STOCKGROUP INFORMATION SYSTEMS INC
Form 10-Q
May 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **March 31, 2008**

[ ] Transition report pursuant to 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 registrant as specified in its charter)

Colorado	**84-1379282**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

Suite 500-750 West Pender Street, Vancouver, British Columbia, V6C 2T7
(Address of principal executive offices)

(604) 331-0995
(Registrant s telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes: [X] No: [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]		Accelerated filer [ ]
Non-accelerated filer [ ]	**(Do not check if a smaller reporting company)**	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes: [ ] No [X]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by court. Yes: [ ] No: [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 41,695,922 common shares at May 13, 2008 (no par value)

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PART I. FINANCIAL INFORMATION

Stockgroup Information Systems Inc.
CONSOLIDATED BALANCE SHEETS
(Expressed in Thousands of U.S. Dollars, except number of common shares)
(Unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,690	$ 2,821
Accounts receivable (net of allowances of $464 and $456)	2,019	1,906
Prepaid and other current assets	884	752
TOTAL CURRENT ASSETS	4,593	5,479
Property and equipment, net (note 6)	695	703
Goodwill (note 3)	99	99
Intangible assets, net (notes 3 & 4)	1,386	1,530
TOTAL ASSETS	$ 6,773	$ 7,811
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable (note 6)	$ 1,976	$ 1,818
Accrued liabilities (note 6)	2,956	2,824
Deferred revenues	1,265	1,341
Capital lease obligations	190	190
TOTAL CURRENT LIABILITIES	6,387	6,173
Long-term payable	47	41
Long-term capital lease obligations	59	66
Long-term deferred revenues	34	15
TOTAL LIABILITIES	6,527	6,295
Shareholders Equity (note 5)**:**		
Common stock, no par value:		
authorized 75,000,000 shares;		
issued and outstanding 41,395,922 and 40,916,921 shares	19,027	18,902
Additional paid-in capital	3,703	3,652
Accumulated deficit	(22,484)	(21,038)
TOTAL SHAREHOLDERS EQUITY	246	1,516
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 6,773	$ 7,811

Commitments and contingencies (note 8)
Guarantees (note 9)

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

Stockgroup Information Systems Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in Thousands of U.S. Dollars, except per share data)
(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
REVENUES		
Licensing and subscriptions	$ 2,624	$ 2,175
Advertising	875	925
TOTAL REVENUES	$ 3,499	$ 3,100
OPERATING COSTS AND EXPENSES		
Cost of revenues (exclusive of amortization)	1,469	1,270
Sales and marketing	1,382	1,093
Research and development	382	285
General and administrative	1,915	1,015
Amortization of intangible assets	144	-
TOTAL OPERATING EXPENSES	5,292	3,663
Loss from operations	(1,793)	(563)
Interest and other income, net (note 7)	347	7
Net loss before income taxes	(1,446)	(556)
Provision for income taxes	-	1
Net loss and comprehensive loss	$ (1,446)	$ (557)
Net loss per common share:		
Basic and diluted	$ (0.04)	$ (0.02)
Common shares used in computing basic and diluted net loss per share (thousands)	41,106	36,504

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

Stockgroup Information Systems Inc.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(Expressed in Thousands)
(Unaudited)

	Common stock # of shares	Common stock $	Additional paid-in capital $	Accumulated deficit $	Total Shareholders Equity $
Balance at December 31, 2006	35,350	13,793	3,394	(15,904)	1,283
Issuance of common shares pursuant to exercise of employee stock options	734	236	(54)	-	182
Private placement transaction common shares and warrants	3,333	4,033	96	-	4,129
Issuance of common shares pursuant to business acquisition	1,500	840	-	-	840
Stock based compensation	-	-	216	-	216
Net loss and comprehensive loss	-	-	-	(5,134)	(5,134)
Balance at December 31, 2007	40,917	18,902	3,652	(21,038)	1,516
Issuance of common stock pursuant to exercise of employee stock options	480	125	(9)	-	116
Stock based compensation	-	-	60	-	60
Net loss and comprehensive loss	-	-	-	(1,446)	(1,446)
Balance at March 31, 2008	41,396	19,027	3,703	(22,484)	246

