

STOCKHOUSE INC  
Form 10-Q  
August 13, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 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

**STOCKHOUSE INC.**

(Exact name of registrant as specified in its charter)

**Colorado**

(State or other jurisdiction of incorporation or organization)

**84-1379282**

(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)

**STOCKGROUP INFORMATION SYSTEMS INC.**

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

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

Indicate by check mark whether the registrant 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

Non-accelerated filer

**(Do not check if a smaller reporting company)**

Accelerated filer

Smaller reporting company

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

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: 41,295,922 common shares at August 11, 2008 (no par value)

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**STOCKHOUSE INC.  
FORM 10-Q**

**INDEX**

| <b><u>PART I FINANCIAL INFORMATION</u></b>   | Page |
|--|------|
| Item 1. Financial Statements (unaudited)   |      |
| <u>CONSOLIDATED BALANCE SHEETS as of June 30, 2008 and December 31, 2007</u>   | 3    |
| <u>CONSOLIDATED STATEMENTS OF OPERATIONS for the Three and Six Months Ended June 30, 2008 and 2007</u>                             | 4    |
| <u>CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY for the Six Months Ended June 30, 2008 and the Year Ended December 31, 2007</u> | 5    |
| <u>CONSOLIDATED STATEMENTS OF CASH FLOWS for the Six Months Ended June 30, 2008 and 2007</u>                                       | 6    |
| <u>NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS</u>  | 7    |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                               | 18   |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 38   |
| Item 4. <u>Controls and Procedures</u>   | 38   |
| <b><u>PART II OTHER INFORMATION</u></b>  |      |
| Item 1. <u>Legal Proceedings</u>   | 40   |
| Item 1A. <u>Risk Factors</u>   | 40   |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 41   |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 41   |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u>   | 42   |
| Item 5. <u>Other Information</u>   | 42   |
| Item 6. <u>Exhibits</u>  | 43   |
| <u>SIGNATURES</u>  | 44   |

**PART I. FINANCIAL INFORMATION**

**STOCKHOUSE INC.**  
**(formerly Stockgroup Information Systems Inc.)**  
**CONSOLIDATED BALANCE SHEETS**

(Expressed in Thousands of U.S. Dollars, except number of shares and per share information)  
(Unaudited)

|  | June 30,<br>2008 | December 31,<br>2007 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| <b>Current Assets:</b>                                     |                  |                      |
| Cash and cash equivalents                                  | \$ 3,494         | \$ 2,821             |
| Accounts receivable (net of allowances of \$539 and \$456) | 1,466            | 1,906                |
| Prepaid and other current assets                           | 531              | 752                  |
| <b>TOTAL CURRENT ASSETS</b>                                | <b>5,491</b>     | <b>5,479</b>         |
| Property and equipment, net (note 6)                       | 624              | 703                  |
| Goodwill (note 3)  | -                | 99                   |
| Intangible assets, net (notes 3 and 4)                     | 506              | 1,530                |
| <b>TOTAL ASSETS</b>  | <b>\$ 6,621</b>  | <b>\$ 7,811</b>      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                |                  |                      |
| <b>Current Liabilities:</b>                                |                  |                      |
| Accounts payable (note 6)                                  | \$ 2,492         | \$ 1,818             |
| Accrued liabilities (note 6)                               | 2,202            | 2,824                |
| Deferred revenues  | 1,257            | 1,341                |
| Capital lease obligations                                  | 163              | 190                  |
| <b>TOTAL CURRENT LIABILITIES</b>                           | <b>6,114</b>     | <b>6,173</b>         |
| Long-term payable  | -                | 41                   |
| Long-term capital lease obligations                        | 30               | 66                   |
| Long-term deferred revenues                                | 32               | 15                   |
| <b>TOTAL LIABILITIES</b>                                   | <b>6,176</b>     | <b>6,295</b>         |
| <b>Shareholders' Equity (note 5):</b>                      |                  |                      |
| Preferred stock:   |                  |                      |
| authorized 5,000,000 shares                                |                  |                      |
| Series A convertible; \$1,000 per share                    | 2,969            | -                    |
| Common stock, no par value:                                |                  |                      |
| authorized 75,000,000 shares;                              |                  |                      |
| issued and outstanding 41,295,922 and 40,916,921 shares    | 18,910           | 18,902               |
| Additional paid-in capital                                 | 3,803            | 3,652                |
| Accumulated deficit  | (25,237)         | (21,038)             |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                          | <b>445</b>       | <b>1,516</b>         |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>          | <b>\$ 6,621</b>  | <b>\$ 7,811</b>      |
| <i>Continuing operations (note 1)</i>                      |                  |                      |
| <i>Commitments and contingencies (note 8)</i>              |                  |                      |
| <i>Guarantees (note 9)</i>                                 |                  |                      |

See accompanying notes to the Unaudited Interim Consolidated Financial Statements



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

|  | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | 2008               | June 30,<br>2007 | 2008             | June 30,<br>2007 |
| <b>REVENUES</b>  |                    |                  |                  |                  |
| Licensing and subscriptions  | \$ 2,567           | \$ 2,614         | \$ 5,191         | \$ 4,789         |
| Advertising services   | 699                | 1,091            | 1,574            | 2,016            |
| <b>TOTAL REVENUES</b>  | <b>\$ 3,266</b>    | <b>\$ 3,705</b>  | <b>\$ 6,765</b>  | <b>\$ 6,805</b>  |
| <b>OPERATING COSTS AND EXPENSES</b>  |                    |                  |                  |                  |
| Cost of revenues (exclusive of amortization)                                     | 1,441              | 1,590            | 2,911            | 2,860            |
| Sales and marketing  | 1,275              | 1,260            | 2,656            | 2,353            |
| Research and development   | 370                | 386              | 752              | 671              |
| General and administrative   | 1,964              | 1,435            | 3,878            | 2,450            |
| Amortization of intangible assets  | 144                | 271              | 288              | 271              |
| Impairment of goodwill   | 99                 | -                | 99               | -                |
| Impairment of intangible assets  | 736                | -                | 736              | -                |
| <b>TOTAL OPERATING EXPENSES</b>  | <b>6,029</b>       | <b>4,942</b>     | <b>11,320</b>    | <b>8,605</b>     |
| Loss from operations   | (2,763)            | (1,237)          | (4,555)          | (1,800)          |
| Interest and other income, net (note 8)  | 11                 | 26               | 357              | 33               |
| Net loss before income taxes   | (2,752)            | (1,211)          | (4,198)          | (1,767)          |
| Provision for income taxes   | 1                  | -                | 1                | 1                |
| Net loss and comprehensive loss  | \$ (2,753)         | \$ (1,211)       | \$ (4,199)       | \$ (1,768)       |
| Net loss per common share:   |                    |                  |                  |                  |
| Basic and diluted  | \$ (0.07)          | \$ (0.03)        | \$ (0.10)        | \$ (0.05)        |
| Common shares used in computing basic and diluted net loss per share (thousands) |                    |                  |                  |                  |
|  | 41,507             | 38,835           | 41,307           | 37,676           |

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

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

|  | Preferred<br>shares<br>No. of<br>shares | Preferred<br>shares<br>U.S.\$ | Common<br>stock<br>No. of<br>shares | Common<br>stock<br>U.S.\$ | Additional<br>paid-in<br>capital<br>U.S.\$ | Accumulated<br>deficit<br>U.S.\$ | Total<br>Shareholders<br>Equity<br>U.S.\$ |
|--|---|-------------------------------|-------------------------------------|---------------------------|--|----------------------------------|---|
| <b>Balance at<br/>December 31,<br/>2006</b>  | -                                       | -                             | 35,350                              | 13,793                    | 3,394                                      | (15,904)                         | 1,283                                     |
| Issuance of<br>common<br>shares<br>pursuant to<br>exercise of<br>employee<br>stock options | -                                       | -                             | 734                                 | 236                       | (54)                                       | -                                | 182                                       |
| Private<br>placement<br>transaction<br>common<br>shares and<br>warrants                    | -                                       | -                             | 3,333                               | 4,033                     | 96   | -                                | 4,129                                     |
| Issuance of<br>common<br>shares<br>pursuant to<br>business<br>acquisition                  | -                                       | -                             | 1,500                               | 840                       | -  | -                                | 840                                       |
| Stock based<br>compensation  | -                                       | -                             | -                                   | -                         | 216  | -                                | 216                                       |
| Net loss and<br>comprehensive<br>loss  | -                                       | -                             | -                                   | -                         | -  | (5,134)                          | (5,134)                                   |
| <b>Balance at<br/>December 31,<br/>2007</b>  | -                                       | -                             | 40,917                              | 18,902                    | 3,652                                      | (21,038)                         | 1,516                                     |
| Issuance of<br>series A<br>convertible<br>preferred<br>shares                              | 3                                       | 2,969                         | -                                   | -                         | -  | -                                | 2,969                                     |
| Issuance of<br>common<br>stock<br>pursuant to  |   |                               |                                     |                           |  |                                  |   |



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|   |   |       |        |        |       |          |         |
|---|---|-------|--------|--------|-------|----------|---------|
| exercise of<br>employee<br>stock options                                  | - | -     | 780    | 176    | (9)   | -        | 167     |
| Shares<br>returned to<br>settle<br>acquisition<br>liabilities<br>(note 3) | - | -     | (400)  | (168)  | -     | -        | (168)   |
| Stock based<br>compensation   | - | -     | -      | -      | 160   | -        | 160     |
| Net loss and<br>comprehensive<br>loss                                     | - | -     | -      | -      | -     | (4,199)  | (4,199) |
| <b>Balance at<br/>June 30, 2008</b>                                       | 3 | 2,969 | 41,297 | 18,910 | 3,803 | (25,237) | 445     |

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

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

|   | Six Months Ended<br>June 30, |              |
|---|------------------------------|--------------|
|   | 2008                         | 2007         |
| <b>Operating activities:</b>  |                              |              |
| Net loss  | \$ (4,199)                   | (1,768)      |
| Adjustments to reconcile net loss to net cash (used in) / provided by operating activities: |                              |              |
| Amortization of property and equipment  | 179                          | 216          |
| Amortization of intangible assets   | 288                          | 271          |
| Impairment of goodwill  | 99                           | -            |
| Impairment of intangible assets   | 736                          | -            |
| Stock-based compensation  | 160                          | 80           |
| Changes in operating assets and liabilities:  |                              |              |
| Accounts receivable   | 440                          | 174          |
| Prepaid and other current assets  | (79)                         | (182)        |
| Accounts payable  | 654                          | 560          |
| Accrued liabilities   | (495)                        | 118          |
| Deferred revenues   | (67)                         | 237          |
| <b>CASH USED IN OPERATING ACTIVITIES</b>  | <b>(2,284)</b>               | <b>(294)</b> |
| <b>Investing activities:</b>  |                              |              |
| Purchases of property and equipment   | (18)                         | (70)         |
| Acquisition of Mobile Finance Division (note 3)   | -                            | (224)        |
| Acquisition of Semotus Assets (note 4)  | (34)                         | (181)        |
| <b>CASH USED IN INVESTING ACTIVITIES</b>  | <b>(52)</b>                  | <b>(475)</b> |
| <b>Financing activities:</b>  |                              |              |
| Proceeds on exercise of stock options   | 167                          | 119          |
| Proceeds from issuance of preferred shares, net of costs                                    | 2,969                        | -            |
| Proceeds on private placement, net of costs   | -                            | 4,146        |
| Repayment of capital lease obligations  | (127)                        | (56)         |
| <b>CASH PROVIDED BY FINANCING ACTIVITIES</b>  | <b>3,009</b>                 | <b>4,209</b> |
| Net increase in cash and cash equivalents   | 673                          | 3,440        |
| Cash and cash equivalents, beginning of period  | 2,821                        | 2,013        |
| Cash and cash equivalents, end of period  | \$ 3,494                     | 5,453        |
| <b>Supplemental Cash Flow Information:</b>  |                              |              |
| Cash  | \$ 1,028                     | \$ 1,573     |
| Cash equivalents  | \$ 2,466                     | \$ 3,880     |
| Interest paid   | \$ 3                         | \$ 22        |
| Taxes paid  | \$ 1                         | \$ -         |
| Assets acquired through capital lease transactions  | \$ 63                        | \$ 78        |
| Value of shares issued for acquisition of Mobile Finance Division                           | \$ -                         | \$ 840       |

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|   |    |     |    |   |
|---|----|-----|----|---|
| Shares returned to settle acquisition liabilities | \$ | 168 | \$ | - |
|---|----|-----|----|---|

See accompanying notes to the Unaudited Interim Consolidated Financial Statements

**STOCKHOUSE INC.**  
**(formerly Stockgroup Information Systems Inc.)**  
**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2008**

**1. BASIS OF PRESENTATION AND CONTINUING OPERATIONS**

Effective July 10, 2008, the Company changed its name from Stockgroup Information Systems Inc. to Stockhouse Inc. ( Stockhouse or the Company ). As a result, effective July 21, 2008, Stockhouse traded on the Over-the-Counter Bulletin Board quotation service operated by the Nasdaq Stock Market, Inc. under its new trading symbol STKH.OB (previously since March 17, 1999 under the symbol SWEB ) and on the TSX Venture Exchange under its new trading symbol SHC.V (previously since December 17, 2002 under the symbol SWB ).

