



Interim Report

for the Three Months Ending  
September 30, 2003

## CEO'S MESSAGE

Conditions in U.S. education markets remain very difficult with school budgets under continuing restraint. This difficulty was reflected in our business activity in the first quarter during which the Company issued invoices of approximately \$5.8 million compared to \$8.0 million in the preceding year. While the majority of the decline is market-related, approximately \$0.8 million of the decline can be attributed to unfavourable currency exchange rate variances. Unfortunately, there are no indicators that suggest either market conditions or exchange rates are likely to become more favourable to our interests in the near term.

Revenue in the quarter was \$2.9 million, down significantly from \$7.1 million reported in the same quarter of the preceding year. While this is a serious revenue variance, it is not as dramatic as it appears. Our shareholders are reminded that the Company migrated all of its subscription products to a fully ratable revenue recognition basis in November of 2002. As a result of this change, the Company now recognizes revenue from subscriptions evenly throughout the subscription period. This revenue recognition adoption was made prospectively and accordingly; comparisons with prior periods will hold little meaning until the first quarter of fiscal 2005. Shareholders are urged to carefully read the Management Discussion and Analysis section of this Interim Report for a full explanation of our revenues.

In order to mitigate the effect of difficult market conditions, our Company is devoting an increasing proportion of its resources to sales and marketing. During the quarter, our Marketing Department was expanded and Mr. Don Phillips was appointed Vice President, Marketing to lead the group. Under Don's leadership, we are launching an unprecedented number of marketing campaigns designed to attract and keep more customers. Market conditions indicate that we must work harder to generate revenue than at times in the past. We are doing so and we will continue to do so when market conditions improve.

At the same time, we are seeking to acquire or build new revenues by providing new products to our customers. To this end, we announced in the quarter our agreement to become the exclusive distributor of college entry test preparation courses published by Test University Inc. of New York. This product line has the potential to be a major revenue generator for Bridges and we are hard at work integrating these products into our sales processes and completing marketing introductions.

In spite of market conditions, we have remained committed to renewing and refreshing our legacy products. This is evident in the release, during the quarter, of a significantly improved version of our flagship Choices product and the re-introduction of CX Online that has undergone a major re-write over the past six months. Our customer reactions to these product updates have been overwhelmingly positive. We also remain committed to research and development as evidenced by the commencement of a pilot study in seven North American school districts. With positive results, the Bridges Achievement Planning System being implemented in these districts will become our next generation high value product offering. The research study, led by researchers at Colorado State University, examines the cause-and-effect implications of Bridges' system on student attendance rates, passing rates, and grade point averages. The first report on this research will be released in the spring of 2005.

While we are working harder than ever before to generate revenue in the near term and to keep our products and services up-to-date, we remain mindful of expense control. During the quarter we began to see the effect of the expense reduction measures that we worked to put into place through the past fiscal year. In the quarter, total operating expense was down by more than \$1.5 million compared to the prior year. With this more efficient expense base in place, we were able to generate positive operating cash flow of more than \$2.0 million in the quarter in spite of reduced revenues and unfavourable exchange rates. As a result, our balance sheet continues to strengthen as do our cash balances.

Overall, we are optimistic. Our strong balance sheet and our efficient expense structure are allowing us to weather current market conditions. We have new products, new initiatives and a tremendous team of people all of whom are working hard to make our success a reality. As we continue this work, we do so appreciative of the support of our shareholders.

On behalf of the Board of Directors,



John Simmons  
CEO and Director

## Management's Discussion & Analysis

### Management's Discussion & Analysis

*Certain statements in this report may constitute forward-looking statements. Such forward looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements.*

*The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto for the period ended September 30, 2003. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.*

### OVERVIEW

Bridges develops, markets and delivers career information database products and services through the Internet and on CD-ROM. These resources are designed to assist individuals in achieving education and career success. Approximately 4,500 customers throughout most states and provinces in the U.S. and Canada purchase Bridges' product solutions. These purchasers provide Bridges' products to over 14,000 schools, colleges and government agencies – making it North America's leading provider of such resources to institutions and individuals in the career services marketplace. These customers are supported by a sales and service staff distributed across both countries, and by an office in Kelowna, B.C. A telephone-based sales force and customer service call centre are located in Kelowna.

The Company strategy is to continue to support school guidance counsellors and career management counsellors by providing user-relevant, engaging, time leveraging products. The Company will also seek to develop or acquire new products and services to comply with current and emerging educational trends and that relate to higher level funding sources. The Company believes that it maintains a competitive advantage by offering products as both a CD-ROM and on an Internet delivered platform. CD-ROM products are updated annually and Internet-based products are constantly refreshed and updated.

The Company has plans to enter the college entry test preparation business. On July 31, 2003 the Company entered into an agreement with New York-based Test University Inc. ("TestU") to become the exclusive marketer of TestU's pre-collegiate suite of products. These products include highly personalized online courses for SAT, ACT, and PSAT that help students gain entry to the college of their choice. The products also provide educators with significant guidance in improving performance. The terms of the agreement require the

Company to purchase a minimum quantity of US \$200,000 of the test products in the current fiscal year.