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

Stockgroup Information Systems Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Thousands of U.S. Dollars)
(Unaudited)

	Three Months Ended March 31, 2008	2007
Operating activities:		
Net loss	$ (1,446)	(557)
Adjustments to reconcile net loss to net cash (used in) / provided by operating activities:		
Amortization of property and equipment	84	101
Amortization of intangible assets	144	-
Stock-based compensation	60	34
Changes in operating assets and liabilities:		
Accounts receivable	(113)	758
Prepaid and other current assets	(132)	(287)
Accounts payable	181	593
Accrued liabilities	133	(165)
Deferred revenues	(57)	(199)
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(1,146)	278
Investing activities:		
Purchases of property and equipment	(13)	(26)
Acquisition of Mobile Finance Division (note 3)	-	(134)
Acquisition of Semotus Assets	(18)	-
CASH USED IN INVESTING ACTIVITIES	(31)	(160)
Financing activities:		
Proceeds on exercise of stock options	116	38
Repayment of capital lease obligations	(70)	(39)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	46	(1)
Net (decrease) increase in cash and cash equivalents	(1,131)	117
Cash and cash equivalents, beginning of period	2,821	2,013
Cash and cash equivalents, end of period	$ 1,690	2,130
Supplemental Cash Flow Information:		
Cash	$ 1,689	$ 2,129
Cash equivalents	$ 1	$ 1
Interest paid	$ 2	$ 5
Taxes paid	$ 1	$ 1
Assets acquired through capital lease transactions	$ 63	$ 74
Value of shares issued for acquisition of Mobile Finance Division	$ -	$ 840

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

Stockgroup Information Systems Inc.
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of Stockgroup Information Systems Inc. (Stockgroup or the Company) have been prepared by the Company in accordance with United States (U.S.) generally accepted accounting principles (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 8-03 of Regulation S X. Accordingly, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related footnotes thereto of the Company in its Annual Report on Form 10-KSB for the year ended December 31, 2007 as filed with the SEC on April 1, 2008. 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 unaudited interim consolidated financial statements.

The Company has a history of operating losses. During the quarter ended March 31, 2008 the Company generated a loss of $1,446,000, used cash in operations of $1,146,000 and as at March 31, 2008, had negative working capital of $1,794,000. Cash and cash equivalents at March 31, 2008 are not sufficient to meet the consolidated cash requirements of the Company for the next 12 months. On May 13, 2008 the Company closed a private placement of preferred shares for gross proceeds of $3,000,000 (Note 10). Management believes that these proceeds, along with the Company s existing cash resources, provide sufficient resources to fund continuing operations and corporate development for the next 12 months.

The business experiences seasonal variations with the fourth quarter sales usually being the strongest. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008 or for other future operating periods. All amounts are stated in U.S. dollars unless otherwise indicated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no new policies adopted or changes in the Company s accounting policies during the three months ended March 31, 2008 from those previously disclosed in the Company s audited consolidated financial statements for the year ended December 31, 2007 except as follows:

Fair Value Measurements

In September 2006, the FASB issued FAS No. 157 *Fair Value Measurements* , (FAS 157) which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement does not require any new fair value measurements but provides guidance in determining fair value measurements under other accounting pronouncements that require or permit fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Positions FAS 157-1 and FAS 157-2 which exclude FAS 13 Accounting for Leases from the scope of FAS 157 and defers the effective date of FAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity s financial statements on a recurring basis. The Company adopted the provisions of FAS 157 (as amended by the FASB Staff Positions above) effective January 1, 2008. The adoption of FAS 157 did not impact the Company s interim consolidated financial statements.

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Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* , (FAS 159) which permits entities to choose to measure at fair value, at specified election dates, many financial instruments and certain other items that are not currently required to be measured at fair value. This statement is expected to expand the use of fair value measurement. The objective of FAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. A business entity is required to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The statement does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. FAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company adopted the provisions of FAS 159 commencing January 1, 2008 and currently the Company has not elected to report any additional assets or liabilities at fair value that were not already being reported at fair value. The adoption of FAS 159 did not impact the Company s interim consolidated financial statements.