The accompanying unaudited interim consolidated financial statements of Stockhouse Inc. 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.

These financial statements have been prepared on the basis of a going concern which contemplates the realization of assets and satisfaction of liabilities in the normal course of operations. The Company has a history of operating losses. During the six months ended June 30, 2008 the Company generated a loss of \$4,199,000 and used cash in operations of \$2,284,000. On May 13, 2008 the Company closed an equity financing transaction for net proceeds of \$2,969,000 (Note 5). 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 and six months ended June 30, 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 six months ended June 30, 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.

***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.

At December 31, 2007, the allocation of the purchase price of \$1,188,000 included goodwill of \$99,000 and intangible assets of \$1,660,000, of which \$870,000 was allocated to intellectual property and \$790,000 was allocated to customer relationships.

The Company tests the carrying amount of identifiable intangible assets and goodwill annually as of December 31, or whenever events or circumstances indicate that impairment may have occurred. Due to the combination of continuing declining revenues from the acquired MFD business and the integration of former MFD European employee positions into the North American business, management concluded that there were sufficient indicators of impairment to test the carrying value of intangible assets and goodwill as at June 30, 2008. Impairment testing for goodwill is performed in accordance with FAS No. 142, *Goodwill and Other Intangible Assets* ( FAS 142 ). FAS 142, requires the Company to complete a two-step process that begins with an estimation of the fair value of the reporting unit. The first step of the impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of the impairment loss, if any. The impairment test indicated that the implied fair value of the Company's goodwill was not in excess of its carrying value at June 30, 2008, and as a result the Company recorded an impairment loss of \$99,000 as a non-cash charge to operating expenses.

The Company evaluates long-lived tangible assets and definite-lived intangible assets for potential impairments in accordance with FAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( FAS 144 ). Under FAS 144, an impairment loss is recognized only if the carrying amount of a definite-lived intangible asset is not recoverable and exceeds its fair value. Recoverability of these assets is determined based upon the expected undiscounted future net cash flows from the operations to which the assets relate, utilizing management's best estimates, appropriate assumptions and projections at the time. When analyzing intellectual property for impairment the Company uses a relief from royalty method which calculates the cost savings associated with owning rather than licensing the intellectual property, applying an assumed royalty rate within the Company's discounted cash flow calculation. If the carrying value is determined not to be recoverable from future operating cash flows, the asset is deemed impaired and an impairment loss is recognized to the extent the carrying value exceeds the estimated fair market value of the asset.

As a result of this evaluation, the Company recorded an impairment loss totaling \$524,000 to reduce the carrying value of the MFD definite-lived intangible assets to their estimated fair market value of \$347,000 for intellectual property and \$106,000 for customer relationships.

The following table presents details of the acquired MFD intangible assets, both before and after the impairment charge.

|                           | Estimated  | January  | Net      | Net Amount  | Net Amount  |
|---------------------------|------------|----------|----------|-------------|-------------|
| (In thousands of Dollars) | Useful     | 31,      | Amount   | June 30,    | June 30,    |
|                           | Life       | 2007     | December | 2008        | 2008 (after |
|                           | (in years) | Amount   | 31, 2007 | (before     | impairment) |
|                           |            |          |          | impairment) | impairment) |
| Intellectual property     | 4          | \$ 870   | \$ 671   | \$ 562      | \$ 347      |
| Customer relationships    | 2 - 4      | 790      | 547      | 415         | 106         |
|                           |            | \$ 1,660 | \$ 1,218 | \$ 977      | \$ 453      |

The estimated future amortization expense of the MFD intangible assets is as follows:

|                  |        |
|------------------|--------|
| 2008 (remainder) | 91     |
| 2009             | 174    |
| 2010             | 173    |
| 2011             | 15     |
| Total            | \$ 453 |

For the three and six months ended June 30, 2008, respectively, amortization of MFD intangible assets was \$121,000 and \$242,000 (three and six months ended June 30, 2007 were each \$255,000).

#### *Indemnity*

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. At March 31, 2008, the Company's best estimate was that there were \$300,000 of costs for liabilities not disclosed as at the date of acquiring MFD and therefore the Company had 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 continued to work with TCS in the second quarter to review the undisclosed liabilities existing as at the date of the acquisition and concluded based on additional work completed that a revised estimate of \$148,000 was appropriate, which was recorded as a liability as of June 30, 2008. On June 13, 2008, TCS and the Company agreed to settlement terms under the Purchase Agreement that in compensation for these previously indemnified liabilities, TCS would return 400,000 of the 1,500,000 Stockhouse common shares issued as part of the purchase consideration. These 400,000 shares were valued at the date of the settlement at \$0.42 per share. The total value of the shares of \$168,000 is considered full payment for the initially undisclosed liabilities of \$148,000 plus costs of \$20,000 associated with additional professional fees incurred to determine the undisclosed liabilities as at the date of acquisition. The settlement agreement also provided for an extension of the indemnity period for certain claims of undisclosed liability for two years from June 13, 2008.



**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<br>Ended<br>June 30, 2007 | Six Months<br>Ended<br>June 30, 2007 |
|---|--|--------------------------------------|
| <b>REVENUES</b>   |  |                                      |
| Licensing and subscriptions   | \$ 2,614                               | \$ 5,299                             |
| Advertising services  | 1,091                                  | 2,015                                |
|   | \$ 3,705                               | \$ 7,314                             |
| Total operating expenses net of Other income (expense)                              | 4,814                                  | 9,280                                |
| <br>  |  |                                      |
| Net loss and comprehensive loss   | \$ (1,109)                             | \$ (1,966)                           |
| <br>  |  |                                      |
| Net loss per common share: Basic and diluted  | \$ (0.03)                              | \$ (0.06)                            |
| <br>  |  |                                      |
| Common shares used in computing basic and diluted<br>net loss per share (thousands) | 38,835                                 | 33,738                               |

**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: (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. Should monthly gross revenues fall below \$15,000 per month 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. The purchase consideration was allocated, based on management's best estimates, to the identifiable intangible assets acquired in the amounts of \$140,000 for intellectual property and \$235,000 for customer relationships.

As revenues continued to decline from the acquired Semotus products, management concluded that there were sufficient indicators of impairment to test the carrying value of acquired intangible assets as at June 30, 2008. As discussed in Note 3, the Company evaluates definite-lived intangible assets for potential impairment in accordance with FAS 144. As a result of this evaluation, the Company recorded an impairment loss totaling \$212,000 at June 30, 2008 to reduce the carrying value of the Semotus definite-lived intangible assets to their estimated fair market value of \$53,000 for intellectual property. The fair market value of customer relationships was estimated at zero at June 30, 2008.

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The following table presents details of the acquired Semotus identifiable intangible assets, both before and after the impairment charge.

| (In thousands of Dollars) | Estimated<br>Useful<br>Life<br>(in years) | May 8,<br>2007<br>Amount | Net<br>Amount<br>December<br>31, 2007 | Net Amount<br>June 30,<br>2008<br>(before<br>impairment) | Net Amount<br>June 30,<br>2008<br>(after<br>impairment) |
|---------------------------|---|--------------------------|---------------------------------------|--|---|
| Intellectual property     | 4   | \$ 140                   | \$ 116                                | \$ 99  | \$ 53   |
| Customer relationships    | 4   | 235                      | 196                                   | 166  | -   |
|                           |   | \$ 375                   | \$ 312                                | \$ 265   | \$ 53   |

The estimated future amortization expense of the Semotus intangible assets is as follows:

|                  |       |
|------------------|-------|
| 2008 (remainder) | 9     |
| 2009             | 19    |
| 2010             | 19    |
| 2011             | 6     |
| Total            | \$ 53 |

For the three and six months ended June 30, 2008, respectively, amortization of the Semotus intangible assets was \$23,000 and \$46,000 (three and six months ended June 30, 2007 were each \$16,000).

For the three and six months ended June 30, 2008, purchase consideration of \$16,000 and \$34,000 (three and six months ended June 30, 2007 were each \$15,000) was paid to the vendor under the terms of the Asset Purchase Agreement. The total remaining consideration payable of \$102,000 is included in current accounts payable as all balances are due by May 2009. At December 31, 2007, the \$137,000 balance payable was recorded based on estimates of expected revenue and allocated as \$96,000 to accounts payable and \$41,000 as long-term payable.

### 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 six months ended June 30, 2008, the Company issued shares on the exercise of stock options and issued preferred shares in an equity financing transaction. During 2007, the Company issued shares on the exercise of stock options and also in a private placement transaction.

#### *Preferred Shares*

On May 13, 2008, the Company closed a private placement according to the terms of a stock purchase agreement entered on April 30, 2008 with PEAK6 Capital Management LLC ( PEAK6 ). Under the terms of the agreement the Company issued 3,000 shares of Series A convertible preferred stock at a price of \$1,000 per share to PEAK6 for net proceeds to the Company of \$2,969,000. Issue costs of \$31,000 were allocated to preferred shares. In the event of any liquidation, dissolution or winding up of the affairs of the Company, the preferred shareholders are entitled to be paid first out of the assets of the Company up to \$1,000 per share, subject to certain adjustments. Holders of preferred shares are entitled to receive dividends when, as, and if declared by the Company at a rate of 7%. Each preferred share is convertible to 2,200 common shares of the Company. The preferred shares are non-voting until conversion, are convertible 180 days after issuance, and automatically convert into common shares at the end of twenty four months from date of issuance at a price of \$0.4545 per common share. The Company may redeem the preferred shares at any time after 90 days by paying 110% of their value. Separate from the stock purchase agreement, the Company also entered into a strategic agreement whereby the Company provides market data, research and news to PEAK6's new online options information portal, The Options News Network.



**Stock-Based Compensation Plans and Stock-Based Award Activity**

During the six months ended June 30, 2008, the Company granted stock options to employees, management and non-employee directors under the 2007 Stock Option Plan (the 2007 Plan ) which was approved in June 2007. Stock options granted under the 2007 Plan have a five year life and vest annually on the anniversary of the grant date over 3 years at a rate of 34% for the first year and 33% for the remaining two years. During the three months ended June 30, 2008, a performance stock option agreement for 250,000 options was executed whereby options are earned in defined amounts and, subject to the vesting provisions of the 2007 Plan, can be exercised only if the Company achieves certain pre-defined business targets before December 31, 2010. All options are denominated in U.S. dollars.

The following table provides information on the Company's outstanding options and options available for grant at June 30, 2008 and activity since December 31, 2007:

|   | Options Outstanding                            |                         |                          | Weighted<br>Average<br>Exercise<br>Price<br>\$ | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value -<br>\$<br>(in<br>thousands) |
|---|--|-------------------------|--------------------------|--|---|--|
|   | Number of<br>Options<br>Available<br>For Grant | Number<br>of<br>Options | Price Per<br>Share<br>\$ |  |   |  |
| Balance at<br>December<br>31, 2007            | 2,931,775                                      | 3,861,625               | \$ 0.12 -<br>\$1.25      | \$ 0.64  | 2.34  | \$ 865   |
| Options granted                               | (1,487,000)                                    | 1,487,000               | \$ 0.35 -<br>\$0.59      |  |   |  |
| Options exercised                             | -  | (780,000)               | \$ 0.17 -<br>\$0.42      |  |   |  |
| Options expired                               | -  | (15,000)                | \$ 0.29                  |  |   |  |
| Options forfeited                             | 425,000  | (425,000)               | \$ 0.31 -<br>\$1.24      |  |   |  |
| Balance at June 30,<br>2008                   | 1,869,775                                      | 4,128,625               | \$ 0.15 -<br>\$1.25      | \$ 0.60  | 3.07  | \$ 59  |
| Vested and<br>exercisable<br>at June 30, 2008 |  | 2,120,719               |                          | \$ 0.62  | 0.90  | \$ 59  |

The aggregate intrinsic value is equal to the difference between the quoted closing market price of the Company's common shares at June 30, 2008 and the exercise price of the underlying awards, where the stock options are in-the-money. At June 30, 2008 there were 1,357,250 in-the-money options outstanding of which all were vested and exercisable.