The Company's products are used in high schools, middle schools, elementary schools, "one stop" employment centres, two-and four-year post-secondary educational institutions as well as prisons, libraries and other markets where career and educational planning is done. The buyer is either the school, institution or business, or may be a school district, province or state, which purchases for multiple sites. Funds for purchasing the Company's products generally come from discretionary spending funds and, as such, initial spending and resubscription funding is subject to a periodic buying decision review by the customer. Often, funding is provided by senior levels of a state or by the federal government. Such funding can be for specific programs suited to the Company's products, or may be for general operating funds. In times of decreased funding or when senior government spending programs are reduced, the Company experiences more challenging market conditions.

The Company employs a sales staff at the Kelowna call centre to contact prospective customers and also attend conferences and venues which prospects attend. Administrative sales staff and customer support staff are used to contact existing customers regarding their annual resubscription. Additionally, the Company has regionally based sales staff distributed throughout the markets. This staff group supports existing customers, provides product training, and demonstrates product use to prospective customers.

### Critical Accounting Policies: Revenue recognition

Revenue from all products is billed and due at the event of initial product delivery, or initial subscription start date for those products sold with an annual site licence. The Company receives 98% of revenue from products sold as an annual site licence or subscription. With such sales, revenue is recognized ratably over the term of subscription, generally 12 months. The balance of revenue relates to training and service revenues which are generated from consulting services related to client training or the implementation of information database products. Revenues from services are recognized upon substantial completion of service, provided the fee is fixed or determinable and collection is reasonably assured.

Invoicing and cash flow are not impacted by fully ratable revenue recognition. Revenue from such products is invoiced annually at the outset of the subscription, with the full amount due at the start of the subscription. The Company experiences virtually no subscription cancellations or refunds.

Prior to this fiscal year, the Company recognized revenue in four primary ways. Firstly, revenue from products that were entirely accessed over the Web was recognized ratably by month over the subscription period. Secondly,

revenue was recognized in the month of shipment for CD-ROM-based products that have no Web access or ongoing user support. Thirdly, certain annual subscription products were sold which included both a shipped CD-ROM and Web service access. The customer chose which product delivery mode they used over the term of subscription, and this could vary during that period. The customer could use either Web server access, or install the CD-ROM on their local-area network or on a PC. The Company recognized revenue for such sales based on the nature and relative fair values of the elements: CD-ROM upon delivery, customer acceptance and when ability to collect was reasonably assured; and Web accessed elements ratably over the life of the subscription period. In the event a bundled sale of multiple products is sold, the discount taken for purchasing a bundle of products was allocated ratably to the constituent products on the basis of the fair value of such components when sold separately. The determination of fair value of elements, bundled arrangements and customer requirements therefore impacted the timing of the revenue recognized, but not the invoicing or cash flow.

In November 2002, the Company introduced a new enabling technical infrastructure that facilitates product (including CD-ROM-based products) access to database information that is updated over time. In early 2003 the Company announced a sales support program of user and administrator training during the term of subscription. The Company is considering merging individual product features into a more universal product. For these reasons, effective December 1, 2002, the Company began applying the fully ratable revenue recognition policy to all subscription products. As such, revenue comparisons of periods that include revenue invoiced before December 2002 will create comparison difficulties. Readers are encouraged to also compare invoicing amounts in reviewing operating results.

Previously, revenue derived from CD-ROM and product sales was recognized both upon delivery and over the usage period and, as a result, the Company had deferred revenue of about 15% to 18% of annual invoiced amounts. With a consistent product sales mix, which is expected, deferred revenue will rise to between 50% and 60% of invoiced amounts, once a fiscal 12-month cycle has been completed.

In the 12 months ending November 2002, approximately 94% of billings of \$18,879,104 were subscription products. In the seven months ending June 2003 the comparable figures are 95% of total billings of \$7,192,453. In the first three months of fiscal 2004 the comparable figures are 98% of total billings of \$5,803,742. Once a full calendar year has passed, use of this policy will eliminate quarterly seasonality in revenue recognition. This policy does not impact the timing of invoicing, which peaks during the August to November period – when historically 60% to 65% of invoices are issued.

## STOCK BASED COMPENSATION

Commencing December 1, 2002, the Company has adopted the new recommendations of the CICA for share-based compensation. The new recommendations require that a fair value be determined for options at the date of grant and that such fair value be recognized in the financial statements. In respect of share options awarded to employees, it is permissible to use either the fair value based method or intrinsic value based method; however, if the intrinsic based method is used, pro forma disclosure is required so as to show what the effect would have been had the fair value based method been applied.

The Company applies the intrinsic based method of accounting for share-based compensation awards granted to employees. Accordingly, no compensation cost is recorded in the financial statements related to its share options plans and the requisite pro forma disclosures have been made using the fair value method.

## TRENDS

The Company derives about 90% of revenue from customers in the United States, a trend expected to continue.

Under the Company's current business model, the predominant revenue source is licence resubscriptions by existing customers. Additionally, the Company has sales to new customers. In 2002, which is the last full 12-month period reported, the installed site resubscription rate fell from approximately 90% to 84%. During the seven-month period ending June 30, 2003, the Company commissioned an independent consultancy to survey its customers regarding product and service related issues. They reported that our products are well regarded and desired, but that they continue to have difficulty in securing funding. In 2002, amounts invoiced to customers declined by 3% from levels achieved in 2001. Billings during the seven months ended June 30, 2003 were 3.1% higher than the same period last year due to increased sales activity and a sales promotion whereby the Company launched a new third party hosted product as a free introduction in exchange for an early commitment of a future resubscription. This successful program resulted in approximately \$1,000,000 of early subscriptions. As noted below, this pace of early subscriptions was not sustained in the current quarter.

The Company believes that funding will continue to be a challenge to be faced. The Company has attributed the decline in resubscription rates to a more restricted funding environment, particularly in the United States markets. The Company expects that this difficult funding environment will continue for several years to come.

In 2000, the Company began a 24-month capital asset spending program. Objectives were:

- to enable the handling of substantially increased customer service volumes for small incremental costs
- to provide a scalable architecture to allow server expansion once current capacity was reached
- to separate product design servers from product delivery servers, minimizing risk of service interruption
- to facilitate software development in a more robust and efficient manner on staging servers
- to be a platform to build new product applications more effectively, and;
- to facilitate migration of predecessor Careerware brand products to a common technical platform.

This spending program was substantially completed and the new infrastructure was commissioned for use in November 2002. Due to the fall in installed site resubscription rates, current systems load is lower than expected. This new infrastructure has ample capacity to host higher service volumes, and the Company expects to improve customer service and reliability and also to reduce internal product development costs in the future. Capital spending for the infrastructure is largely complete, and the Company expects capital spending well below depreciation rates in the future. The Company is pleased with the systems performance since activated.

**2002 RESTRUCTURING**

During the first half of the 2002 fiscal year, the Company experienced an unexpected decline in resubscription invoicing of about 5%, or \$1,000,000. In November 2002, management responded to the sales trend and funding uncertainties by restructuring its operations. The Company incurred a restructuring charge of \$3,142,021 inclusive of cash costs of \$2,755,971 relating to severance and termination (\$2,237,638) and excess lease facilities costs (\$518,333). In addition the Company incurred non-cash costs of \$386,050 relating to the write down of capital assets. During the most recent quarter, the Company continued to complete these plans with the closing of the Ottawa office. Management expects the restructuring to be substantially complete by the end of 2003.

**RESULTS OF OPERATIONS**

As previously reported, the Company has received approval to change the fiscal year end from November 30 to June 30 to better align with customers' budget and buying cycles. In the operating results included in this report, the Company operations are reported as the three months ending September 30, 2003 with comparative figures of the three months ending September 30, 2002.

We believe the following are important comparative operating results for the three months ending September 30:

|                    | September 30, 2003 (Unaudited) | September 30, 2002 (Unaudited) | Variance      | Percent Change |
|--------------------|--------------------------------|--------------------------------|---------------|----------------|
| Invoicing          | \$5,803,742                    | \$8,025,362                    | (\$2,221,620) | (27.7%)        |
| Revenue            | \$2,898,667                    | \$7,142,409                    | (\$4,243,742) | (59.4%)        |
| Cost of goods sold | \$1,259,334                    | \$1,683,698                    | \$424,364     | 25.2%          |
| Overheads          | \$1,616,279                    | \$2,629,734                    | \$1,013,455   | 38.5%          |
| EBITDA             | \$23,054                       | \$2,828,977                    | (\$2,805,923) | (99.2%)        |

Invoicing for the three-month period has decreased by 27.7% compared to the same period last year. US denominated sales fell from US\$ 4,759,969 to US\$ 3,896,508. During the quarter the Canadian dollar appreciated by 11%, reducing invoicing for the quarter in Canadian dollars by approximately CAD\$ 815,000.

Many customers renew their subscriptions before they expire. Another contributor to the lower invoicing in the quarter was the increased sales activity and sales promotion referred to above. As a result, early renewals as at June 30, 2003 exceeded early renewals as at June 30, 2002 by approximately \$1,000,000.

The positive cost variances reflect reduced spending resulting from the restructuring event announced November 6, 2002, and is primarily affected by the associated staff reductions. In the comparable quarter in 2002 the annualized run rate of expenses was approximately \$ 5.8 million higher than the current quarter, reflecting a decrease of 34%. The nature of the Company sales, publishing and Web delivery business is that few expenses are variable to sales.

**Cost of Revenue and Gross Margin**

The cost of revenue decreased by 25% to \$1,259,334 for the three months ending September 30, 2003, compared to \$1,683,698 for the three months ending September 30, 2002. As a percentage of revenue, cost of revenue increased to 43% in the three months ended September 30, 2003 from 24% in the three months ended September 30, 2002, largely due to the reduction of revenue as a result of the adoption of fully ratable revenue recognition and the stronger Canadian dollar.

Costs of revenue consist primarily of salaries and other personnel-related expenses for technical and product development related staff as well as material and shipping costs and royalty expenses. The decrease in cost of revenue resulted from decreases in staff levels and ongoing efforts to improve business processes. As noted above, the Company's restructuring and staff reductions are expected to improve the Company's gross margin in the longer term (after 12 months), once the impact of increases in deferred revenue are fully realized.

#### **Sales and Marketing**

Sales and marketing expense decreased by 42% to \$1,118,915 for the three months ending September 30, 2003, compared to \$1,918,631 for the three months ending September 30, 2002. This favourable reduction reflects the reduced staff and spending levels in the department.

Sales and marketing expense includes salaries, commissions and other personnel-related costs, travel expenses, advertising programs and other promotional activities associated with selling and marketing the Company's products. Also included are all salaries and other personnel related costs for customer support. In addition, the costs of trade shows, advertising and marketing are included.

#### **Research and Development**

Research and development expense consists primarily of salaries and other personnel-related costs of technical personnel associated with the Company's research and product development activities. The Company classifies software engineering and product development expenses related to creating entirely new products as research and development. The costs of maintaining or further developing existing products are classified as cost of revenue.

The Company continued to apply its policy whereby research and development costs are expensed as incurred, unless they meet certain criteria under generally accepted accounting principles for deferral and amortization. The Company has determined that none of the research and development costs met those criteria.

Research and development expense was \$67,697 for the three months ending September 30, 2003, compared to \$82,822 for the three months ending September 30, 2002. The reduction in research and development expenses was the result of delaying development of additional new products pending surveys of customers and conceptual design of market driven products, as well as the impact of restructuring.

#### **General and Administration**

General and administrative expense consists primarily of salaries and other personnel-related costs of

administrative personnel, as well as professional fees and other administrative expenses.

General and administrative expense decreased by \$198,614 or 32% to \$429,667 in the three months ending September 30, 2003, from \$628,281 in the three months ending September 30, 2002. The reduction in expenses reflects the consolidation of administrative functions in Kelowna, staff reductions and the Company's efforts to improve business processes.

#### **Amortization**

Amortization of property and equipment increased by 46% to \$401,726 for the three months ending September 30, 2003, from \$274,776 for the three months ending September 30, 2002. The increase in amortization is the result of the completion of the new capital infrastructure.

#### **Other Income**

##### **Interest Income**

The Company earned interest income on its cash balances and treasury bills. Interest income decreased to \$16,142 for the three months ending September 30, 2003 compared to \$20,109 for the three months ending September 30, 2002.

##### **Foreign Currency**

A significant portion of the Company's revenue is received in U.S. dollars and a substantial portion of the Company's expenses is incurred in Canadian dollars. As a result, a change in the value of the Canadian dollar relative to the U.S. dollar could materially affect the Company's operating results.

The Company currently experiences approximately a 60-day lag between the billing date and subsequent collection of accounts receivable. At each balance sheet date, the Company revalues accounts receivable denominated in U.S. funds to current rates. A currency translation gain or loss may be recognized.

Foreign currency translation gains and losses arising from normal business operations are credited to or charged to other income in the period incurred. The Company has from time to time used foreign exchange forward contracts to reduce its exposure to the foreign exchange fluctuations.

Foreign exchange losses increased to \$31,412 in the three months ended September 30, 2003, from gains of \$181,588 in the three months ended September 30, 2002, as the Canadian dollar continued to strengthen over the period.

##### **Income Taxes**

At June 30, 2003, the Company had a substantial tax loss carry forward and significant tax depreciation to

shelter future profits. No tax provision was recorded for the three-month period ended September 30, 2003.

#### **LIQUIDITY AND CAPITAL RESOURCES**

Since its inception the Company has financed its operations through the combination of a series of private and public sales of equity securities and cash generated by operations. The Company ended the first quarter of fiscal year 2004 with cash and cash equivalents of \$4,458,708. During the three-month period ending September 30, 2003, the Company generated cash from operating activities of \$2,084,780, compared to \$432,089 generated from operating activities during the three-month period ending September 30, 2002. This increase in cash generated can be mainly attributed to lower operating costs as a result of restructuring and staff reductions and improved business processes and to the early subscription renewals experienced in the previous quarter, as well as to changes in working capital.

Generally Accepted Accounting Principles require that the Company report Deferred Revenue as a current liability. The amounts reflect the unearned portion of subscriptions, and not the cost of fulfilling the subscription. Over the subscription period Deferred Revenue will be recognized ratably as revenue. The Company experiences few refunds for cancelled subscriptions. As such, there is no cash liability to this amount.

Current Liabilities excluding Deferred Revenue amount to \$1,891,472, which compare favourably to Current Assets of \$8,296,625.

The Company expects that existing cash balances, cash generated by the Company's operations, and funds available under the Company's credit facility will be sufficient to finance any budgetary requirements for internal growth, to meet any foreseeable working capital and capital expenditure requirements and to fund share repurchases through a Normal Course Issuer Bid over the next twelve months.

#### **NORMAL COURSE ISSUER BID AND CHANGES TO STOCK OPTIONS**

On August 21, 2003, the Company announced its intention to initiate a normal course issuer bid. Under the terms of the bid, the Company may, during the 12-month period beginning August 27, 2003 and ending August 26, 2004, purchase on the Toronto Stock Exchange up to a maximum of 630,840 common shares in total. The actual number of common shares which may be purchased and the timing of any such purchases will be determined by the Company. The Company intends to cancel any common shares acquired under the bid. As at September 30, 2003, 38,000 shares have been purchased, of which 19,000 have been cancelled.

On February 10, 2003, the Company announced that it had offered to employees a Toronto Stock Exchange-

approved, Employee Share Option Reset Program. Under this program, non-executive employees had the one-time choice to surrender their options. Employees who chose to surrender their options were entitled to receive new share options at the ratio of one new share option per two share options surrendered. As of the option cancellation date of December 20, 2002, a total of 229,100 share options have been surrendered and cancelled under this program. On June 23, 2003, 85,550 share options were issued, exercisable at \$.65 per common share.

#### **RISK FACTORS**

Certain statements contained in this Interim Report, including statements, which may contain words such as "could", "expect", "believe", "will" and similar expressions, and statements relating to matters that are not historical facts are forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties which may cause the actual results, performances or achievements of Bridges to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements.

These forward-looking statements relate to, among other things, plans and timing for the introduction or enhancement to the Corporation's services and products; customer demand for its products and services; expectations concerning future revenue and earnings; general economic and business conditions; control of costs and expenses; loss of key employees; stock market volatility; changes in laws and regulations; Bridges' ability to compete successfully and adapt to technological advances and changing industry standards; currency exchange rate fluctuations; economic, political, and other risks associated with national and international sales and operations; Canadian and U.S. government regulations; price and product competition; the ability to implement in a timely manner the Corporation's restructuring plans; the ability to form and implement alliances; and other factors and risks.

All forward-looking statements in this Interim Report are based on management's reasonable beliefs, intentions, and expectations with respect to future events and are subject to certain risks, uncertainties, and assumptions as of the date hereof. Readers are cautioned not to put undue reliance on such forward-looking statements which are not a guarantee of future performance and are subject to a number of risks, uncertainties and other factors -- many of which are outside of Bridges' control -- that could cause actual results, performances or achievements of Bridges to differ materially from any future results, performances or achievements expressed or implied by such forward-looking statements. The Corporation cannot give assurance that the forward-looking statements contained herein will be realized. Bridges assumes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

**BRIDGES.COM INC.**

*Consolidated*

**Balance Sheet**

|  | September 30<br>2003 | June 30<br>2003      |
|--|----------------------|----------------------|
|  | (unaudited)          |                      |
| <b>ASSETS</b>                            |                      |                      |
| Current                                  |                      |                      |
| Cash and cash equivalents                | \$ 4,458,708         | \$ 2,416,227         |
| Accounts receivable                      | 3,458,463            | 3,641,053            |
| Prepaid expenses and other               | 379,454              | 346,535              |
|  | 8,296,625            | 6,403,815            |
| Restricted cash                          | 200,000              | 200,000              |
| Property and equipment                   | 6,309,883            | 6,700,471            |
|  | <b>\$ 14,806,508</b> | <b>13,304,286</b>    |
| <b>LIABILITIES</b>                       |                      |                      |
| Current                                  |                      |                      |
| Accounts payable and accrued liabilities | \$ 1,195,227         | \$ 1,745,376         |
| Accrued restructuring charge (Note 2)    | 408,245              | 824,682              |
| Current portion of long-term debt        | 288,000              | 216,000              |
| Deferred revenue (Note 5)                | 8,873,971            | 5,968,896            |
|  | 10,765,443           | 8,754,954            |
| Long-term debt                           | 792,000              | 864,000              |
|  | <b>11,557,443</b>    | <b>9,618,954</b>     |
| <b>SHAREHOLDERS' EQUITY</b>              |                      |                      |
| Common stock (Note 3 (a))                | 17,822,734           | 17,857,264           |
| Contributed surplus (Note 3 (b))         | 11,657               | -                    |
| Deficit                                  | (14,585,326)         | (14,171,932)         |
|  | 3,249,065            | 3,685,332            |
|  | <b>\$ 14,806,508</b> | <b>\$ 13,304,286</b> |

See Accompanying Notes to the Consolidated Interim Financial Statements

**APPROVED BY THE BOARD**



**John C. Simmons**, Director



**Terry M. Holland**, Director

**BRIDGES.COM INC.***Consolidated***Statement of Operations and Deficit****(Unaudited)**

|   | Three months ending<br>September 30<br>2003 | Three months ending<br>September 30<br>2002 |
|---|---|---|
| REVENUE   | \$ 2,898,667                                | \$ 7,142,409                                |
| COSTS OF REVENUE  | 1,259,334                                   | 1,683,698                                   |
| GROSS MARGIN  | 1,639,333                                   | 5,458,711                                   |
| EXPENSES  |   |   |
| Sales and marketing   | 1,118,915                                   | 1,918,631                                   |
| Research and development  | 67,697                                      | 82,822                                      |
| General and administrative  | 429,667                                     | 628,281                                     |
|   | 1,616,279                                   | 2,629,734                                   |
| EARNINGS BEFORE AMORTIZATION,<br>FOREIGN CURRENCY EXCHANGE AND<br>OTHER (LOSS) INCOME, AND INCOME TAXES | 23,054                                      | 2,828,977                                   |
| Amortization of property and equipment  | (400,803)                                   | (274,776)                                   |
| Amortization of other intangibles   | -   | (27,168)                                    |
| Foreign currency exchange and other (loss) income   | (35,645)                                    | 204,599                                     |
| (LOSS) EARNINGS BEFORE INCOME TAXES   | (413,394)                                   | 2,731,632                                   |
| Income tax expense  | -   | 1,174,154                                   |
| NET (LOSS) EARNINGS FOR THE PERIOD  | (413,394)                                   | 1,557,478                                   |
| DEFICIT, BEGINNING OF PERIOD  | (14,171,932)                                | (5,121,041)                                 |
| Excess of purchase cost over carrying value of common shares<br>cancelled                               | -   | (1,071)                                     |
| DEFICIT, END OF PERIOD  | \$ (14,585,326)                             | \$ (3,564,634)                              |
| Basic (loss) earnings per share   | \$ (0.03)                                   | \$ 0.13                                     |
| Diluted (loss) earnings per share   | \$ (0.03)                                   | \$ 0.13                                     |
| Weighted average number of shares used to calculate<br>basic (loss) earnings per share                  | 12,175,260                                  | 12,138,629                                  |
| Weighted average number of shares used to calculate<br>diluted (loss) earnings per share                | 12,175,260                                  | 12,175,667                                  |

See Accompanying Notes to the Consolidated Interim Financial Statements

**BRIDGES.COM INC.***Consolidated***Statement of Cash Flows****(Unaudited)**

|   | Three months ending<br>September 30<br>2003 | Three months ending<br>September 30<br>2002 |
|---|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |   |   |
| Net (loss) earnings for the period                                  | \$ (413,394)                                | \$ 1,557,478                                |
| Items not affecting cash  |   |   |
| Amortization of property and equipment                              | 400,803                                     | 274,774                                     |
| Amortization of intangibles   | -   | 27,168                                      |
| Non-cash portion of restructuring charge                            | 31,908                                      | -   |
| Future income tax recovery  | -   | 1,168,767                                   |
| Changes in operating assets and liabilities:                        |   |   |
| Accounts receivable   | 182,591                                     | (2,780,752)                                 |
| Prepaid expenses and other  | (32,920)                                    | (16,048)                                    |
| Accounts payable and accrued liabilities                            | (572,846)                                   | (682,251)                                   |
| Deferred revenue  | 2,905,075                                   | 882,953                                     |
| Accrued restructuring charge  | (416,437)                                   | -   |
|   | <u>2,084,780</u>                            | <u>432,089</u>                              |
| <b>CASH FLOW FROM INVESTING ACTIVITY</b>                            |   |   |
| Purchase of property and equipment, net of related accounts payable | (27,927)                                    | (394,853)                                   |
| Sale of property and equipment                                      | 8,500                                       | -   |
|   | <u>(19,427)</u>                             | <u>(394,853)</u>                            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                         |   |   |
| Issuance of common shares   | 65  | 8,170                                       |
| Shares purchased for cancellation                                   | (15,925)                                    | 2,516                                       |
| Shares purchased and cancelled                                      | (16,463)                                    | (2,551)                                     |
| Interest on shareholder loans                                       | 9,451                                       | -   |
| Repayment of obligations under capital lease                        | -   | (29,955)                                    |
|   | <u>(22,872)</u>                             | <u>(21,820)</u>                             |
| <b>NET CASH INFLOW DURING THE PERIOD</b>                            | <b>2,042,481</b>                            | <b>15,416</b>                               |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>               | <b>2,416,227</b>                            | <b>2,365,979</b>                            |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                     | <b>\$ 4,458,708</b>                         | <b>\$ 2,381,395</b>                         |
| Supplemental Cash Flow Disclosure:                                  |   |   |
| Interest paid   | \$ 20,415                                   | \$ 6,863                                    |

See Accompanying Notes to the Consolidated Interim Financial Statements

## 1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements do not include all information and footnote disclosures required under Canadian generally accepted accounting principles. In the opinion of management, all adjustments (consisting primarily of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows as at September 30, 2003 and for all periods presented, have been included.

The unaudited consolidated balance sheets, consolidated statements of operations and deficit and consolidated statements of cash flows have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim financial statements follow the same accounting policies and methods of applications as the most recent annual financial statements dated June 30, 2003. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report for the seven months ended June 30, 2003. As a result of the Company's decision to change its financial year end to June 30, the Company now reports on a calendar quarterly basis. For comparative purposes the Company has disclosed quarterly results for the three-month period ended September 30, 2002. These results have not previously been reported. The comparative quarterly results as reported in 2002 should be read in conjunction with the previous quarterly results (under the former fiscal reporting periods) filed on Sedar.

Invoicing fluctuates during the year as a result of seasonal influences based on school calendars, budget cycles, and the timing of school districts' funding sources. The Company's experience has been that approximately 65% of revenue is generated in the first two quarters of the fiscal year and approximately 35% is generated in the last two quarters of the fiscal year.

On December 1, 2002, due to changes in circumstances related to the access and delivery of subscription services, the Company adopted a policy of recognizing revenue from all subscription products on a fully ratable basis over the licence term. This is expected to reduce the seasonal fluctuation in revenue.

## 2. RESTRUCTURING CHARGE

|  | Accrued<br>Restructuring<br>as at<br>June 30<br>2003 |         | Drawdowns |          | Accrued<br>Restructuring<br>as at<br>September 30<br>2003 |        |    |         |
|--|--|---------|-----------|----------|---|--------|----|---------|
|  |  |         | Cash      | Non-cash |   |        |    |         |
|  |  |         |           |          |   |        |    |         |
| Restructuring Activities               |  |         |           |          |   |        |    |         |
| Workforce reduction                    | \$   | 609,911 | \$        | 208,094  | \$  | -      | \$ | 401,817 |
| Excess facility costs/asset writedowns |  | 214,771 |           | 176,435  |   | 31,908 |    | 6,428   |
|  | \$   | 824,682 | \$        | 384,529  | \$  | 31,908 | \$ | 408,245 |

During the first quarter of fiscal year 2004, the Company paid \$384,529 in connection with the Company's decision to reduce its workforce and close the Ottawa branch office. Of this amount, employee termination and related costs of \$208,094 were paid to employees and \$176,435 was paid for excess facility costs. The Company determined that certain assets were impaired in connection with its decision to reduce its workforce and close the Ottawa branch office. These assets were written down by \$31,908. The balance of accrued restructuring charge of \$408,245 at September 30, 2003 is expected to be substantially drawn down by the end of calendar 2003.

The accrued restructuring provision reasonably reflects the estimated costs to complete the restructuring activities currently in progress or planned.

### 3. SHARE CAPITAL

#### (a) Common shares issued and outstanding

|   | September 30<br>2003 |                      | June 30<br>2003   |                      |
|---|----------------------|----------------------|-------------------|----------------------|
|   | Shares               | Amount               | Shares            | Amount               |
| Balance, beginning of period            | 12,616,703           | \$ 17,857,264        | 12,616,703        | \$ 17,857,264        |
| Shares repurchased and held in treasury | (19,000)             | (28,516)             | -                 | -                    |
| Shares repurchased and cancelled        | (19,000)             | (15,530)             | -                 | -                    |
| Interest on shareholder loans           | -                    | 9,451                | -                 | -                    |
| Stock options exercised                 | 100                  | 65                   | -                 | -                    |
| <b>Balance, end of period</b>           | <b>12,578,803</b>    | <b>\$ 17,822,734</b> | <b>12,616,703</b> | <b>\$ 17,857,264</b> |

#### (b) Normal course issuer bid

On August 21, 2003, the Company announced its intention to initiate a normal course issuer bid. Under the terms of the bid, the Company may, during the 12-month period beginning August 27, 2003 and ending August 26, 2004, purchase on the Toronto Stock Exchange up to a maximum of 630,840 common shares in total. The actual number of common shares which may be purchased and the timing of any such purchases will be determined by the Company. The Company intends to cancel any common shares acquired under the bid. As at September 30, 2003, 38,000 shares have been purchased, of which 19,000 have been cancelled. The excess of the carrying value of the common shares over the purchase cost, amounting to \$11,657 has been credited to contributed surplus.

#### (c) Common shares and other equity outstanding

As at October 20, 2003, there were 12,597,803 common shares issued and outstanding. As at October 20, 2003 there were 1,359,650 options issued and outstanding at exercise prices ranging from \$0.65 to \$7.00 with remaining weighted average contractual lives of 0.2 years to 4.9 years.

During the first quarter of 2003, the Company undertook an employee share option reset program. Under this program non-executive employees had the choice of surrendering their options in exchange for new options at the ratio of one new share option per two share options surrendered. In total, 229,100 share options were cancelled under the program. On June 23, 2003, 85,550 share options were issued, exercisable at \$.65 per common share. Options granted under this program have an option term of five years and vest 20% at the grant date and 20% every six months thereafter.

#### (d) Share-based compensation

The Company applies the intrinsic value based method of accounting for share-based compensation awards granted to employees. Accordingly, no compensation cost is recorded in the accounts for its share option plans. For share options granted after November 30, 2002, disclosure of the impact of earnings and earnings per share as if the fair value based method for the share-based compensation had been applied is required. Such impact would approximate the following pro forma amounts:

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Three months ended  
September 30, 2003

|  |           |
|--|-----------|
| Net loss:                                  |           |
| As reported                                | (413,394) |
| Compensatory fair value of options granted | (12,220)  |
| Pro forma                                  | (425,614) |
| Basic loss per share:                      |           |
| As reported                                | (0.03)    |
| Pro forma                                  | (0.03)    |

*Weighted Average Assumptions*

|                               |       |
|-------------------------------|-------|
| Expected Dividends            | 0%    |
| Expected Volatility           | 73%   |
| Risk Free Interest Rate       | 2.25% |
| Expected Option Life in Years | 3     |

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options. The option-pricing models require the input of highly subjective assumptions including the expected price volatility. Bridges.com uses expected volatility rates, which are based on historical volatility rates trended into future years. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of Bridges.com stock options.

**4. SEGMENTED INFORMATION**

The Company manages its operations in one business segment, the development, marketing and delivery of career information database products and services through the Internet and on CD-ROM. All of the Company's long-lived assets are located in Canada. The Company attributes revenue among geographical areas based on the location of the customers involved.

|               | Three months ended<br>September 30<br>2003 |              | Three months ended<br>September 30<br>2002 |              |
|---------------|--|--------------|--|--------------|
| Canada        | 8%   | \$ 238,085   | 9%   | \$ 627,439   |
| United States | 92%  | 2,660,582    | 91%  | 6,514,970    |
|               |  | \$ 2,898,667 |  | \$ 7,142,409 |

**5. CONTINUITY OF DEFERRED REVENUE**

The company invoices customers at the outset of the subscription, or for non-subscription products, at the time of shipment. Revenue is recognized based on the nature of the product or service provided. The following is a continuity schedule reconciling billings to revenue recognized:

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|                                   | Three months ended<br>September 30<br>2003 | Three months ended<br>September 30<br>2002 |
|-----------------------------------|--|--|
| Invoicing                         | \$ 5,803,742                               | \$ 8,025,362                               |
| Plus: opening<br>deferred revenue | 5,968,896                                  | 2,818,680                                  |
| Less: ending<br>deferred revenue  | (8,873,971)                                | (3,701,633)                                |
| <b>Revenue</b>                    | <b>\$ 2,898,667</b>                        | <b>\$ 7,142,409</b>                        |

**6. RELATED PARTY TRANSACTIONS**

During the three-month period ended September 30, 2003, the Company paid \$107,730 (three months ended September 30, 2002 - \$62,499) in consulting fees and bonus as sole compensation to the CEO who is also a director of the Company. In addition, during the three-month period ended September 30, 2003, the Company incurred charges of \$nil (three months ended September 30, 2002 - \$76,454) in consulting fees relating to online network infrastructure costs from a company related by way of a director in common.

**7. COMPARATIVE FIGURES**

Certain of the prior period's figures have been reclassified to conform with the current period's presentation.

## CORPORATE DIRECTORY

### BOARD OF DIRECTORS

**Terry M. Holland** <sup>(1) (2) (3)</sup>  
Chairman, Bridges.com Inc.  
Chief Executive Officer and President of  
Trimin Capital Corp.

**John C. Simmons** <sup>(3)</sup>  
Chief Executive Officer, Bridges.com Inc.

**Douglas J. Manning**  
President of Bridges.com Inc.

**Edward J. Hall** <sup>(2)</sup>  
Co-President of Canadian Adult Communities Ltd.

**Scott B. Edmonds** <sup>(1) (2)</sup>  
Chief Financial Officer of Quadrus Financial  
Technologies Inc.

- (1) Member of the Audit Committee  
(2) Member of the Compensation Committee  
(3) Member of the Corporate Governance Committee

### MANAGEMENT AND OFFICERS

**John C. Simmons**  
Chief Executive Officer

**Douglas J. Manning**  
President

**John B. Walker**  
Chief Financial Officer

**Donald A. Phillips**  
VP, Marketing

**William R. M. Spittle**  
VP, Product Development & Technology

**Patricia H. Montgomery**  
VP, Sales

**Norman R. Thompson**  
VP, Corporate Development and Secretary

### AUDITORS

Deloitte & Touche LLP  
Vancouver, British Columbia Canada  
2800-1055 Dunsmuir Street  
Vancouver, British Columbia V7X 1P4 Canada

### LEGAL COUNSEL

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Robson Court, 1000-840 Howe Street  
Vancouver, British Columbia V6Z 2M1 Canada

### REGISTERED OFFICE

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Suite 3100 Home Oil Tower  
324 –8<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 2Z2 Canada

### CORPORATE OFFICES

#### Canada

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Kelowna, British Columbia V1X 6E6  
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Toll Free: 800-281-1168  
Fax: 250-869-4201  
Toll Free: 888-349-3437

#### United States

33637-B Hwy 97N  
Oroville, Washington 98844

## INVESTOR INFORMATION

### SHAREHOLDER INFORMATION

#### Stock Listing

The common shares of Bridges.com Inc. are listed on the Toronto Stock Exchange (TSX) under the trading symbol BIT.

#### Common Shares (TSX)

A total of 12,616,703 common shares were outstanding as of June 30, 2003.

#### Investor Relations

Inquiries about the Company and requests for information should be directed to:

#### Norman Thompson

VP, Corporate Development and Secretary  
1-800-281-1168 or 1-250-869-4200  
investor-relations@bridges.com

#### Web Sites

For more information about our company, products, and services, visit our Web site at:  
www.bridges.com

### REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company  
Calgary, Alberta  
Toronto, Ontario  
Canada



[www.bridges.com](http://www.bridges.com)

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