Recently issued accounting pronouncements

In December 2007, the FASB issued FAS No. 141 (revised 2007) *Business Combinations* (FAS 141(R)). FAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. FAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. FAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of FAS 141(R) on its consolidated financial statements.

In May 2008, the FASB issued FAS No. 162 *The Hierarchy of Generally Accepted Accounting Principles* (FAS 162). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. FAS 162 is effective sixty days following the SEC s approval of PCAOB amendments to AU Section 411, *The Meaning of Present fairly in conformity with generally accepted accounting principles* . The Company is currently evaluating the potential impact, if any, of the adoption of FAS 162 on its consolidated financial statements.

3. BUSINESS ACQUISITION

On January 25, 2007 the Company announced that it had entered into a formal Purchase Agreement with TeleCommunication Systems, Inc. (TCS) pursuant to which the Company agreed to issue to TCS 1,500,000 common shares in the capital of the Company and to assume some TCS liabilities in exchange for certain assets of TCS that made up its Mobile Finance Division (MFD). The transaction closed on January 31, 2007. The acquisition of MFD was accounted for as a purchase of a business, with the Company being identified as the acquirer and MFD as the acquiree. These consolidated interim financial statements include 100% of the operating results of MFD from February 1, 2007.

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The allocation of the purchase price of $1,188,000 included goodwill of $99,000 and intangible assets of $1,660,000. The following table presents details of the purchased identifiable intangible assets:

(In thousands of Dollars)	Estimated Useful Life (in years)	January 31, 2007 Amount	Net Amount December 31, 2007	Net Amount March 31, 2008
Intellectual property	4	$ 870	$ 671	$ 616
Customer relationships	2 - 4	790	547	481
		$ 1,660	$ 1,218	$ 1,097

The estimated future amortization expense of purchased identifiable intangible assets is as follows:

2008 (remainder)	362
2009	359
2010	348
2011	28
Total	$ 1,097

Under the terms of the Purchase Agreement with TCS the Company is indemnified for certain undisclosed liabilities of MFD as at the date of the transaction. The indemnity was extended from April 30, 2008 to May 14, 2008. The Company s best estimate is that there are $300,000 of costs for liabilities not disclosed as at the date of acquiring MFD and therefore the Company has recorded a liability for this amount with a corresponding receivable for the same amount from TCS (included in prepaid and other current assets) as of March 31, 2008 and December 31, 2007. The Company believes that the maximum amount of potential undisclosed liabilities not recorded by the Company as of March 31, 2008 and December 31, 2007, is $650,000. The Company is working with TCS to review the liabilities disclosed at the date of acquisition.

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Pro forma Information (Unaudited)

The following interim *pro forma* consolidated financial summary is presented as if the acquisition of MFD was completed as of January 1, 2007. The *pro forma* combined results have been prepared for informational purposes only and do not purport to be indicative of the results which would have actually been attained had the business combination been consummated on the date indicated or of the results which may be expected to occur in the future.

(In thousands of Dollars, except per share data)		Three Months Ended March 31, 2007
REVENUES		
Licensing and Subscriptions	$	2,685
Advertising		925
	$	3,610
Total Operating Expenses net of Other Income (Expense)		4,300
Net loss and comprehensive loss	$	(690)
Net loss per common share: Basic and diluted	$	(0.02)
Common shares used in computing basic and diluted net loss per share (in thousands)		36,937

4. ASSET ACQUISITION

On May 8, 2007 the Company entered into an Asset Purchase Agreement with Semotus Solutions Inc. (Semotus) pursuant to which the Company agreed to acquire certain intangible assets related to Semotus Mobile Finance business for total cash consideration of up to $350,000 payable as follows:

a) $150,000 cash payable at the Closing Date; and
b) 30% of monthly gross revenues earned from customer contracts purchased from Semotus until the remaining $200,000 of the purchase price is fully paid or within two years whichever occurs first. If the gross revenues fall below 25% of prior revenue within the first nine months post close, the amount payable monthly would decrease to 15% of monthly gross revenues.

