monthly fee in each month the client is profiled on the Web pages.

E-mail services are mailings to a targeted list of e-mail addresses, with delivery consisting solely of transmitting the mailing to the e-mail targets. E-mail services may be bought on a per-transmittal basis, for which revenue is recorded when the transmittal occurs, or on a fixed-fee monthly basis in which the client receives access to a fixed number of transmittals per month. We record the revenue on the fixed-fee monthly e-mail services on a pro rata basis over the term of the agreement.

Internet advertising on our Web sites is delivered, and revenue is earned, on a page-view basis, as this term is defined above. Advertising insertion orders are obtained from clients and advertisements are delivered in a set rotation on www.stockhouse.com, www.stockhouse.ca, and others. At the end of certain specified period, usually monthly, the client is given a page-view delivery report and billed according to the number of page-views delivered.

All sources of revenue are recorded pursuant to SAB 104 Revenue Recognition, when persuasive evidence of an arrangement exists, delivery of services has occurred, the fee is fixed or determinable and collectibility is reasonably assured. Pursuant to EITF 00-21 Revenue Arrangements with Multiple Deliverables, when the services are provided in a multiple elements arrangement, revenue is allocated to each respective deliverable based on its relative fair value and recognized when the criteria under SAB 104 have been met.

Payments received in advance of services provided, including deposits, are recorded as deferred revenue.

Cost of Revenues

Cost of revenues is recorded if the cost relates directly to the services we sell or to our revenue-generating Web sites such as StockHouse, Smallcapcenter, and InvestorMarketPlace. Cost of revenues consists of subscription fees for access to data feeds of financial and business databases, Internet bandwidth, direct advertising purchases, and direct labor. Data feeds are a key component of many of our Financial Software and Content Systems services, as well as a key input into our revenue-generating Web sites. Bandwidth is consumed by our revenue-generating Web sites, by our Financial Software and Content Systems services, by our IntegrateIR service, and by our e-mail mailing services. Direct labor is the hourly labor cost of certain programmers and designers who implement or maintain licensed client feeds, design advertising for clients, and produce e-mail mailings for clients. Direct labor costs are fully recognized as cost of revenues in the period in which the associated revenue is recognized. All other costs of revenues are recognized in the period incurred.

Allowance for Doubtful Accounts

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

We evaluate our accounts receivable and make judgments as to the collectibility of each account. In general, accounts over 90 days overdue are allowed for fully, with certain exceptions where prior special arrangements are agreed to with the customer. In some cases an allowance is made before 90 days if we have a reasonable belief that the collection of the account is doubtful.

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 judgment, 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.

We are currently involved in litigation in British Columbia Supreme Court with a former customer, Pacific Capital Markets Inc. or PCMI, to collect amounts owing pursuant to a contract entered into in September 2000. The defendant provided a \$100,000 deposit and contracted us to provide certain lead generation services. We delivered the requested services throughout October and November 2000, however, the defendant defaulted on all additional payments. We are 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. As of the date of this filing no further action had been taken by either party and no court date has been set. Although we currently believe the outcome of the litigation will be in our favor, we have not elected to aggressively pursue the litigation at this time. We have made no provision for the counterclaim in the financial statements and any settlement or final award will be reflected in our statement of operations in the period the litigation is resolved.

We have been named as a defendant in a lawsuit in Saskatchewan Court of Queen's Bench by plaintiffs Black Strap Hospitality, Harold Lane and Derek Neis. The plaintiffs have brought the action seeking damages for defamation in the amount of C\$100,000 plus pre-judgment interest. The alleged defamation was caused by certain members of our Bull Boards investment discussion forum on www.stockhouse.com/ca. We have responded to the action by providing, under court order, information on the Bull Boards members specified in the court order. We expect to be released from this litigation without incurring significant expense.

In addition, we are 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

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

such litigation. Our management believes that the ultimate resolution of these matters would not have a material effect on our financial position or results of operations.

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all errors and all fraud. Because of inherent limitations on any systems of disclosure controls and procedures, no evaluation of controls can provide absolute assurance that all errors or fraud, if any, within a Company may be detected.

(b) Changes in internal controls.

There were no significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period covered by this report 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

We are currently involved in litigation in British Columbia Supreme Court with a former customer, Pacific Capital Markets Inc. or PCMI, to collect amounts owing pursuant to a contract entered into in September 2000. The defendant provided a \$100,000 deposit and contracted us to provide certain lead generation services. We delivered the requested services throughout October and November 2000, however, the defendant defaulted on all additional payments. We are 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. As of the date of this filing no further action had been taken by either party and no court date has been set. Although we currently believe the outcome of the litigation will be in our favor, we have not elected to aggressively pursue the litigation at this time. We have made no provision for the counterclaim in the financial statements and any settlement or final award will be reflected in our statement of operations in the period the litigation is resolved.

We have been named as a defendant in a lawsuit in Saskatchewan Court of Queen's Bench by plaintiffs Black Strap Hospitality, Harold Lane and Derek Neis. The plaintiffs have brought the action seeking damages for defamation in the amount of C\$100,000 plus pre-judgment interest. The alleged defamation was caused by certain members of our Bull Boards investment discussion forum on www.stockhouse.com/ca. We have responded to the action by providing, under court order, information on the Bull Boards members specified in the court order. We expect to be released from this litigation without incurring significant expense.

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Item 2. Unregistered Sales of Equity 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

None

Item 6. Exhibits and Reports on Form 8-K

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

No reports on form 8-K have been filed in the three month period ended March 31, 2005.

Section 302 Certifications

32

Section 906 Certification

Page 19 of 23

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

SIGNATURES

Pursuant to 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: May 11, 2005

By: /s/ Marcus New

Marcus New, Chief Executive Officer

By: /s/ David Gillard

David Gillard, CGA, Chief Financial Officer

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Exhibit 31. Section 302 Certifications

CERTIFICATION

I, Marcus New, Chief Executive Officer, certify that:

1.

I have reviewed this quarterly report on Form 10-QSB of Stockgroup Information Systems Inc. (the Company);

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4.

The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rule 13a-15(f) and 15d-15(f)) for the Company and have:

a)

designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b)

designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financials statements for external purposes in accordance with generally accepted accounting principles;

c)

evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d)

disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5.

The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:

a)

all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b)

any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

Date: May 11, 2005

/s/ Marcus New

Marcus New

Chief Executive Officer

Page 21 of 23

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Exhibit 31. Section 302 Certifications (continued)

CERTIFICATION

I, David Gillard, Chief Financial Officer, certify that:

1.

I have reviewed this quarterly report on Form 10-QSB of Stockgroup Information Systems Inc. (the Company);

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as

of, and for, the periods presented in this report;

4.

The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rule 13a-15(f) and 15d-15(f)) for the Company and have:

a)

designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b)

designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c)

evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d)

disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5.

The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the

Company's auditors and the audit committee of the Company's board of directors:

a)

all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b)

any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

Date: May 11, 2005

/s/ David Gillard

David Gillard, CGA

Chief Financial Officer

Page 22 of 23

Stockgroup Information Systems Inc.

Form 10-QSB March 31, 2005

Exhibit 32. Section 906 Certification

CERTIFICATION

We, Marcus New, Chief Executive Officer, and David Gillard, Chief Financial Officer of Stockgroup Information Systems Inc. (the "Company"), certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1350, that:

(1) The Quarterly Report on Form 10-QSB of the Company for the quarter ended March 31, 2005 (the Report) fully complies with the requirements of § 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Marcus New

Marcus New
Chief Executive Officer

May 11, 2005

/s/ David Gillard

David Gillard
Chief Financial Officer

May 11, 2005

A signed original of this written statement required by § 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.