The following table summarizes the Company's unvested stock options as of June 30, 2008, and changes since December 31, 2007:

Weighted-Average  
Grant  
Date Fair Value

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|                               | Number of<br>Awards |    |      |
|-------------------------------|---------------------|----|------|
| Unvested at December 31, 2007 | 1,098,906           | \$ | 0.50 |
| Granted                       | 1,487,000           | \$ | 0.35 |
| Vested                        | (153,000)           | \$ | 0.21 |
| Forfeited                     | (425,000)           | \$ | 0.44 |
| Unvested at June 30, 2008     | 2,007,906           | \$ | 0.46 |

As of June 30, 2008 total unrecognized compensation expense related to unvested awards granted under the Company's stock option plans was \$426,000 and is expected to be recognized over a weighted-average period of 3 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 and six months ended June 30, 2008 and 2007, respectively, net loss included the following stock-based compensation expense:

| (In thousands of Dollars)                 | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|---|--------------------------------|-------|------------------------------|-------|
|   | 2008                           | 2007  | 2008                         | 2007  |
| Sales and marketing                       | \$ 22                          | \$ 14 | \$ 15                        | \$ 19 |
| Research and development                  | 7                              | 8     | 4                            | 11    |
| General and administrative                | 72                             | 24    | 141                          | 50    |
| Total stock-based<br>compensation expense | \$ 101                         | \$ 46 | \$ 160                       | \$ 80 |

**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 and six months ending June 30, 2008 and 2007 was estimated using the Black-Scholes option-pricing model using the following weighted average assumptions:

|                             | Three Months Ended<br>June 30, |         | Six Months Ended<br>June 30, |         |
|-----------------------------|--------------------------------|---------|------------------------------|---------|
|                             | 2008                           | 2007    | 2008                         | 2007    |
| Expected life (in years)    | 5                              | 5       | 5                            | 5       |
| Risk-free interest rate     | 3%                             | 4%      | 4%                           | 4%      |
| Expected volatility         | 92%                            | 78%     | 94%                          | 75%     |
| Dividend yield              | 0%                             | 0%      | 0%                           | 0%      |
| Fair value per stock option | \$ 0.28                        | \$ 0.67 | \$ 0.31                      | \$ 0.53 |

The expected life of employee stock options is based on the average expected life of all outstanding stock options taking into consideration past employee exercise behavior. The exercise price of the stock option is equal to the market value of the Company's common stock on the grant date. The Company uses the zero coupon interest yield rate comparable to the expected life of the option. Expected volatility is based on historical computations of the Company's volatility. The estimated fair value of the stock-based awards is amortized over the vesting period of the underlying awards on a graduated basis.

**6. BALANCE SHEET COMPONENTS**

| (In thousands of Dollars)              | June 30,<br>2008 | December 31,<br>2007 |
|--|------------------|----------------------|
| <u>Accounts payable</u>                |                  |                      |
| Trade accounts payable                 | \$ 2,193         | \$ 1,517             |
| Payable on asset acquisition (note 4)  | 102              | 95                   |
| Sales taxes payable                    | 197              | 206                  |
| Total accounts payable                 | \$ 2,492         | \$ 1,818             |
| <u>Accrued liabilities</u>             |                  |                      |
| Accrued liabilities                    | \$ 756           | \$ 1,223             |
| Accrued data costs                     | 1,181            | 1,327                |
| Customer deposits                      | 265              | 274                  |
| Total accrued liabilities              | \$ 2,202         | \$ 2,824             |
| <u>Property and equipment</u>          |                  |                      |
| Computer equipment                     | \$ 1,133         | \$ 1,143             |
| Computer equipment under capital lease | 751              | 686                  |
| Computer software                      | 341              | 336                  |
| Website software                       | 638              | 638                  |
| Office furniture and equipment         | 245              | 237                  |
| Leasehold improvements                 | 110              | 110                  |
| Total cost                             | 3,218            | 3,150                |
| Less: accumulated amortization         | (2,594)          | (2,447)              |
| Property and equipment, net            | \$ 624           | \$ 703               |

In the three and six months ended June 30, 2008 amortization expense related to property and equipment totaled \$95,000 and \$179,000, respectively, including \$42,000 and \$78,000 of amortization for capital assets under lease. In the three and six months ended June 30, 2007 amortization expense was \$115,000 and \$210,000, respectively, including \$47,000 and \$79,000 of amortization for capital assets under lease.

## 7. SEGMENTED INFORMATION

The Company operates in one reportable segment. The Company defines a reportable segment as a component of the Company for which separate financial information is available and which is evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance.

The following information is presented by the customer's geographic area:

| (In thousands of Dollars)                | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | 2008               | June 30,<br>2007 | 2008             | June 30,<br>2007 |
| <b><u>Licensing and Subscription</u></b> |                    |                  |                  |                  |
| North America                            | \$ 1,984           | \$ 1,745         | \$ 3,904         | \$ 3,322         |
| United Kingdom                           | 303                | 477              | 667              | 828              |
| Other                                    | 280                | 392              | 620              | 639              |
| Total Licensing and subscription         | \$ 2,567           | \$ 2,614         | \$ 5,191         | \$ 4,789         |
| <b><u>Advertising Services</u></b>       |                    |                  |                  |                  |
| North America                            | 699                | 1,091            | 1,574            | 2,016            |
| United Kingdom                           | -                  | -                | -                | -                |
| Other                                    | -                  | -                | -                | -                |
| Total Advertising services               | \$ 699             | \$ 1,091         | \$ 1,574         | \$ 2,016         |
| Total Revenues                           | \$ 3,266           | \$ 3,705         | \$ 6,765         | \$ 6,805         |

During the three and six months ended June 30, 2008 and 2007 the Company had no customers whose revenue represented greater than 10% of total revenues. No customer accounted for greater than 10% of outstanding trade receivables at June 30, 2008 (December 31, 2007 - one customer). Substantially all of the Company's property and equipment is located in Canada.

## 8. COMMITMENTS AND CONTINGENCIES

### *Commitments*

The total contractual cash obligations of \$3.6 million disclosed in the consolidated financial statements of the Company for the year ended December 31, 2007, have increased to \$3.8 million.

Net obligations associated with operating leases have increased by approximately \$476,000 compared to December 31, 2007, mainly as the result of additional leased space in Toronto secured in the period. The Company has capital lease obligations for servers and computer equipment required for its web sites, streaming data and hosting services. The decrease in commitments for these items is \$62,000 compared to December 31, 2007. Data feed commitments have decreased by \$219,000 compared to December 31, 2007.

### *Litigation*

The Company was the plaintiff in a lawsuit filed in Ontario Superior Court of Justice against Hollinger Inc. and Hollinger Canadian Publishing Holdings Co. in which the Company sought to recover approximately \$457,000 from the defendant. The defendant was a vendor to the Company and the amount sought by the Company consisted of unused advertising credits which were prepaid by the Company in 1999. The case was resolved by a negotiated settlement during the first quarter of 2008 and the defendant paid \$340,000 to the Company in full settlement, which was included in Other Income.





The Company was the defendant in a lawsuit filed in the Supreme Court of British Columbia by the plaintiff, Tanis Churchill. The Plaintiff, a former employee of the Company, sought damages, interest and costs in the order of approximately \$218,000 for alleged wrongful dismissal from her employment with the Company. The matter was heard by the Supreme Court of British Columbia in a trial which began on December 3, 2007 and ended on December 7, 2007. On May 8, 2008, subject to a 30 day appeal period, the Supreme Court found in favor of the plaintiff and awarded damages in the amount of \$11,000, plus costs.

The Company is the plaintiff in a lawsuit filed in the Commercial & Equity Division of the County Court of Victoria in Melbourne, Australia against The Eight Black Partnership Pty and Simon Chen, in which the Company seeks to recover approximately \$435,000 from the defendant. The defendant was a reseller of the Company's MarketStream service in Australia and the amount sought by the Company consists of unpaid MarketStream subscription fees from July 2006 to May 2007, plus interest. The case is currently pending final resolution and there is uncertainty as to what value, if any, will be derived from the lawsuit. No provision has been made for recovery of these credits in the financial statements in any period.

In addition to the above, the Company is involved in various other legal matters which arise from time-to-time in the ordinary course of the Company's business, none of which is believed to be material to its results of operations, liquidity or financial condition at this time. Unless otherwise noted, the Company cannot reasonably estimate at this time whether a monetary settlement will be reached or predict the ultimate resolution of these legal matters.

## **9. ACCOUNTING FOR AND DISCLOSURE OF GUARANTEES**

From time-to-time, the Company enters into certain types of contracts that require it contingently to indemnify parties against third party claims. These contracts primarily relate to: (i) service level agreements with clients, under which the Company may be required to indemnify clients for liabilities related 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 these obligations vary and generally are not limited in amount, so it is not possible to express the amount at risk in dollars. Historically, the Company has not been obligated to make significant payments on account of these obligations, and accordingly, no liabilities were recorded for these obligations of this nature on its balance sheets as of June 30, 2008 and December 31, 2007. The Company carries coverage under certain insurance policies to protect itself in the case of an unexpected liability; however, this coverage may not be sufficient.

## **10. SUBSEQUENT EVENT**

The Canadian subsidiary of Stockhouse owned 50% of Stockscores Analytics Corp. (Stockscores), a British Columbia corporation with limited activity and no material impact on the Company. On July 24, 2008, the Company disposed of its 50% share in Stockscores to the other shareholder for \$75,000.

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

*The following discussion and analysis should be read together with our Consolidated Financial Statements and the Notes to those statements included elsewhere in this quarterly report on Form 10-Q and the Consolidated Financial Statements and the Notes to those statements included in our Form 10-KSB for the year ended December 31, 2007. Certain statements contained herein constitute forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. In some cases forward-looking statements can be identified by terminology, such as believes, anticipates, expects, estimates, plans, may, intends, or similar terms. These statements appear in a number of places in this Form 10-Q and include statements regarding the intent, belief or current expectations of our company, its directors or its officers with respect to, among other things: (i) trends affecting our financial condition or results of operations, (ii) our business and growth strategies, (iii) the Internet and Internet commerce and (iv) our financing plans. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled Risk Factors, that may cause our company's or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.*

*Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur.*

*Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles. In this discussion, unless otherwise specified, all references to common shares refer to the common shares in our capital stock and the terms we, us and our mean STOCKHOUSE INC., a Colorado corporation. Effective July 10, 2008, we changed our name from Stockgroup Information Systems Inc. to Stockhouse Inc. ( Stockhouse or the Company ). As a result, effective July 21, 2008, Stockhouse traded on the Over-the-Counter Bulletin Board quotation service operated by the Nasdaq Stock Market, Inc. under its new trading symbol STKH.OB (previously since March 17, 1999 under the symbol SWEB) and on the TSX Venture Exchange under its new trading symbol SHC.V (previously since December 17, 2002 under the symbol SWB).*

### Foreign Currency and Exchange Rates

All amounts in this quarterly report are stated in United States ( U.S. ) Dollars unless otherwise indicated. The operations of our Canadian subsidiary have been converted to U.S. dollars for financial statement reporting purposes at an average rate of C\$1.01 per U.S.\$1.00 for the three and six months ended June 30, 2008. The rate at June 30, 2008 was C\$1.01. The average rate was C\$1.17 per U.S.\$1.00 for the three months ended June 30, 2007 and C\$1.13 per U.S. \$1.00 for the six months ended June 30, 2007.

We also operate in the United Kingdom, Spain and the Benelux countries and are subject to exchange rate fluctuations in those jurisdictions.

## Overview

### Our Business

Our services can be separated into two categories: (i) Licensing and Subscriptions; and (ii) Advertising Services. The basic commonalities between the two categories are that all of our services relate to the financial markets and all are currently delivered over the Internet or mobile devices.

Much of our sales are driven by popular interest in the stock markets. Advertising services are in greater demand when there is greater overall demand for online advertising across all industries. Our licensing and subscription services are driven by our clients' customers' demand for market information. Our audience levels on our Stockhouse websites are closely correlated with the popularity of the stock market. We believe that greater audience levels on our Stockhouse websites will translate into larger revenues over the long term.

The Internet is the delivery vehicle for all of our products. 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. Financial software and content systems clients, including large news websites, brokerages, banks, and other media are encountering competitive pressures to improve their financial content offerings. This market expansion has driven demand for our services and has resulted in continued sales growth.

We also receive financial information from suppliers over the Internet and deliver it to mobile devices. Adoption of mobile and smart phones continue to grow at a significant pace as investors and investment professionals use mobile devices to stay connected to the market when they are away from their desktops. We believe that this market expansion continues to drive demand for the services provided by this mobile finance business.

On January 31, 2007 we closed a transaction for the purchase of a division of TeleCommunication Systems, Inc., known as the Mobile Finance Division, or MFD. The acquired business specializes in the sale of a wireless service delivering financial market data, news, and limited analytics like charting and portfolio functionality. We believe that the wireless platform we have obtained with this acquisition is of strategic value that can grow within our existing operations. Having a wireless platform for content delivery, including our StockStream product, is an important part of our strategy for the growth of our enterprise and increase in our number of retail customers. We believe that adding this wireless capability should also provide us with additional scalability in distributing our content.

On May 8, 2007, we entered into a purchase agreement with Semotus Solutions Inc. ( Semotus ) whereby we acquired the financial information services assets of Semotus, a California based provider of mobile enterprise software solutions. We believe the acquired software and customer base further enhances our ability to offer our customers a range of scalable wireless financial market data services.

The results of the MFD business acquisition and the Semotus asset acquisition from February 1, 2007 and May 8, 2007, respectively, are included in the consolidated financial statements.

## **Recent Corporate Developments**

Since the completion of our fiscal year ended December 31, 2007 we have experienced the following significant corporate developments:

On April 3, 2008, we launched our redesigned website, [www.Stockhouse.com](http://www.Stockhouse.com). The new website uses enhanced social networking and collaboration tools and technology to help users of the website share information, opinions and insights. One of the key features of the new website is a proprietary user reputation and content ranking system which helps users of the website filter content posted on the website by other users and to determine who the highest quality members of the community are. The investor reputation and content ranking systems consists of human, wisdom of crowd, performance, participation and algorithmic filters to determine the highest quality contributors and content.

On May 13, 2008, we closed a private placement with PEAK6 Capital Management LLC ( PEAK6 ), pursuant to a stock purchase agreement we entered into on April 30, 2008. In this equity financing, we agreed to issue 3,000 shares of Series A convertible preferred stock at a price of \$1,000 per share for gross proceeds of \$3,000,000. Holders of preferred shares are entitled to receive dividends when, as, and if declared by the Company at a rate of 7%. Each preferred share is convertible to 2,200 common shares of the Company. The preferred shares are non-voting until conversion, are convertible 180 days after issuance, and automatically convert into common shares at the end of twenty four months from date of issuance at a price of \$0.4545 per common share. We may redeem the preferred shares at any time after 90 days by paying 110% of their value. See Part II, Item 2. Unregistered Sales of Equity Securities for further information. Separate from the stock purchase agreement, we also entered into a strategic agreement whereby we provide market data, research and news to PEAK6's new online options information portal, The Options News Network.

On July 8, 2008, we launched Stockstream Mobile™ and Stockstream Mobile Pro. These products provide the individual investor and professional trader with streaming real-time market data and news covering 40 global exchanges and all financial instruments from Reuters. These products can be white-labeled for client loyalty products or resale through channel partners. The new media of the future, mobile devices are poised to transform how both the professional and retail market access financial information. Our global wireless market data solution addresses the growing demand for wireless access to financial information and analytics using state-of-the-art mobile technology. We are currently migrating our existing MarketStream™ customers to Stockstream Mobile and are pre-selling this product to our institutional investors.

Effective July 10, 2008, we changed our name from Stockgroup Information Systems Inc. to Stockhouse Inc.

## ***Employment Agreements***

Effective January 7, 2008, we entered into an employment agreement with Karl Buhr to serve as the Company's Chief Operating Officer. Pursuant to the terms of his employment agreement, Mr. Buhr is to receive an annual base salary of \$190,000, subject to normal salary increases. In addition, he is entitled to an annual \$70,000 maximum incentive compensation bonus. Mr. Buhr is entitled to six months of salary and the prorated portion of bonuses earned which will include pay in lieu of notice, should we elect to terminate his employment without cause. Should Mr. Buhr's job responsibilities be significantly altered, then Mr. Buhr may terminate the employment agreement for good reason and be entitled to six months of salary and the prorated portion of any bonuses earned. On January 7, 2008, Mr. Buhr was granted 500,000 stock options for the Company's common shares, with one third vesting at the end of each full year for three years on the anniversary of the grant date. On April 28, 2008, we entered into a performance stock option agreement with Mr. Buhr under which we granted 250,000 options to purchase shares of the Company. The options are earned in defined amounts and, subject to the aforementioned vesting provisions, can be exercised only if we achieve certain pre-defined business targets before December 31, 2010.



Effective January 8, 2008, we entered into an employment agreement with Dana Stetson to serve as the Company's Vice President of Licensing and Subscription Sales. Mr. Stetson is to receive an annual base salary of \$160,000 subject to normal salary increases, and is entitled to receive variable pay of up to 50% of his annual salary. On April 28, 2008, Mr. Stetson was granted stock options for 135,000 of the Company's common shares, vesting at one third per year over a three year period on the anniversary of the grant date. Commencing April 8, 2008, Mr. Stetson is entitled to one month of pay for each year of employment up to a maximum of four months, if the Company elects to terminate Mr. Stetson's employment with the Company without cause.

Effective February 1, 2008, we entered into an employment agreement with Audrey Brownmiller, formerly a Director of Operations for the Company, to serve as the Company's Vice President of Operations. Ms. Brownmiller is to receive an annual base salary of \$125,000, subject to normal salary increases, and is entitled to an annual \$20,000 maximum incentive compensation bonus. On January 15, 2008, Ms. Brownmiller was granted 60,000 common shares of our stock, with one third of these options vesting at the end of each year for three years on the anniversary of the grant date. Ms. Brownmiller has previously been granted 75,000 stock options (with 6.25% of the original number of options vesting on the third month anniversary of her start date and an additional 6.25% vesting on each three-month anniversary thereafter until all the options are vested). For the Company's termination of Ms. Brownmiller's employment with the Company without cause, the Employment Standards Act of British Columbia would govern.

#### ***Appointment of New Director***

Effective April 17, 2008, we appointed Janet Scardino as a director of the Company. Ms. Scardino is currently President and Chief Marketing Officer of The Knot, Inc., a NASDAQ listed company. She was the Executive Vice President of Reuters Group PLC from March 2005 through August 2007 and the Executive Vice President and Managing Director of the Media division of Reuters from January 2006 through August 2007. Ms. Scardino also served as Executive Vice President and Global Head of Marketing of Reuters Media from March 2005 through January 2006. Between February 2003 and March 2005, Ms. Scardino was a digital media entrepreneur. From March 2001 to February 2003, Ms. Scardino was Senior Vice President, International Marketing for the America Online division of AOL Time Warner Inc. Between 1998 and 2001 Ms. Scardino was Managing Director for the Disney Channel Italy, a wholly owned subsidiary of The Walt Disney Company. Prior to that, Ms. Scardino served in various positions for MTV Networks from 1987 to 1997, most recently as Vice President, International Marketing for MTV: Music Television. Ms. Scardino received a B.S. in Communications from Emerson College in 1981.

We agreed to pay Ms. Scardino \$15,000 per annum in consideration for her services as a director for the Company and she will be paid an additional \$2,000-\$3,000 per annum if she serves as chairperson of any committee of the board of directors. On April 17, 2008, Ms. Scardino was granted 75,000 non-qualified stock options to purchase shares of our common stock at an exercise price of \$0.36 per share expiring on April 17, 2013. The stock options vest equally at the end of each year for three years on the anniversary of the grant date.

**Results of Operations**

The following table shows each line item on our unaudited consolidated statements of operations as a percentage of total revenues (rounded to the nearest percentage):

|  | Three Months Ended |             | Six Months Ended |             |
|--|--------------------|-------------|------------------|-------------|
|  | June 30,<br>2008   | 2007        | June 30,<br>2008 | 2007        |
| <b>REVENUES</b>                              |                    |             |                  |             |
| Licensing and subscriptions                  | 79%                | 71%         | 77%              | 70%         |
| Advertising services                         | 21%                | 29%         | 23%              | 30%         |
|  | 100%               | 100%        | 100%             | 100%        |
| <b>OPERATING COSTS AND EXPENSES</b>          |                    |             |                  |             |
| Cost of revenues (exclusive of amortization) | 44%                | 43%         | 43%              | 42%         |
| Sales and marketing                          | 39%                | 34%         | 39%              | 35%         |
| Research and development                     | 11%                | 10%         | 11%              | 10%         |
| General and administrative                   | 60%                | 39%         | 57%              | 36%         |
| Amortization of intangible assets            | 4%                 | 8%          | 4%               | 4%          |
| Impairment of goodwill                       | 3%                 | -           | 2%               | -           |
| Impairment of intangible assets              | 23%                | -           | 11%              | -           |
| <b>TOTAL OPERATING COSTS AND EXPENSES</b>    | <b>184%</b>        | <b>134%</b> | <b>167%</b>      | <b>127%</b> |
| Loss from operations                         | (84%)              | (34%)       | (67%)            | (27%)       |
| Interest and other income, net               | -                  | 1%          | 5%               | 1%          |
| Net loss before income taxes                 | (84%)              | (33%)       | (62%)            | (26%)       |
| Provision for income taxes                   | -                  | -           | -                | -           |
| Net loss and comprehensive loss              | (84%)              | (33%)       | (62%)            | (26%)       |

**Revenues**

| (In thousands of Dollars) | Three Months Ended |      | Six Months Ended |      |
|---------------------------|--------------------|------|------------------|------|
|                           | June 30,<br>2008   | 2007 | June 30,<br>2008 | 2007 |



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|                             |    |       |    |       |    |       |    |       |
|-----------------------------|----|-------|----|-------|----|-------|----|-------|
| Licensing and Subscriptions | \$ | 2,567 | \$ | 2,614 | \$ | 5,191 | \$ | 4,789 |
| Advertising                 |    | 699   |    | 1,091 |    | 1,574 |    | 2,016 |
| Total revenues              | \$ | 3,266 | \$ | 3,705 | \$ | 6,765 | \$ | 6,805 |

The majority of our revenues are derived from customers located in North America. On February 1, 2007, we commenced business operations in the United Kingdom, Spain and Benelux and our European revenues approximated 16% to 20% of total revenues for the presented periods above.

***Licensing and Subscriptions***

Licensing and Subscriptions revenues decreased by 2% to \$2,567,000 for the three months ended June 30, 2008 from \$2,614,000 for the three months ended June 30, 2007. Revenues increased by 8% to \$5,191,000 for the six months ended June 30, 2008 from \$4,789,000 for the six months ended June 30, 2007.

The decrease in the three months ended June 30, 2008, was mainly attributable to a 42% decline in our pager subscription services for our MFD product. Our pager subscription services represent approximately 58% of the revenues of MFD for the three months ended June 30, 2008. Revenues from sales our MFD MarketStream™ products continue to increase over prior periods. The decrease in pager revenues is offset by a 43% increase in sales of our StockStream and related products to our institutional customers, and revenues received from the Semotus assets which were not acquired until May 8, 2007.

The increase in the six months ended was primarily driven by 29% in increased sales to our institutional customers and an increase of 70% in revenues related to the delivery of financial information under our MFD MarketStream product. Revenues generated from the Semotus assets also contributed to the increase in licensing and subscription revenues in the six months ended June 30, 2008. The increase was offset by a 30% decline in pager subscription services which have continued to decline as customers change to other types of wireless devices.

### *Advertising Services*

Advertising services revenues include advertising on our Stockhouse websites and related properties. The Stockhouse brand name and the functionality of the Stockhouse website; including our Stockhouse Blogs, provide us with access to the investment community. The Stockhouse website allows us to provide a range of advertising services for our clients where they gain exposure to an affluent group of consumers. While we believe that the market for online advertising in general will continue to grow and that there will be greater demand among companies for advertising targeted to the investment community, the current economic conditions and decline in the stock market have caused some customers to delay purchases of advertising services.

Advertising services revenues decreased by 36% to \$699,000 for the three months ended June 30, 2008 from \$1,091,000 for the three months ended June 30, 2007 and decreased by 22% to \$1,574,000 for the six months ended June 30, 2008 from \$2,016,000 for the six months ended June 30, 2007. During the first quarter of 2008 we maintained the beta version of Stockhouse.com as a separate site. The maintenance of an additional site and the closing of the older version of Stockhouse.com contributed to difficulties in inventory management, advertising delivery and advertising sales. This transition, the loss of advertising sales personnel in the first quarter of 2008 and the decline in the stock market all contributed to decreased revenues in both the three and six months ended June 30, 2008. During the three months ended June 30, 2008, we hired a new VP of Advertising Sales, increased sales personnel, installed DART for publishers for advertising delivery, and added site analytics.

Revenues are also dependent on activity levels in the stock market and can fluctuate from period to period depending on the mix of customers purchasing advertising and the amount of advertising purchased by customers. This revenue category was not impacted by our acquisition of MFD and Semotus.

**Operating Costs and Expenses**

| (In thousands of Dollars)          | Three Months Ended |       | Six Months Ended |                  |
|------------------------------------|--------------------|-------|------------------|------------------|
|                                    | June 30,<br>2008   | 2007  | 2008             | June 30,<br>2007 |
| Cost of revenues                   |                    |       |                  |                  |
| (exclusive of amortization) \$     | 1,441              | 1,590 | \$ 2,911         | \$ 2,860         |
| Sales and marketing                | 1,275              | 1,260 | 2,656            | 2,353            |
| Research and development           | 370                | 386   | 752              | 671              |
| General and administrative         | 1,964              | 1,435 | 3,878            | 2,450            |
| Amortization of intangible assets  | 144                | 271   | 288              | 271              |
| Impairment of goodwill             | 99                 | -     | 99               | -                |
| Impairment of intangible assets    | 736                | -     | 736              | -                |
| Total operating costs and expenses | \$ 6,029           | 4,942 | \$ 11,320        | \$ 8,605         |

Total operating costs and expenses increased by 22% for the three months ended June 30, 2008 as compared to the three months ended June 30, 2007 and increased to 184% of total revenues for the three months ended June 30, 2008 from 134% for the comparable prior year period. Total operating costs and expenses increased by 32% for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007 and increased to 167% of total revenues for the six months ended June 30, 2008 from 127% for the comparable prior year period.

The majority of the absolute dollar increases are attributable to operational costs associated with the acquisition and integration of our mobile finance operations and the need to provide the infrastructure base required to manage and grow the business. Commencing at the end of the three months ended June 30, 2008, we have undertaken several cost cutting measures in order to reduce total operating costs and expenses in absolute dollars and as a percentage of revenues. We believe we will see the positive impact of these cost cutting measures as soon as the end of this fiscal year. At June 30, 2008, management assessed that goodwill and acquired intangible assets were impaired and as such recorded an impairment loss totaling \$835,000 as further described below.

***Cost of revenues***

Our cost of revenues includes costs associated with bandwidth, data feeds and exchange fees, and other direct product costs. Total cost of revenues decreased by 9% to \$1,441,000 for the three months ended June 30, 2008 from \$1,590,000 for the three months ended June 30, 2007. Our cost of revenues increased by 2% to \$2,911,000 for the six months ended June 30, 2008 from \$2,860,000 for the six months ended June 30, 2007.

During 2006, we entered into an agreement with a data provider for delivery of market data used for our services. The transition to this primary provider was ongoing during the three and six months ended June 30, 2007 and thus we paid certain duplicate costs associated with our previous provider during that period which did not recur in 2008.

For the three and six months ended June 30, 2008 compared to the prior comparable periods, bandwidth costs have increased. The majority of bandwidth costs are correlated with traffic levels on our Stockhouse website and the number of customers to which we license our platform. We anticipate that bandwidth costs will continue to increase support growing demand. In addition, during the six months ended June 30, 2008, we incurred additional airtime costs to support our existing pager customers.

The number of clients to which we provide data has increased during the six months ended June 30, 2008 from the comparative period resulting in additional costs. While we expect that data feed costs in absolute dollars may increase, we expect that cost of revenues will decrease as a percentage of total revenues, going forward, due to consolidation and efficiencies in data costs and as our revenues increase. We are subject to exchange fees, which include user fees, which are subject to change. Our costs may increase without a proportionate increase in revenues until we can complete new agreements with our customers to recover these costs.

### ***Sales and Marketing***

Sales and marketing expenses increased by 1% to \$1,275,000 for the three months ended June 30, 2008 from \$1,260,000 for the three months ended June 30, 2007. Sales and marketing expenses increased by 13% to \$2,656,000 for the six months ended June 30, 2008 from \$2,353,000 for the six months ended June 30, 2007.

We have continued to experience changes in our sales force; however, we believe we have strengthened our sales team in the six months ended June 30, 2008, including the hire of our Vice President of Advertising Sales in May 2008. Generally changes in the mix of the sales force require a ramp-up time before revenues are realized and this is reflected in the fact that sales and marketing as a percentage of total revenues have increased for both the three and six months ended June 30, 2008 compared to the comparable prior periods. We believe that the increased productivity of our sales force will result in revenues growing at a faster rate than sales and marketing expense in the future.

We have continued to invest in our team who provide editorial content for our website. We believe that the nature of this content, which is focused on content rich articles that most strongly impact the majority of our customers, will attract traffic to our Stockhouse.com website which in turn results in increased revenues. We have also continued to invest in marketing the Stockhouse brand and in the three months ended June 30, 2008, incurred additional marketing costs associated with the launch of the [www.Stockhouse.com](http://www.Stockhouse.com) website.

### ***Research and development***

Research and development expenses decreased by 4% to \$370,000 for the three months ended June 30, 2008 from \$386,000 for the three months ended June 30, 2007. Research and development expenses increased by 12% to \$752,000 for the six months ended June 30, 2008 from \$671,000 for the three months ended June 30, 2007.

Late in the first quarter of 2007, we added 12 employees to the research and development and quality assurance teams in preparation of the launch of the new Stockhouse website. The majority of these salary costs continued through the first quarter of 2008 for development work required for the full release of the website and resulted in increased costs of the six months ended June 30, 2008. Costs declined in the three months ended June 30, 2008 compared to the prior quarter associated with fewer headcount required as the project was completed. We expect there will be a decrease in research and development costs in the balance of 2008 attributable to the completion of the website.

Our research and development team continues to work on the development of our existing and future products and also on internal use software solutions to support our business. We have recently adopted the agile development methodology which will re-define how we envision, plan, develop and test our products.

### ***General and Administrative***

General and administrative expenses increased by 37% to \$1,964,000 for the three months ended June 30, 2008 from \$1,435,000 for the three months ended June 30, 2007 and increased by 58% to \$3,878,000 for the six months ended June 30, 2008 from \$2,450,000 for the six months ended June 30, 2007. These expenses as a percentage of total revenues increased to 60% for the three months ended June 30, 2008 from 39% for the three months ended June 30, 2007. As a percentage of total revenues, these expenses increased to 57% for the six months ended June 30, 2008 from

36% for the six months ended June 30, 2007.

During the three and six months ended June 30, 2008, general and administrative expenses increased in part as the result of additional human resource costs, such as: the costs associated with payroll (which increased mainly as costs increased in U.S. dollars due to the strengthening of the Canadian dollar versus the U.S. dollar); severance costs for our MFD employees; increased consultant costs, including costs associated with transferring our United Kingdom accounting function to Vancouver; and stock-based compensation charges. Professional fees increased substantially in the six months ended June 30, 2008 as the result of what we believe to be one-time expenditures related to additional work required in the completion of our year-end audit for the consolidated entity. During the three months ended June 30, 2008 we recorded a \$313,000 bad debt charge on certain outstanding receivable balances. We do not anticipate that similar bad debt charges of this magnitude will occur in the future.

During the three and six months ended June 30, 2007, general and administration expenses were positively impacted by fluctuations in exchange rates from holding a significant portion of the private placement financing in Canadian dollars. These gains of \$176,000 and \$143,000 during the three and six months ended June 30, 2007, were significantly higher than foreign exchange gains of \$79,000 and \$75,000 in the three and six months ended June 30, 2008.

#### ***Amortization of intangible assets***

Amortization of intangible assets was \$144,000 for the three months ended June 30, 2008 and \$271,000 for the three months ended June 30, 2007. Amortization of intangible assets was \$288,000 for the six months ended June 30, 2008 and \$271,000 for the six months ended June 30, 2007. Amortization is charged on definite-lived intangible assets, including intellectual property and customer relationships related to our MFD purchase and Semotus asset acquisition. Amortization for the three months ended June 30, 2007, included cumulative amortization on MFD intangible assets since February 1, 2007 as intangibles were not allocated during the first quarter of 2007. We anticipate that amortization expense will decrease in future periods as the result of the impairment charge recorded at June 30, 2008, which reduced the carrying value of these assets.

#### ***Impairment of goodwill and acquired intangible assets***

We test the carrying amount of identifiable intangible assets and goodwill annually as of December 31, or whenever events or circumstances indicate that impairment may have occurred. Due to the combination of continuing declining revenues from the acquired MFD business and the integration of former MFD European employee positions into the North American business, management concluded that there were sufficient indicators of impairment to test the carrying value of intangible assets and goodwill as at June 30, 2008. In addition, as revenues continued to decline from the acquired Semotus products, management concluded that there were sufficient indicators of impairment to test the carrying value of those acquired intangible assets as at June 30, 2008.

Impairment testing for goodwill is performed in accordance with FAS No. 142, *Goodwill and Other Intangible Assets* ( FAS 142 ). FAS 142, requires the Company to complete a two-step process that begins with an estimation of the fair value of the reporting unit. The first step of the impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of the impairment loss, if any. The impairment test indicated that the implied fair value of the Company's goodwill was not in excess of its carrying value at June 30, 2008, and as a result we recorded an impairment loss of \$99,000 as a non-cash charge to operating expenses.

We evaluate long-lived tangible assets and definite-lived intangible assets for potential impairments in accordance with FAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( FAS 144 ). Under FAS 144, an impairment loss is recognized only if the carrying amount of a definite-lived intangible asset is not recoverable and exceeds its fair value. Recoverability of these assets is determined based upon the expected undiscounted future net cash flows from the operations to which the assets relate, utilizing management's best estimates, appropriate assumptions and projections at the time. When analyzing intellectual property for impairment we use a relief from royalty method which calculates the cost savings associated with owning rather than licensing the intellectual property, applying an assumed royalty rate within our discounted cash flow calculation. If the carrying value is determined not to be recoverable from future operating cash flows, the asset is deemed impaired and an impairment loss is recognized to the extent the carrying value exceeds the estimated fair market value of the asset.

As a result of these evaluations, we recorded an impairment loss totaling \$736,000 to reduce the carrying value of the definite-lived intangible assets to their estimated fair market values. The estimated fair values of the MFD intangible assets were \$347,000 for intellectual property and \$106,000 for customer relationships. The estimated fair market values of the Semotus intangible assets were \$53,000 for intellectual property and \$0 for customer relationships.

### Interest and other income (expense)

| (In thousands of Dollars)          | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |       |
|------------------------------------|--------------------------------|-------|------------------------------|-------|
|                                    | 2008                           | 2007  | 2008                         | 2007  |
| Interest income                    | \$ 21                          | \$ 44 | \$ 43                        | \$ 56 |
| Interest expense                   | (10)                           | (18)  | (23)                         | (23)  |
| Other income                       | -                              | -     | 337                          | -     |
| Total interest and other<br>income | \$ 11                          | \$ 26 | \$ 357                       | \$ 33 |

We earn interest income on our cash and cash equivalents, which are held in major banks in either interest bearing accounts or term deposits. The majority of interest expense represents interest charged on capital lease obligations. Other income in the six months ended June 30, 2008 included a \$340,000 favorable settlement of the Hollinger litigation referenced in Note 8 of the Notes to the Unaudited Interim Consolidated Financial Statements.