Should monthly gross revenues fall below $15,000 per month at any time, the purchase price will be deemed to be paid in full.

This acquisition closed on May 8, 2007 and has been accounted for as an asset purchase transaction for a total cost of $375,000 including $25,000 for acquisition costs.

For the purposes of these consolidated financial statements, the purchase consideration has been allocated to the identifiable intangible assets acquired as intellectual property ($140,000) and customer relationships ($235,000), based on management s best estimates.

For the three months ended March 31, 2008, purchase consideration of $18,000 (three months ended March 31, 2007 - $Nil) relating to monthly gross revenues was paid to the vendor. Of the total balance of

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$119,000 (December 31, 2007 - $137,000) expected to be payable as of March 31, 2008, $72,000 (December 31, 2007 - $96,000) is included in accounts payable and $47,000 (December 31, 2007 - $41,000) has been recorded on the consolidated balance sheet as a long-term payable expected to be paid in 2009. For the three months ended March 31, 2008 amortization of the Semotus intangible assets was $23,000 (three months ended March 31, 2007 - $ Nil).

5. SHAREHOLDERS EQUITY

The Company is authorized to issue up to 75,000,000 shares of common stock and 5,000,000 shares of preferred stock. During the three month period ending March 31, 2008, the Company issued shares on the exercise of stock options. During 2007, the Company issued shares on the exercise of stock options and also in a private placement transaction.

Stock-Based Compensation Plans and Stock-Based Award Activity

Generally, stock options granted under the Plans vest quarterly over a 2 year period. Stock options granted to management generally vest quarterly over a four year period. All stock options are denominated in U.S. dollars and expire either five or six years after the date of grant.

The following table provides information on the Company s outstanding options and options available for grant at March 31, 2008 and activity since December 31, 2007:

		Options Outstanding				
	Number of Options Available For Grant	Number of Options	Price Per Share $	Weighted Average Exercise Price $	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value - $ (in thousands)
Balance at December 31, 2007	2,931,775	3,861,625	$0.12 - $1.25	$0.64	2.34	$865
Options granted	(650,000)	650,000	$0.41 - $0.59			
Options exercised	-	(480,000)	$0.22 - $0.42			
Options expired	-	(15,000)	$0.29			
Options forfeited	369,000	(369,000)	$0.31 - $1.06			
Balance at March 31, 2008	2,650,775	3,647,625	$0.15 - $1.25	$0.64	2.65	$296
Vested and exercisable at March 31, 2008		2,308,500		$0.52	1.05	$287

The aggregate intrinsic value is equal to the difference between the quoted closing market price of the Company s common shares at March 31, 2008 and the exercise price of the underlying awards, where the stock options are in-the-money. At March 31, 2008 there were 2,094,375 in-the-money options outstanding and 1,932,250 in-the-money options vested and exercisable.

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The following table summarizes the Company s unvested stock options as of March 31, 2008, and changes since December 31, 2007:

	Number of Awards	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2007	1,098,906	$0.50
Granted	650,000	$0.44
Vested	(40,781)	$0.17
Forfeited	(369,000)	$0.51
Unvested at March 31, 2008	1,339,125	$0.49

As of March 31, 2008 total unrecognized compensation expense related to unvested awards granted under the Company s stock option plans was $387,000 and is expected to be recognized over a weighted-average period of 2.7 years. Forfeiture rates used to determine unrecognized compensation expense were based on forfeiture rates experienced for the year ended December 31, 2007.

Stock-Based Compensation Expense

During the three months ended March 31, 2008 and 2007 net loss included the following stock-based compensation expense:

(In thousands of Dollars)	Three Months Ended March 31, 2008	2007
Sales and marketing	$ (7)	$ 5
Research and development	(3)	3
General and administrative	70	26
Total stock-based compensation expense	$ 60	$ 34

Valuation Assumptions Used in Fair-Value Based Calculation Model

The fair-value of the Company s stock-based awards granted to employees, non-employee directors and consultants for the three months ending March 31, 2008 and 2007 was estimated using the Black-Scholes option-pricing model using the following weighted average assumptions: