

HYPERFEED TECHNOLOGIES INC
Form 10-Q
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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, 2001**

Or

**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 0-13093
I.R.S. Employer Identification Number 36-3131704**

HYPERFEED TECHNOLOGIES, INC.

(a Delaware Corporation)

**300 S. Wacker, Suite 300
Chicago, Illinois 60606**

Telephone (312) 913-2800

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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 16,293,329 shares of the Company's common stock (\$.001 par value) were outstanding as of July 31, 2001.

HYPERFEED TECHNOLOGIES, INC.

INDEX

PART I. Financial Information

Item 1. Consolidated Balance Sheets as of June 30, 2001 and December 31, 2000

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Consolidated Statements of Operations for the six month periods ended June 30, 2001 and 2000

Consolidated Statements of Operations for the three month periods ended June 30, 2001 and 2000

Consolidated Statements of Cash Flows for the six month periods ended June 30, 2001 and 2000

Notes to Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

PART II. Other Information

Item 2. Changes in Securities and Use of Proceeds

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

Item 6. Exhibits and Reports on Form 8-K

Company's Signature Page

HYPERFEED TECHNOLOGIES, INC.
Consolidated Balance Sheets
June 30, 2001 and December 31, 2000

| ASSETS | June 30, 2001 (Unaudited) | December 31, 2000 (Audited) |
|-------------------------------------------------------------------------------------------------|---------------------------------|-----------------------------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 2,628,937 | \$ 2,522,593 |
| Restricted cash equivalents | 200,000 | 200,000 |
| Accounts receivable, less allowance for doubtful accounts of: 2001: \$87,367; 2000: \$89,724 | 1,692,987 | 2,848,983 |
| Note receivable | 100,000 | --- |
| Prepaid license fees, current | 1,680,000 | 1,680,000 |
| Prepaid expenses and other current assets | 630,027 | 235,512 |
| TOTAL CURRENT ASSETS | 6,931,951 | 7,487,088 |
| Property and equipment | | |
| Satellite receiving equipment | 89,417 | 282,474 |
| Computer equipment | 3,044,219 | 4,520,991 |
| Communication equipment | 1,580,502 | 1,243,584 |
| Furniture and fixtures | 369,627 | 194,818 |

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| | | |
|------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Leasehold improvements | 822,551 | 831,348 |
| | <u>5,906,316</u> | <u>7,073,215</u> |
| Less: Accumulated depreciation and amortization | 2,585,469 | 4,247,134 |
| | <u>3,320,847</u> | <u>2,826,081</u> |
| Prepaid license fees, net of accumulated amortization of: 2001: \$3,710,000; 2000: \$2,870,000 | 490,000 | 1,330,000 |
| Goodwill and other intangible assets, net of accumulated amortization of: 2001: \$81,861 | 1,480,602 | --- |
| Software development costs, net of accumulated amortization of: 2001: \$6,085,910; 2000: \$7,795,215 | 2,459,349 | 2,602,283 |
| Deposits and other assets | 129,186 | 80,808 |
| TOTAL ASSETS | \$ 14,811,935 | \$ 14,326,260 |

See Notes to Consolidated Financial Statements.

| LIABILITIES AND STOCKHOLDERS' EQUITY | June 30, 2001 (Unaudited) | December 31, 2000 (Audited) |
|----------------------------------------------------------|---------------------------------|-----------------------------------|
| Current Liabilities | | |
| Notes payable | \$ 799,634 | \$ 1,199,634 |
| Accrued satellite termination fees | 333,000 | 399,000 |
| Accounts payable | 2,427,603 | 1,744,102 |
| Accrued expenses | 572,680 | 759,818 |
| Accrued compensation | 330,307 | 269,736 |
| Income taxes payable | 60,000 | 35,000 |
| Unearned revenue | 2,486,082 | 2,559,252 |
| TOTAL CURRENT LIABILITIES | 7,009,306 | 6,966,542 |
| Notes payable, less current portion | --- | 250,000 |
| Accrued satellite termination fees, less current portion | 75,000 | 225,000 |

