STOCKGROUP INFORMATION SYSTEMS INC
Form 10QSB
May 15, 2003

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

(Mark One)

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

For the quarterly period ended March 31, 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	84-1379282
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer 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: _X_ 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: 21,295,571

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

1

Stockgroup Information Systems Inc.
FORM 10-QSB

INDEX

2

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]

	March 31, 2003	December 31, 2002
ASSETS		
CURRENT		
Cash and cash equivalents.	$ 178,076	$ 539,970
Marketable securities.	1,691	1,198
Accounts receivable [net of allowances for doubtful accounts of $38,933; December 31, 2002 $40,866]. . . .	314,461	169,675
Prepaid expenses	87,417	102,118

TOTAL CURRENT ASSETS	$ 581,645	$ 812,961
Property and equipment, net	$ 550,596	$ 638,665
	$ 1,132,241	$ 1,451,626
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
CURRENT		
Accounts payable	$ 288,129	$ 313,272
Accrued payroll liabilities	49,606	109,930
Deferred revenue	375,974	320,900
Current portion of capital lease obligation	78,129	103,205
Current portion of notes payable	209,610	95,371
Current portion of convertible notes (note 2)	76,660	81,328
TOTAL CURRENT LIABILITIES	$ 1,078,107	$ 1,024,006
Capital lease obligation	13,522	31,844
Notes Payable	-	159,787
Convertible notes (note 2)	1,086,239	1,486,806
TOTAL LIABILITIES	$ 2,177,869	$ 2,702,443
COMMITMENTS AND CONTINGENCIES (note 7)		
SHAREHOLDERS' EQUITY (DEFICIENCY) (note 5)		
COMMON STOCK, No Par Value		
Authorized shares - 75,000,000		
Issued and outstanding shares - 21,220,571 at March 31, 2003 [19,552,596 - December 31, 2002]	$ 9,876,609	$ 9,203,235
ADDITIONAL PAID-IN CAPITAL	2,987,331	2,987,331
ACCUMULATED DEFICIT	(13,909,568)	(13,441,383)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)	$ (1,045,628)	(1,250,817)
	$ 1,132,241	$ 1,451,626

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

3

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

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
REVENUE		
Revenues	$ 601,712	$ 442,241
Cost of revenues	157,354	164,248

Gross profit	$ 444,358	$ 277,993
EXPENSES		
Sales and marketing	$ 158,774	$ 92,060
Product development	7,451	18,498
General and administrative	530,288	363,540
	$ 696,512	$ 474,098
LOSS FROM OPERATIONS	$ (252,155)	$ (196,105)
Interest income	-	146
Interest expense	(216,502)	(184,359)
Loss on warrants liability	-	(55,000)
Gain on restructuring of convertible notes (note 2)	-	1,088,586
Other income	472	3,951
NET LOSS	$ (468,185)	$ 657,219
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE:		
Net income (loss)	$ (0.02)	$ 0.06
Weighted average shares outstanding for the period	20,521,940	10,776,737

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4

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

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
OPERATING ACTIVITIES		
Net income (loss)	$ (468,185)	$ 657,219
Add (deduct) non-cash items		
Amortization	94,515	37,701
Gain on restructuring of convertible notes	-	(1,088,586)
Loss on warrants liability	-	55,000
Effective interest on convertible notes and debentures	203,644	178,573
Bad debt expense	3,067	(19,003)
Common stock and equivalents issued for services	-	167,500
Stock based compensation	-	27,568
Unrealized foreign exchange (gain) loss	11,996	-
	$ (154,963)	$ 15,972
Net changes in non-cash working capital		

Marketable securities	(493)	14,667
Accounts receivable	(147,853)	19,569
Prepaid expenses	14,701	(120,739)
Accounts payable	(25,143)	(123,979)
Accrued payroll liabilities	(60,324)	(58,503)
Accrued interest on notes payable	(10,544)	(4,374)
Deferred revenue	55,074	(497)
CASH PROVIDED BY (USED IN) OPERATIONS	$ (329,545)	$ (257,884)
FINANCING ACTIVITIES		
Issuance of common stock and warrants (net)	$ -	$ 390,920
Proceeds on exercise of warrants	83,775	-
Proceeds on exercise of stock options	720	-
Repayments of convertible debt	(20,000)	-
Repayments of notes payable	(47,000)	-
Repayment of capital lease obligations	(43,398)	(1,871)
Repayment of bank indebtedness	-	(1,152)
CASH PROVIDED BY (USED IN) FINANCING	$ (25,903)	$ 387,897
INVESTING ACTIVITIES		
Property and equipment (net)	(6,446)	-
CASH PROVIDED BY (USED IN) INVESTING	$ (6,446)	$ -
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(361,894)	130,013
Cash and cash equivalents, beginning of period	539,970	126,618
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 178,076	$ 256,631

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

5

Stockgroup Information Systems Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 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 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 three-month period ended March 31, 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.

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 a net loss of $468,185 for the three months ended March 31, 2003, and had a working capital deficiency of $496,462 as at March 31, 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.

6

2. CONVERTIBLE NOTES

	March 31, 2003	December 31, 2002
8% Convertible notes, maturing December 31, 2005		
Principal	$ 1,241,016	$ 1,704,000
Unamortized debt discount	(78,117)	(135,866)

Subtotal	$ 1,162,899	$ 1,568,134
Current portion	76,660	81,328
Long Term Portion	1,086,239	1,486,806

The convertible notes are non-interest bearing and are convertible into common shares at the option of the holder at any time at a fixed conversion price of $0.50 through to December 31, 2003. From January 1, 2004 to December 31, 2005, or sooner in the event of a default on any mandatory payment described below, the notes bear interest at 8% and are convertible into common shares at the option of the holder at any time at a conversion price equal to the lesser of (i) the initial conversion price of $0.50 and (ii) 88% of the average of the 5 lowest closing prices of the Company's common shares during the 30 trading days prior to the date of conversion.

The restructured agreement provides for quarterly mandatory payments of $15,332 due at the end of each of the eight quarters ending December 31, 2004. If applicable, the Company will also provide mandatory payments of 20% of the gross proceeds raised from any common stock or common stock equivalent financing in excess of $500,000 in 2003.

The restructuring resulted in a debt discount representing the difference between the fair value of the notes at a market interest rate of 8% and the face value of the notes which are non-interest bearing through to December 31, 2003. The debt discount is subject to accretion over the interest-free period ending December 31, 2003.

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 $145,985 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.

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 March 31, 2003, in addition to the 21,220,571 common shares outstanding, there were also 2,597,900 stock options and 4,848,593warrants outstanding.

Issues of common shares and common share equivalents for the three month period ended March 31, 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.

7

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 the quarter 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.

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
Balance at December 31, 2002	898,278	2,602,700	$ 0.12-0.59
Options exercised	-	(4,800)	0.15
Balance at March 31, 2003	898,278	2,597,900	$ 0.12-0.59

4. ACCOUNTING FOR STOCK-BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" ("SFAS 148"). This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), to provide alternative methods of transition for an entity that voluntarily changes to the fair value-based method of accounting for stock-based compensation under SFAS 123. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 and Accounting Principles Board Opinion No. 28, "Interim Financial Reporting" ("APB 28") to require prominent disclosure of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS 148's amendment of the transition and annual disclosure provisions of SFAS 123 is effective for the Company's fiscal 2003. The amendment to disclosure requirements under APB 28 is effective for the Company's fiscal 2003 first quarter.

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.