### Liquidity and Capital Resources

Cash and cash equivalents totaled \$3,494,000 at June 30, 2008 an increase of \$673,000 from December 31, 2007.

| (In thousands of Dollars)                 | Six Months Ended<br>June 30, |          |
|---|------------------------------|----------|
|   | 2008                         | 2007     |
| Cash used in operating activities         | \$ (2,284)                   | \$ (294) |
| Cash used in investing activities         | (52)                         | (475)    |
| Cash provided by financing activities     | 3,009                        | 4,209    |
| Net increase in cash and cash equivalents | \$ 673                       | \$ 3,440 |

During the three months ended June 30, 2008 we received net proceeds of \$2,969,000 in an equity financing transaction which was used to fund operations. During the six months ended June 30, 2007 we raised net proceeds of \$4,146,000 from a private placement of 3,333,334 common shares and we completed the acquisition of MFD and the Semotus assets. While we issued 1,500,000 restricted common shares for the MFD purchase, versus cash, we assumed a significant level of liabilities which were paid down at a faster rate than the monies collected on the accounts receivable balances assumed in the acquisition.





**Operating Activities.** During the six months ended June 30, 2008 we used more cash than we generated from operations. This was primarily due to the use of cash to fund the expenses arising from the integration of our international operations and the build up of the infrastructure base required to manage and grow our expanded operations. Our total revenues have decreased versus the comparable prior year periods and receivables collections have also been slower requiring increased funds for operations.

**Investing Activities.** Cash used of \$52,000 for the six months ended June 30, 2008 represents additions to property and equipment and payments to Semotus, as per the agreed acquisition terms.

**Financing Activities.** Net cash provided by financing activities was \$3,009,000 for the six months ended June 30, 2008. We received net proceeds of \$2,969,000 in cash from PEAK6 on the issuance on 3,000 Series A convertible preferred shares as further described in the *Recent Corporate Developments* section of this analysis. In addition, we received cash on the exercise of stock options of \$167,000. These inflows were partially offset by repayment of capital lease obligations of \$127,000.

### **Future Liquidity Requirements**

Changes in the demand for our products and services, and those of our acquired business will continue to impact our operating cash flow. With the completion of the equity financing in May 2008, we believe our cash and cash equivalents will be sufficient to meet our consolidated requirements for the next 12 months, including but not limited to working capital, capital expenditures, contractual cash commitments, and the costs associated with the integration of MFD into our business. If our cash and cash equivalents become inadequate for our long term needs we will likely choose to raise additional financing through the issuance of equity or debt securities. We can give 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 our long-term requirements, or even if we can raise additional capital, that we can do so on terms that are commercially reasonable. We do not expect to declare or pay any cash dividends in the foreseeable future.

On May 8, 2007, we acquired certain intangible assets from Semotus. In consideration for these assets, we paid \$150,000 of the purchase price on May 9, 2007. The remainder is payable at a rate of 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. Should monthly gross revenues fall below \$15,000 per month at any time the purchase price will be deemed paid in full. As of June 30, 2008, the total outstanding consideration payable was \$102,000. We anticipate that there may be some portion of the outstanding payable that may not represent an obligation based on the current revenue levels earned from customer contracts purchased from Semotus.

### **Contractual Obligations**

Our contractual obligations at December 31, 2007 of \$3,591,000 have not changed materially to June 30, 2008. We have secured additional space in Toronto and anticipate total additional costs of approximately \$641,000 over five years commencing in November 2008. We also entered into several capital leases for servers and computer equipment in the six months ended June 30, 2008, which will result in approximately \$63,000 of additional commitment over two years.

### **Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements as of June 30, 2008 or December 31, 2007 as that term is defined in Item 303(a) (4) of Regulation S-K.

## Critical Accounting Policies

Our audited consolidated financial statements and notes thereto included in our 2007 Annual Report on Form 10-KSB and our unaudited interim consolidated financial statements and notes thereto included in our Quarterly Reports are prepared in accordance with U.S. GAAP. These accounting principles require us to make certain estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates, judgments and assumptions are based upon information available to us at the time that they are made. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our consolidated financial statements will be affected. We believe the following critical accounting policies reflect our most significant estimates, judgments and assumptions used in the preparation of our consolidated financial statements.

- Revenue Recognition
- Allowance for Doubtful Accounts
- Contingencies and Litigation
- Cost of Revenue accruals
- Stock-based Compensation
- Business Combinations
- Foreign Currency
- Accounting for Income Taxes
- Goodwill and other intangible assets

There have been no significant changes in our critical accounting policies during the six months ended June 30, 2008 compared to those previously disclosed in Item 6. *Management's Discussion and Analysis or Plan of Operation* included in our Annual Report on Form 10-KSB for the year ended December 31, 2007 except for the adoption of the policy on Fair Value Measurements and the policy on Fair Value Option for Financial Assets and Financial Liabilities as described in Note 2 – Summary of Significant Accounting Policies of the Notes to the Unaudited Interim Consolidated Financial Statements included elsewhere in this Form 10-Q.

## 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. We are currently evaluating the potential impact, if any, of the adoption of FAS 141(R) on our 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* . We are currently evaluating the potential impact, if any, of the adoption of FAS 162 on our consolidated financial statements.

### **Risk Factors Affecting Our Business**

*We operate in a rapidly changing environment that involves numerous uncertainties and risks. The following section describes some, but not all, of these risks and uncertainties that may adversely affect our business, financial condition or results of operations. This section should be read in conjunction with the unaudited consolidated financial statements and the accompanying notes thereto including the cautionary statement on forward looking statements of this quarterly report and other parts of Management's Discussion and Analysis included in this Report on Form 10-Q. Additional factors and uncertainties not currently known to us or that we currently consider immaterial could also harm our business, operating results and financial condition.*

#### **Risks Related to Our Business**

***We have a history of operating losses and we cannot predict if or when we will be profitable.***

We have a history of operating losses in the past years. We currently cannot estimate if we will be profitable in fiscal 2008 or future fiscal periods. Our acquisition of the Mobile Finance Division of TeleCommunication Systems, Inc. has increased losses in the short and medium term as integration costs and possible loss of revenue may occur. In addition, we have limited operating history upon which an evaluation of our current business and prospects can be based.

***Computer equipment problems and failures could adversely affect business.***

Problems or failures in Internet-related equipment, including file servers, computers and software, could result in interruptions or slower response times for our web-based services, which could reduce the attractiveness of our website and financial tools to our customers and users. In addition, our customers rely on us for time-sensitive, up-to-date data that is reliably delivered. Our business is dependent on our ability to rapidly and efficiently process substantial quantities of data on our computer-based networks and systems. Should interruptions continue for an extended period we could lose significant business and our reputation could be damaged. Equipment problems and failures could result from a number of causes, including an increase in the number of users of our website, computer viruses, outside programmers penetrating and disrupting software systems, human error, fires, floods, power and telecommunications failures and internal breakdowns. In addition, any disruption in Internet access and data feeds provided by third parties could have a material and adverse effect on our business. If we experience a major disaster such as a fire, theft, or intentional destruction of our computer equipment, we cannot be certain of the extent of the disruption to our business.

***We may have difficulty scaling and adapting our existing architecture to accommodate increased traffic and technology advances or changing business requirements, which could lead to the loss of customers and advertisers, and cause us to incur expenses to make architectural changes.***

To be successful, our network infrastructure has to perform well and be reliable. The greater the user traffic and the greater the complexity of our products and services, the more computing power we will need. We have spent and expect to incur costs related to the purchase of computer equipment, the upgrade of our technology and network infrastructure to handle increased traffic on our web sites and our servers, and to roll out new products and services. This expansion is expensive and complex and could result in inefficiencies or operational failures. If we do not expand successfully, or if we experience inefficiencies and operational failures, the quality of our products and services and our users' and customers' experience could decline. This could damage our reputation and lead us to lose current and potential users, customers and advertisers. Cost increases, loss of traffic or failure to accommodate new technologies or changing business requirements could materially harm our operating results and financial condition.



***We may not be able to compete successfully against current and future competitors.***

We currently compete with several other companies offering similar services. Many of these companies have significantly greater financial resources, name recognition, and technical and marketing resources, and virtually all of them are seeking to improve their technology, products and services. We cannot assure that we will have the financial resources or the technological expertise to meet this competition successfully.

***We are dependent on activity levels in the securities market.***

Our business is dependent upon the health of the financial markets as well as the financial health of the participants in those markets. Some of the financial data and information market demand is dependent on activity levels in the securities markets while other demand is static and is not dependent on activity levels. In the event that the U.S. or international financial markets suffer a prolonged downturn that results in a significant decline in investor activity, our revenue levels could be materially adversely affected.

***We face government regulation and legal uncertainties.***

The growth and development of the market for Internet commerce and communications has prompted both federal and state laws and regulations concerning the collection and use of personally identifiable information (including consumer credit and financial information under the Gramm-Leach-Bliley Act), consumer protection, the content of online publications, the taxation of online transactions and the transmission of unsolicited commercial email, popularly known as spam. More laws and regulations are under consideration by various governments, agencies and industry self-regulatory groups. Although our compliance with applicable federal and state laws, regulations and industry guidelines has not had a material adverse effect on us, new laws and regulations may be introduced and modifications to existing laws may be enacted that require us to make changes to our business practices. Although we believe that our practices are in compliance with applicable laws, regulations and policies, if we were required to defend our practices against investigations of state or federal agencies or if our practices were deemed to be violating applicable laws, regulations or policies, we could be penalized and our activities enjoined. Any of the foregoing could increase the cost of conducting online activities, decrease demand for our services, lessen our ability to effectively market our services, or otherwise materially adversely affect our business, financial condition and results of operations.

Our ability to comply with all applicable securities laws and rules is largely dependent on our establishment and maintenance of appropriate compliance systems (including proper supervisory procedures and books and records requirements), as well as our ability to attract and retain qualified compliance personnel.

Because we operate in an industry subject to extensive regulation, new regulation, changes in existing regulation, or changes in the interpretation or enforcement of existing laws and rules could have a material adverse effect on our business, results of operations and financial condition.

***We depend on the ability for wireless devices to access the Internet.***

Historically, wireless carriers have been relatively slow to implement complex new services such as Internet-based services. Our future success depends upon a continued increase in the use of wireless devices to access the Internet and upon the continued development of wireless devices as a medium for the delivery of network-based content and services. We have no control over the pace at which wireless carriers implement these new services. The failure of wireless carriers to introduce and support services utilizing our products in a timely and effective manner could reduce sales of our products and services and seriously harm our business. In addition, mobile handsets change very frequently requiring continued product design changes and development which may financially impact our business negatively.



***We may be unable to protect the intellectual property rights upon which our business relies.***

We have or may pursue certain trademarks, and we have brand names, Internet domain names, website designs, programs and certain subscriber lists which make up the intellectual property we view as important to our business. It may be possible for a third party to copy or otherwise obtain or use our intellectual property without authorization or to develop similar technology independently. There can also be no assurance that our business activities will not infringe upon the proprietary rights of others, or that other parties will not assert infringement claims against us, including claims that by, directly or indirectly, providing hyperlink text links to websites operated by third parties, we have infringed upon the proprietary rights of other third parties. Due to the global nature of the Internet, there can be no assurance that obtaining trademark protection in the United States will prevent infringements on our trademarks by parties in other countries. We have not sought or obtained any patents on our proprietary software and data processing applications.

Litigation may be necessary in the future to enforce our intellectual property rights, to protect trade secrets or patents that we may obtain, or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our future operating results.

***An interruption in the supply of products and services that we obtain from third parties could cause a decline in sales of the services from our company, and products we purchase to avoid shortages may become obsolete before we can use them.***

In designing, developing and supporting the data services of our company, we have relied on wireless carriers, wireless handheld device manufacturers, content providers, software providers and companies that manage some of our other services such as our internal IT operations and customer care services. These suppliers may experience difficulty in supplying us products or services sufficient to meet our needs or they may terminate or fail to renew contracts for supplying us these products or services on terms we find acceptable. Any significant interruption in the supply of any of these products or services could cause a decline in sales of our services unless and until we are able to replace the functionality provided by these products and services. We also depend on third parties to deliver and support reliable products, enhance our current products, develop new products on a timely and cost-effective basis and respond to emerging industry standards and other technological changes. In addition, we rely on the ability of our content providers to continue to provide us with uninterrupted access to the news and financial information we provide to our customers. The failure of third parties to meet these criteria, or their refusal or failure to deliver the information for whatever reason could materially harm our business and would also affect our ability to sell our products.

***Our industry is a rapidly evolving market therefore our product and service offerings could become obsolete unless we respond effectively and on a timely basis to rapid technological changes.***

The successful execution of our business strategy is contingent upon wireless network operators launching and maintaining mobile location services, our ability to create new software and adapt our existing software products and website to rapidly changing technologies, industry standards and customer needs. As a result of the complexities inherent in our product offerings, new technologies may require long development and testing periods. Additionally, new products may not achieve market acceptance or our competitors could develop alternative technologies that gain broader market acceptance than our products. If we are unable to develop and introduce technologically advanced products that respond to evolving industry standards and customer needs, or if we are unable to complete the development and introduction of these products on a timely and cost effective basis, we will have incurred substantial resources without realizing the anticipated revenues, which would have an adverse effect on our results of operations and financial condition.





The applicability to the Internet of existing laws governing issues such as intellectual property ownership and infringement, copyright, trademark, trade secret, taxation, obscenity, libel, employment and personal privacy is uncertain and developing. Any new legislation or regulation, or the application or interpretation of existing laws, may have a material adverse effect on our business, results of operations and financial condition. Additionally, modifications to our business plans or operations to comply with changing regulations or certain actions taken by regulatory authorities may increase our costs of providing our product and service offerings and materially adversely affect our financial condition.

***If mobile equipment manufacturers do not overcome capacity, technology and equipment limitations, we may not be able to sell our products and services.***

The wireless technology currently in use by most wireless carriers has limited bandwidth, which restricts network capacity to deliver bandwidth-intensive applications like data services to a large number of users. Because of capacity limitations, wireless users may not be able to connect to their network when they wish to, and the connection is likely to be slow, especially when receiving data transmissions. Data services also may be more expensive than users are willing to pay. To overcome these obstacles, wireless equipment manufacturers will need to develop new technology, standards, equipment and devices that are capable of providing higher bandwidth services at lower cost. We cannot be sure that manufacturers will be able to develop technology and equipment that reliably delivers large quantities of data at a reasonable price. If more capacity is not added, a sufficient market for our products and services is not likely to develop or be sustained and sales of our products and services would decline and our business would suffer.

***Some mobile operators charge fees for data usage.***

Our wireless service is a live streaming service which uses continued bandwidth and wireless usage charges. In the event that some wireless providers do not provide unlimited data at a flat rate, this may limit our market acceptance of our product due to the cost of data service when used on a sustained basis. Some wireless providers who do offer flat rates do not allow the continuous data stream functionality on Blackberry® devices to be activated which may limit our sales.

***We depend on key personnel and expect to hire additional personnel.***

We depend on the continued contributions of our executive officers, sales, technical and other critical personnel to execute our business plan. Our future success will also depend in a large part upon our ability to attract and retain highly skilled management, technical engineers, sales and marketing personnel, and finance personnel. Competition for such personnel is intense and there can be no assurance that we will be able to attract and retain such personnel. The loss of the services of any key personnel, the inability to attract or retain qualified personnel in the future, or any delays in hiring required personnel, particularly technical engineers and sales personnel, could have a material adverse affect on our business, results of operations and financial condition.

We are also dependent upon the personnel acquired through our acquisition of Mobile Finance, especially in the short term to transfer business knowledge. In the event that we lose any or all of these employees there may be a significant impact on our business in sales, cost, and customer service.

***We may fail to support our anticipated growth in operations which could reduce demand for our services and materially adversely affect our revenue.***

Our business strategy is based on the assumption that the number of customers, the amount of information they want to receive and the number of services we offer will all increase. We must continue to develop and expand our systems and operations to accommodate this growth. In addition, information technology has dropped dramatically in price over the past years and is expected to continue to drop, such that more customers will be required to maintain the same levels of revenue. The expansion and adaptation



of our systems operations requires substantial financial, operational and management resources. Due to the limited deployment of our services to date, the ability of our systems and operations to connect and manage a substantially larger number of customers while maintaining superior performance is unknown. Any failure on our part to develop and maintain our wireless data services as we experience rapid growth could significantly reduce demand for our services and materially adversely affect our revenue.

***We may be held liable for online information or services provided by third parties or us.***

Because materials may be downloaded by the public on Internet services offered by us or the Internet access providers with whom we have relationships, and because third party information may be posted by third parties on our website through discussion forums and otherwise, there is the potential that claims will be made against us for defamation, negligence, copyright or trademark infringement or other theories. Such claims have been brought against providers of online services in the past. To date we have been named in at least one lawsuit in which defamation is alleged to have occurred on our Internet discussion forum called Bull Boards. The imposition of liability based on such claims could materially and adversely affect us.

Even to the extent such claims do not result in liability, we could incur significant costs in investigating and defending against such claims. The imposition on us of potential liability for information or services carried on or disseminated through our website could require implementation of measures to reduce exposure to such liability, which may require the expenditure of substantial resources and limit the attractiveness of services to members and users.

We post news clippings from other news websites on the Stockhouse and SmallCapCenter websites with links to the source site. Most publishers currently encourage this practice, although certain publishers have requested that we cease posting their stories. We have complied with their request in each case. To the extent that a large majority of news publishers prohibit posting of their stories on our websites or begin charging royalty fees for such stories, our website traffic could decrease or our costs could increase, thereby adversely impacting our profitability.

We generally purchase data including trademarked and copy-written data that may or may not be under contract. The advancement in technologies and increased sophistication of systems is resulting in increased scrutiny of data and costs. We attempt to stay current with all vendors however the timing of identifying the vendors and costs of data may cause significant increase in cost of rates.

Our general liability insurance will not cover all potential claims to which we are exposed or may not be adequate to indemnify us for all liability that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on our business, results of operations and financial condition.

***We may pursue strategic acquisitions and investments that could have an adverse effect on our business if they are unsuccessful.***

As part of our business strategy, we have acquired companies and may continue to acquire companies, technologies and product lines to complement our internally developed products. In January 2007, we acquired the Mobile Finance Division of TeleCommunication Systems Inc. It is possible that the contemplated benefits of this acquisition or any future acquisitions may not materialize within the time periods or to the extent anticipated. Critical to the success of this strategy in the future and, ultimately our business as a whole, is the orderly, effective integration of acquired businesses, technologies, product lines and employees into our organization. If this integration is unsuccessful, our business will suffer. There is also the risk that our valuation assumptions and models for the acquired product or business may be overly optimistic or inaccurate if customers do not demand the acquired company's products to the extent we expect, the technology does not function as we expect or the technology we acquire is the subject of infringement or trade secret claims by third parties.



***Because our product and service offerings are sold internationally, we are subject to risks of conducting business in foreign countries.***

In 2007, customers, primarily in North America, Europe and Australia purchased our products and in 2008 customers in North America, Europe and Australia will continue to purchase our products. In addition, a portion of the revenue historically generated by our company has typically been generated outside the United States. We believe our revenue will be increasingly dependent on business in foreign countries, and we will be subject to the social, political and economic risks of conducting business in foreign countries, including:

- inability to adapt our products and services to local business practices, language, customs and mobile user preferences;
- costs of adapting our product and service offerings for foreign markets;
- inability to locate qualified local employees, partners and suppliers;
- reduced protection of intellectual property rights;
- the potential burdens of complying with a variety of U.S. and foreign laws, trade standards and regulatory requirements, including the regulation of wireless communications and the Internet and uncertainty regarding liability for information retrieved and replicated in foreign countries;
- general geopolitical risks, such as political and economic instability and changes in diplomatic and trade relations; and
- unpredictable fluctuations in currency exchange rates.

Any of the foregoing risks could have a material adverse effect on our business by diverting resources toward addressing them or by reducing or eliminating sales in such foreign countries.

***Our legacy pager business is deteriorating rapidly.***

Through the purchase of MFD, we acquired their legacy business of providing financial information to pager devices. Pagers represent the majority of the revenue of the company at acquisition. Most customers have been with the company for years but are changing to other types of wireless devices. The company has seen a rapid loss of subscribers for its pager service and there can be no assurance that the Company can convert the subscribers to its MarketStream wireless offering. In addition, telecommunication companies are shutting down their pager networks and rendering the service inoperable. If this occurs in countries we operate in, we would be unable to service our pager customers.

***Involvement in Certain Legal Proceedings.***

We are involved in various legal matters which arise from time-to-time in the ordinary course of business, none of which we believe is material to our results of operations, liquidity or financial condition at this time. We cannot reasonably estimate at this time whether a monetary settlement will be reached or predict the ultimate resolution of these legal matters.

***Our Business and Stock Price May Be Adversely Affected If Our Internal Controls Are Not Effective.***

Section 404 the Sarbanes-Oxley Act of 2002 requires companies to conduct a comprehensive evaluation of their internal control over financial reporting. To comply with this statute, we are required to document and test our internal control over financial reporting and our management is required to assess and issue a report concerning our internal control over financial reporting. Our independent registered public accounting firm is not required to report on the effectiveness of our internal control over financial reporting.

As described in Part II Item 8A. Controls and Procedures of our Form 10-KSB for the year ended December 31, 2007 our Chief Executive Officer and Chief Financial Officer concluded, as discussed below, that a material weakness existed in our control over financial reporting as of December 31, 2007 and as a result, that our disclosure controls and procedures were not effective.

Management has and continues to evaluate its key financial processes to assess risk of material weaknesses. The Company has identified several significant deficiencies in the operation of internal controls over financial reporting within the MFD entities and assets acquired on January 31, 2007. When considered in the aggregate, management believes that these constitute a material weakness within its internal control framework relating to the Company's financial reporting process.

Although we believe we are taking appropriate actions to remediate the control deficiencies we have identified and to strengthen our internal control over financial reporting, we cannot assure you that we will not discover other material weaknesses in the future. The existence of one or more material weaknesses could result in errors in our financial statements, and substantial costs and resources may be required to rectify these or other internal control deficiencies. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our common stock could decline significantly, we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed.

***The Wireless Industry is Experiencing Rapid Technological Change, and We May Lose Customers If We Fail to Keep Up With These Changes.***

The wireless communications industry is experiencing significant technological change, as evidenced by the ongoing improvements in the capacity and quality of digital technology, the development and commercial acceptance of wireless data services, shorter development cycles for new products and enhancements and changes in end-user requirements and preferences. The cost of implementing or competing against future technological innovations may be prohibitive to us, and we may lose customers if we fail to keep up with these changes.

***The Loss of Key Personnel and Difficulty Attracting and Retaining Qualified Personnel Could Harm Our Business.***

We believe our success depends heavily on the contributions of our employees and on attracting, motivating and retaining our officers and other management and technical personnel. We do not, however, generally provide employment contracts to our employees. If we are unable to attract and retain the qualified employees that we need, our business may be harmed.

**Risks Related to Ownership of Our Common Stock**

***We are significantly influenced by our officers, directors and entities affiliated with them.***

In the aggregate, beneficial ownership of our shares by our officers, directors and management represents approximately 18% of issued and outstanding shares of our common stock at August 11, 2008. These shareholders, if acting together, will be able to influence significantly all matters requiring approval by shareholders, including the

election of directors and the approval of mergers or other business combinations transactions.

***Trading of our stock may be restricted by the SEC's penny stock regulations, which may limit a shareholder's ability to buy and sell our stock.***

The Securities and Exchange Commission (the "SEC") has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors. The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

***Future issuances of shares may adversely impact the value of our stock.***

We may attempt to raise additional capital through the sale of common stock in the future. Future issuances of common stock may dilute your position in us.

***Our stock price is vulnerable to buying and selling pressures.***

As there is a limited market for our common stock, there may be considerable volatility in our stock price due to selling and buying pressures. Future sales of shares by our existing or future shareholders could cause the market price of our common stock to decline. At August 11, 2008, there were 41,295,922 issued and outstanding shares of our common stock; however, a portion of these shares are subject to trading restrictions in the United States.

***Our Board of Directors may authorize and issue preferred shares.***

Our Board of Directors has the authority to issue preferred shares with rights, preferences and/or privileges senior to or on parity with the rights of the holders of common stock. The potential consequences to our investors include a loss of perceived value of the stock in the market and a loss of future earnings and dividends, if and when dividends are declared. Because some of our officers and directors are located in non-U.S. jurisdictions, you may have no effective recourse against the management for misconduct and may not be able to enforce judgment and civil liabilities against our officers, directors, experts and agents.

Some of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States, any judgments obtained against our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any U.S. state.





### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As a smaller reporting company as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

### **Item 4. Controls and Procedures**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or furnished under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports is accumulated and communicated to management, including our Chief Executive Officer as appropriate, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were not effective.

### **Changes in Internal Control over Financial Reporting**

As disclosed in our Form 10-KSB filed on April 1, 2008, during our 2007 year end closing process our Chief Executive Officer and Chief Financial Officer concluded that the Company's internal controls over financial reporting were not effective as at December 31, 2007, owing to a material weakness relating to the financial controls over reporting procedures of the United Kingdom ( UK ) and European operations of the Mobile Finance Division acquired from TeleCommunication Systems.

As a result of these findings management has transferred accounting for the UK subsidiary and the consolidation of the European entities to the Vancouver office, and implemented additional levels of supervisory review. Although the Company has implemented these changes, there can be no assurance that these measures can definitively prevent material errors from occurring in the future. Management will continue to review processes and make necessary changes to strengthen the Company's system of internal controls over financial reporting.

The changes to the Company's internal controls over financial reporting described above were implemented during the six months ended June 30, 2008. There were no other changes in our internal control over financial reporting during the six months ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

### **Inherent Limitations of Internal Controls**

Our internal control over financial reporting is designed 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. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management does not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## **Part II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The Company was the plaintiff in a lawsuit filed in Ontario Superior Court of Justice against Hollinger Inc. and Hollinger Canadian Publishing Holdings Co. in which the Company sought to recover approximately \$457,000 from the defendant. The defendant was a vendor to the Company and the amount sought by the Company consisted of unused advertising credits which were prepaid by the Company in 1999. The case was resolved by a negotiated settlement during the first quarter of 2008 and the defendant has paid \$340,000 to the Company in full settlement.

The Company was the defendant in a lawsuit filed in the Supreme Court of British Columbia by the plaintiff, Tanis Churchill. The Plaintiff, a former employee of the Company, sought damages, interest and costs in the order of approximately \$218,000 for alleged wrongful dismissal from her employment with the Company. The matter was heard by the Supreme Court of British Columbia in a trial which began on December 3, 2007 and ended on December, 2007. On May 8, 2008, subject to a 30 day appeal period, the Supreme Court found in favor of the plaintiff and awarded damages in the amount of \$11,000, plus costs.

The Company is the plaintiff in a lawsuit filed in the Commercial & Equity Division of the County Court of Victoria in Melbourne, Australia against The Eight Black Partnership Pty and Simon Chen, in which the Company seeks to recover approximately \$435,000 from the defendant. The defendant was a reseller of the Company's MarketStream service in Australia and the amount sought by the Company consists of unpaid MarketStream subscription fees from July 2006 to May 2007, plus interest. The case is currently pending final resolution and there is uncertainty as to what value, if any, will be derived from the lawsuit. No provision has been made for recovery of these credits in the financial statements in any period.

In addition to the above, the Company is involved in various other legal matters which arise from time-to-time in the ordinary course of the Company's business, none of which is believed to be material to its results of operations, liquidity or financial condition at this time. Unless otherwise noted, the Company cannot reasonably estimate at this time whether a monetary settlement will be reached or predict the ultimate resolution of these legal matters.

### **Item 1A. Risk Factors**

As of June 30, 2008, the Company's risk factors have not changed materially from the risk factors previously disclosed in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2007.

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

Other than as disclosed below, we did not complete any sales of our equity securities that were not registered under the Securities Act of 1933, since the completion of our fiscal year ended December 31, 2007:

Effective May 13, 2008, we closed the private placement pursuant to the April 30, 2008 stock purchase agreement (the Purchase Agreement ) we entered into with PEAK6 Capital Management LLC (the Investor ) in which the Company agreed to issue 3,000 shares of Series A convertible preferred stock at a price of \$1,000 per share for gross proceeds of \$3,000,000. Pursuant to the terms of the Purchase Agreement, the Company is required to file with the Colorado Secretary of State a certificate of designation, designating 3,000 shares of its preferred stock as Series A convertible preferred stock (the Preferred Stock ) with certain rights and restrictions, including the following:

- (i) In the event of any liquidation, dissolution or winding up of the affairs of the Company, the Preferred Stock is entitled to be paid first out of the assets of the Company for distribution to stockholders an amount up to \$1,000 per share of Preferred Stock (the Liquidation Amount ) subject to certain adjustments as more specifically set out in the Purchase Agreement.
- (ii) Each share of Preferred Stock is convertible into shares of common stock commencing 180 days after the issuance of the Preferred Stock and will automatically convert into common stock after two years from the date of issuance at a conversion price equal to the Liquidation Amount divided by \$0.4545 per share of Preferred Stock.
- (iii) Except as to any matters which adversely affect holders of Preferred Stock, holders of Preferred Stock are not entitled to notice or to vote on any matters submitted to the common stockholders for a vote.
- (iv) Holders of Preferred Stock are entitled to receive such dividends when, as and if declared by the board of the Company from time to time in the board's discretion, at a rate of 7% of the Liquidation Amount per share of Preferred Stock per year.
- (v) At any time after 90 days from the date of the issuance of the Preferred Stock, the Company may redeem any outstanding Preferred Stock, at 110% of the Liquidation Amount plus accrued interest. A holder of Preferred Stock has the right to convert Preferred Stock prior to redemption.

The Investor also agreed, under the terms of the Purchase Agreement, that until October 31, 2009 it will vote all common stock it currently has or may subsequently acquire in a manner directed by the President of the Company. As at May 12, 2008, the Investor held 2,887,105 shares of our common stock. The closing of the Purchase Agreement was subject to the filing of Certificate of Designation for the Preferred Stock with the Secretary of State of Colorado and the issuance of the Preferred Stock to the Investor. The closing of the private placement occurred on May 13, 2008. The sale of the Preferred Stock was completed in accordance with Rule 506 of Regulation D ( Regulation D ) of the Securities Act of 1933 (the Securities Act ) on the basis that the Investor represented that they were an accredited investor as such term is defined in Rule 501 of Regulation D. All securities issued were endorsed with a restrictive legend confirming that the securities cannot be resold without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act.

## Item 3. Defaults Upon Senior Securities

None



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

An annual meeting of our shareholders was held on June 17, 2008 at 10:00 a.m. Pacific Time. During the meeting shareholder votes were cast with the following results:

|   | Votes<br>For | Votes<br>Withheld/Abstain | Votes<br>Against |
|---|--------------|---------------------------|------------------|
| <b><u>Nomination of Directors</u></b>   |              |                           |                  |
| Director Nominee: Marcus New  | 27,156,448   | 321,656                   | -                |
| Director Nominee: David Caddey  | 27,376,045   | 102,059                   | -                |
| Director Nominee: Louis Deboer III  | 27,372,044   | 106,060                   | -                |
| Director Nominee: Patrick Spain   | 27,372,044   | 106,060                   | -                |
| Director Nominee: Stephen Zacharias   | 27,369,244   | 108,860                   | -                |
| Director Nominee: Thomas Baker  | 27,376,045   | 102,059                   | -                |
| Director Nominee: Janet Scardino  | 27,371,045   | 107,059                   | -                |
| <b>To ratify the appointment of Deloitte and Touche LLP as the Company's independent auditors for the fiscal year ended December 31, 2008</b> |              |                           |                  |
|   | 27,454,287   | 23,817                    | -                |
| <b>Approval of Amended and Restated 2007 Stock Option Plan</b>  |              |                           |                  |
|   | 14,237,222   | 6,961,064                 | 6,279,818        |
| <b>Approval of change of Company name to Stockhouse Inc.</b>  |              |                           |                  |
|   | 27,244,410   | 86,326                    | 147,368          |

The Company's new CUSIP number is 861281 103

**Item 5. Other Information**

Effective July 10, 2008, the Company changed its name from Stockgroup Information Systems Inc. to Stockhouse Inc. As a result, effective July 21, 2008, Stockhouse traded on the Over-the-Counter Bulletin Board quotation service operated by the Nasdaq Stock Market, Inc. under its new trading symbol STKH.OB (previously since March 17, 1999 under the symbol SWEB) and on the TSX Venture Exchange under its new trading symbol SHC.V (previously since December 17, 2002 under the symbol SWB).

**Item 6. Exhibits**

The following exhibits are filed as part of this Form 10-Q:

## Exhibit

| No.          | Exhibit Title  |
|--------------|--|
| <u>10.15</u> | <u>Stockgroup Information Systems Inc. Amended and Restated Stock Option Plan - 2007</u>   |
| <u>31.1</u>  | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act</u>   |
| <u>31.2</u>  | <u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act.</u>  |
| <u>32.1</u>  | <u>Certification of Chief Executive Officer and of Chief Financial Officer furnished pursuant to Rule 13a-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).</u> |

The following exhibits are incorporated by reference:

## Exhibit

| No.   | Exhibit Title  |
|-------|--|
| 3.1   | Articles of Incorporation & Bylaws is incorporated by reference to Form 10SB12G filed January 29, 1998 (File No. 000-23687)  |
| 3.2   | Articles of Amendment dated July 10, 2008 is incorporated by reference to Form 8-K filed July 24, 2008 (File No. 000-23687)  |
| 3.3   | Articles of Amendment dated September 30, 2001 is incorporated by reference to Form 8-K filed October 11, 2001   |
| 3.4   | Certificate of Designation for Series A Convertible Preferred Stock by reference to Form 10-Q filed May 14, 2008 (File No. 000-23687)  |
| 4.1   | Form of Warrant for Common Stock is incorporated by reference to Form 8-K filed September 28, 2006. (File No. 000-23687)   |
| 10.1  | Stockgroup Information Systems Inc. 2003 Stock Option Plan Amended, is incorporated by reference to Exhibit 10.1 filed on Form S-8 POS with the SEC on May 19, 2006 (File No. 333- 114481)   |
| 10.2  | Private Placement Subscription Agreement is incorporated by reference to Form 8-K filed September 28, 2006 (File No. 000-23687)  |
| 10.3  | Purchase Agreement between Stockgroup Information Systems Inc., Stockgroup Systems Ltd., Stockgroup Media, Inc., TeleCommunication Systems, Inc., and TeleCommunication Systems (Holdings) Limited is incorporated by reference to Form 8-K filed on February 16, 2007 (File No. 000-23687)                              |
| 10.4  | Audited Combined Financial Statements of Mobile Finance Division (A division of TeleCommunication Systems, Inc.) ( MFD ) and Unaudited <i>Pro forma</i> Consolidated Financial Statements of Stockgroup Information Systems Inc is incorporated by reference to Form 8-K/A filed on April 16, 2007. (File No. 000-23687) |
| 10.5  | Private Placement Subscription Agreement is incorporated by reference to Form 8-K filed on May 21, 2007 (File No. 000-23687)   |
| 10.6  | Registration Rights Agreement dated May 18, 2007 is incorporated by reference to Form 8-K filed on May 21, 2007. (File No. 000-23687)  |
| 10.7  | Asset Purchase Agreement dated May 8, 2007 between the Company and Semotus Solutions Inc. dated May 8, 2007 is incorporated by reference to Form 8-K filed on May 10, 2007 (File No. 000-23687).   |
| 10.8  | Amended Purchase Agreement dated January 24, 2007 between the Company and TeleCommunication Systems, Inc. is incorporated by reference to Form 8-K filed on February 20, 2007. (File No. 000-23687)  |
| 10.9  | Purchase Agreement dated January 24, 2007 between the Company and TeleCommunication Systems, Inc. is incorporated by reference to Form 8-K filed on February 20, 2007 (File No. 000- 23687).   |
| 10.10 | Employment Agreement between the Company and Karl Buhr is incorporated by reference to Form 8-K filed on February 21, 2008. (File No. 000-23687).  |
| 10.11 | Employment Agreement between the Company and Dana Stetson is incorporated by reference to Form 8-K filed on February 21, 2008. (File No. 000-23687).   |



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- 10.12 Employment Agreement between the Company and Audrey Brownmiller is incorporated by reference to Form 8-K filed on February 21, 2008. (File No. 000-23687).
- 10.13 Series A Convertible Preferred Stock Purchase Agreement dated April 30, 2008 is incorporated by reference to Form 8-K filed on May 7, 2008 (File No. 000-23687)
- 10.14 Performance Stock Option Agreement dated April 28, 2008 between the Company and Karl Buhr by reference to Form 10-Q filed on May 14, 2008 (File No. 000-23687)

**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.

**STOCKHOUSE INC.**  
(Registrant)

Date: August 13, 2008

By: /s/ Marcus New  
Marcus New  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/usan Lovell  
Susan Lovell  
Chief Financial Officer  
(Principal Financial Officer)