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| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Accrued expenses, less current portion | 90,222 | 108,264 |
| Unearned revenue, less current portion | 60,365 | 82,090 |
| Minority interest | --- | 1,829 |
| | <u> </u> | <u> </u> |
| TOTAL NONCURRENT LIABILITIES | 225,587 | 667,183 |
| | <u> </u> | <u> </u> |
| TOTAL LIABILITIES | 7,234,893 | 7,633,725 |
| | <u> </u> | <u> </u> |
| Stockholders' Equity | | |
| Preferred Stock, \$.001 par value; authorized 5,000,000 shares; issued and outstanding: | | |
| Series A 5% convertible: 19,075 shares at June 30, 2001 and December 31, 2000 | 19 | 19 |
| Series B 5% convertible: 28,791 shares at June 30, 2001 and December 31, 2000 | 29 | 29 |
| Common stock, \$.001 par value; authorized 50,000,000 shares; issued and outstanding 16,293,329 shares at June 30, 2001 and 15,756,310 shares at December 31, 2000 | 16,293 | 15,756 |
| Additional paid-in capital - Series A 5% convertible preferred stock | 3,086,013 | 3,086,013 |
| Additional paid-in capital - Series B 5% convertible preferred stock | 4,664,891 | 4,664,891 |
| Additional paid-in capital - common stock | 26,815,680 | 25,555,214 |
| Additional paid-in capital - convertible subordinated debenture and warrants | 8,630,491 | 8,630,491 |
| Accumulated deficit | (35,636,374) | (35,259,878) |
| | <u> </u> | <u> </u> |
| TOTAL STOCKHOLDERS' EQUITY | 7,577,042 | 6,692,535 |
| | <u> </u> | <u> </u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 14,811,935 | \$ 14,326,260 |
| | <u> </u> | <u> </u> |

See Notes to Consolidated Financial Statements.

HYPERFEED TECHNOLOGIES, INC.
Consolidated Statements of Operations (Unaudited)

| | For The Six Months Ended | |
|--------------------------------|-----------------------------|-----------------------------|
| | June 30, 2001 | June 30, 2000 |
| | <u> </u> | <u> </u> |
| REVENUE | | |
| HyperFeed Services | \$ 13,383,064 | \$ 10,253,145 |
| PCQuote Services | 5,628,367 | 13,098,468 |
| | <u> </u> | <u> </u> |
| TOTAL REVENUE | 19,011,431 | 23,351,613 |
| | <u> </u> | <u> </u> |
| DIRECT COST OF SERVICES | | |
| HyperFeed Services | 6,709,189 | 6,223,838 |
| PCQuote Services | 4,523,204 | 9,744,257 |

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| | | |
|----------------------------------------------------|--------------|-------------|
| TOTAL DIRECT COST OF SERVICES | 11,232,393 | 15,968,095 |
| GROSS MARGIN | 7,779,038 | 7,383,518 |
| OPERATING EXPENSES | | |
| Sales | 1,972,601 | 2,048,293 |
| General and administrative | 2,360,040 | 2,536,268 |
| Product and market development | 3,065,378 | 1,877,720 |
| Depreciation and amortization | 761,069 | 889,020 |
| TOTAL OPERATING EXPENSES | 8,159,088 | 7,351,301 |
| INCOME (LOSS) FROM OPERATIONS | (380,050) | 32,217 |
| OTHER INCOME (EXPENSE) | | |
| Interest income | 76,662 | 30,136 |
| Interest expense | (49,937) | (107,378) |
| NET OTHER INCOME (EXPENSE) | 26,725 | (77,242) |
| LOSS BEFORE INCOME TAXES AND MINORITY INTEREST | (353,325) | (45,025) |
| INCOME TAXES | 25,000 | --- |
| LOSS BEFORE MINORITY INTEREST | (378,325) | (45,025) |
| Minority interest in loss | 1,829 | 3,869 |
| NET LOSS | \$ (376,496) | \$ (41,156) |
| Basic net income (loss) per share | \$ (0.02) | \$ 0.00 |
| Diluted net income (loss) per share | \$ (0.02) | \$ 0.00 |
| Basic weighted-average common shares outstanding | 15,935,492 | 15,621,768 |
| Diluted weighted-average common shares outstanding | 15,935,492 | 15,621,768 |

See Notes to Consolidated Financial Statements.