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

	For the three months ended March 31, 2003	March 31, 2002
Net income (loss) - as reported	$ (468,185)	$ 657,219

Add: Stock-based employee compensation expense included in reported net income.	-	27,568

8

	For the three months ended March 31, 2003	March 31, 2002
Deduct: Stock-based employee compensation expense determined under the fair value-based method for all awards	(8,235)	(148,517)
Net income - pro forma.	$ (476,420)	$ 536,270
Net income per share - as reported. . .	$ (0.02)	$ 0.06
Net income per share - pro forma. . . .	(0.02)	0.05

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 quarter to quarter. No options were granted during the three months ended March 31, 2003.

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, 2003	March 31, 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%

Warrants

As at March 31, 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 March 31, 2003	Exercise Price	Exp Da

	#	#	#	#	#	$	
Series 1. . .	281,818	-	-	-	281,818	3.00	March
Series 3A . .	500,000	-	-	-	500,000	0.25	July 3
Series 3B . .	300,000	-	-	-	300,000	0.50	July 3
Series 4. . .	2,000,000	-	335,100	-	1,664,900(1)	0.30	Sept 3
Series 5. . . .	250,000	-	-	-	250,000	0.30	Sept 1
Series 6. . .	1,701,875	-	-	-	1,701,875	0.22	Dec 31
Series 7. . .	150,000	-	-	-	150,000	0.16	Dec 31
	5,183,693	-	-	-	4,848,593		

(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.

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:

9

	For the three months ended March 31, 2003	March 31, 2002
Public Company Disclosure and Awareness Products	$ 385,580	$ 285,177
Financial Software and Content Systems.	216,132	157,064
	$ 601,712	$ 442,241

During the first three 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.

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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2003 AND MARCH 31, 2002

The results of the first three 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 the first three months of 2002. We continue to adapt to the downturn in the Stock Markets.

Revenue and Gross Profits

Total revenues in the first three months of 2003 were $0.602 million compared to $0.442 million in the first three months 2002, an increase of $0.16 million, or 36%. Our Public Company Disclosure and Awareness Products revenue was $0.385 million compared to $0.285 million in the first three months 2002, a decrease of $0.100 million or 3.5%. Financial Software and Content Systems revenue was $0.216 million compared to $0.157 million in the first three months 2002, an increase of $0.059 million or 38%.

Gross profits in the first three months of 2003 were $0.444 million compared to $0.277 million in the first three months 2002, a increase of $0.166 million, or 60%. Gross profit as a percentage of sales was 74% and 61% for the three-months periods ended March 31, 2003 and 2002 respectively.

We are continuing to provide innovative products in our Public Company 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. We feel that this area of the business will rebound fully when the financial markets begin to recover from their current slowdown.

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 38% over the same period a year ago, and down 0.6% quarter over quarter from the fourth quarter 2002. 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

Total operating expenses in the first three months of 2003 were $0.696 million compared to $0.474 million in the same three months last year, a increase of $0.222 million or 47%. This increase was a result of the additional payroll, amortization and foreign exchange costs for 2003. We have stabilized our operating expenses at a level which will enable us to grow our sales efficiently, thereby generating the greatest return on investment.

Sales and Marketing expenses were $0.158 million in the first three months of 2003 compared to $0.092 million in the first three months 2002, a increase of $0.066 million, or 72%. This area of the expenses increased but should remain relatively flat for the near future.

Product Development expenses in the first three months of 2003 were $0.007 million compared to $0.018 million in the first three months 2002, a decrease of $0.011 million, or 60%. As our business has matured, product development has naturally taken a lesser role. Our staff is more experienced, and our processes for developing new products are streamlined so that overall development costs are minimized.

General and Administrative expenses in the first three months of 2003 were $0.530 million compared to $0.363 million in the first three months 2002, a increase of $0.167 million, or 46%. The most notable increases have been in payroll, which is our largest expense category. We have also had increases in amortization due to the acquisition of the Stockhouse website.

Other Income (Expense) and Income Taxes

Interest expense in the first three months of 2003 was $0.216 million compared to $0.184 million in the first three months 2002, a increase of $0.032 million, or 17%. Of the amount for the first three months of 2003, $0.013 million is cash interest, either already paid or payable after the quarter end. The remaining interest 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 three months 2003 and the same three months 2002. Due to our net loss position, we did not accrue tax in the first three months of 2003. As at the most recent year end, Stockgroup 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 three months of 2003 was $0.468 million compared to a gain of $0.657 million in the first three months 2002, a decrease of $1.125 million or 171%.

CRITICAL ACCOUNTING POLICIES

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.

LIQUIDITY AND CAPITAL RESOURCES

Stockgroup ended the first quarter of 2003 with cash and cash equivalents of $178,076 a decrease of $361,894 from Dec 31, 2002. This compares with a net cash decrease of $110,324 in Q2 2002, $74,935 in Q3 2002 and a net cash increase of $468,598 in Q4 2002. 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.

Our cash used in operations for the first three months of 2003 was $329,545. We repaid $20,000 of our convertible notes, and $47,000 in notes payable. Other uses of cash were repayment of capital lease, totaling $43,398. Sources of cash included $84,495 for proceeds from exercise of warrants and stock options.

You should be cautioned that there can be no assurance that revenue, margins, and profitability will increase. In addition, we paid $15,332 to a noteholder on April 2,2003 and have cash payments of $15,322 due to the noteholder on June 30, 2003, September 30, 2003, December 31, 2003, March 31, 2004, and the next three quarters after that. We also have $209,610 of notes payable and $78,129 of capital lease obligations due within the next 12 months. We will need to seek additional capital. 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. If we are unable to generate the required amount of additional capital, our ability to continue as a going concern is in substantial doubt.

CORPORATE DEVELOPMENTS DURING THE PERIOD

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

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.

7. On April 11, 2003, we announced a C$2.0MM financing. First Associates Investments Inc. will act as investment banker and have signed a term sheet for the underwriting of a C$2.0MM best efforts offering. Each unit will consist of one share and one share purchase warrant and the unit has been priced at C$0.37. Two warrants entitle the investor to purchase one additional common share at a price of C$0.75 for 12 months. As of the date of this filing we had not received any funds or closed the private placement.

8. 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.

9. 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.

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.

14

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 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 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.

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 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 Canadian Press, Comtex News Network, Clarinet Communications, Associated Press and through its 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:

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

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 and promote 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.

In the third quarter of 2001 we 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 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.

Banner Advertising and Button Advertising, 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

The Company's Common Stock has been quoted for trading on the OTC Bulletin Board since March 17, 1999. On December 17, 2002, we began trading on the TSX-Venture Exchange in Canada. The following table sets forth high and low bid prices on the OTC BB for the Common Stock for the three-month periods ended June 30, 2002, September 30, December 31, and March 31, 2003. These prices represent quotations between dealers without adjustment for retail markup, markdown or commission and may not represent actual transactions.

Quarter Ended:	High	Low	Volume
June 30, 2002	$ 0.230	$ 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	$ 0.200	$ 0.125	1,785,900

On March 31, 2003, the Company had 89 registered shareholders owning 21,220,571 shares.

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 3. 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

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

As of April 28, 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.

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 3. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote.

Item 4. Exhibits and Reports on Form 8-K

(a) Reports on Form 8-K

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.

(b) CEO Section 906 Certification (page 22)

(c) CFO Section 906 Certification (page 23)

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: May 13, 2003 By: /s/ David Gillard, CGA

Chief Financial Officer, Secretary & Treasurer

CERTIFICATIONS

CERTIFICATION

I, Marcus New, CEO, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Stockgroup Information Systems Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any correction actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ Marcus New

Marcus New
Chief Executive Officer

CERTIFICATION

I, David Gillard, CFO, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Stockgroup Information Systems Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any correction actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003

/s/ David Gillard

David Gillard, CGA
Chief Financial Officer