HYPERFEED TECHNOLOGIES, INC.
Consolidated Statements of Operations (Unaudited)

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| | | For The Three Months Ended | |
|----------------------------------------------------------------|--------------------------------|----------------------------|-------------------|
| | | June 30, 2001 | June 30, 2000 |
| REVENUE | | | |
| | HyperFeed Services | \$ 6,516,669 | \$ 5,401,314 |
| | PCQuote Services | 2,738,445 | 7,098,522 |
| TOTAL REVENUE | | 9,255,114 | 12,499,836 |
| DIRECT COST OF SERVICES | | | |
| | HyperFeed Services | 3,433,212 | 3,201,950 |
| | PCQuote Services | 2,286,113 | 5,281,829 |
| TOTAL DIRECT COST OF SERVICES | | 5,719,325 | 8,483,779 |
| GROSS MARGIN | | 3,535,789 | 4,016,057 |
| OPERATING EXPENSES | | | |
| | Sales | 1,054,576 | 969,342 |
| | General and administrative | 1,128,994 | 1,380,619 |
| | Product and market development | 1,961,592 | 1,058,236 |
| | Depreciation and amortization | 433,242 | 461,349 |
| TOTAL OPERATING EXPENSES | | 4,578,404 | 3,869,546 |
| INCOME (LOSS) FROM OPERATIONS | | (1,042,615) | 146,511 |
| OTHER INCOME (EXPENSE) | | | |
| | Interest income | 40,184 | 16,733 |
| | Interest expense | (19,926) | (55,329) |
| NET OTHER INCOME (EXPENSE) | | 20,258 | (38,596) |
| INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST | | (1,022,357) | 107,915 |
| INCOME TAXES | | --- | --- |
| INCOME (LOSS) BEFORE MINORITY INTEREST | | (1,022,357) | 107,915 |
| | Minority interest in loss | --- | --- |

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| | | | | |
|----------------------------------------------------|----|-------------|----|------------|
| NET INCOME (LOSS) | \$ | (1,022,357) | \$ | 107,915 |
| Basic net income (loss) per share | \$ | (0.06) | \$ | 0.01 |
| Diluted net income (loss) per share | \$ | (0.06) | \$ | 0.00 |
| Basic weighted-average common shares outstanding | | 16,109,767 | | 15,636,791 |
| Diluted weighted-average common shares outstanding | | 16,109,767 | | 23,408,903 |

See Notes to Consolidated Financial Statements.

HYPERFEED TECHNOLOGIES, INC.
Consolidated Statements of Cash Flows (Unaudited)

| | For The Six Months Ended | |
|--------------------------------------------------------------------------------------------|--------------------------|------------------|
| | June 30, 2001 | June 30, 2000 |
| Cash Flows from Operating Activities: | | |
| Net loss | \$ (376,496) | \$ (41,156) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 761,069 | 889,020 |
| Provision for doubtful accounts | 95,000 | 180,000 |
| Amortization of software development costs | 974,088 | 1,332,311 |
| Amortization of value assigned to common stock warrant issued in lieu of cash license fees | 840,000 | 840,000 |
| Minority interest in loss | (1,829) | (3,869) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 1,060,996 | (2,226,436) |
| Prepaid expenses and other current assets | (394,515) | (95,890) |
| Deposits and other assets | (48,378) | 5,138 |
| Accounts payable | 683,501 | 1,268,222 |
| Accrued expenses | (144,609) | (1,101,198) |
| Accrued satellite termination fees | (216,000) | (300,000) |
| Income taxes payable | 25,000 | --- |
| Unearned revenue | (94,895) | 580,635 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 3,162,932 | 1,326,777 |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (1,138,974) | (993,732) |
| Purchase of Marketscreen, net of cash acquired | (449,963) | --- |
| Software development costs capitalized | (831,154) | (602,976) |
| Issuance of note receivable | (100,000) | --- |

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| | | |
|--------------------------------------------------------------|--------------|--------------|
| NET CASH USED IN INVESTING ACTIVITIES | (2,520,091) | (1,596,708) |
| Cash Flows From Financing Activities: | | |
| Proceeds from issuance of common stock | 113,503 | 228,784 |
| Principal payments on notes payable | (650,000) | (400,000) |
| NET CASH USED IN FINANCING ACTIVITIES | (536,497) | (171,216) |
| Net increase (decrease) in cash and cash equivalents | 106,344 | (441,147) |
| Cash and cash equivalents: | | |
| Beginning of the period | 2,522,593 | 1,452,186 |
| End of the period | \$ 2,628,937 | \$ 1,011,039 |
| Supplemental disclosure of non-cash transactions: | | |
| Value of stock consideration for acquisition of Marketscreen | \$ 1,147,500 | \$ --- |

See Notes to Consolidated Financial Statements.

HYPERFEED TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) BASIS OF PRESENTATION

PRINCIPLES OF CONSOLIDATION: The accompanying interim consolidated financial statements include the accounts of HyperFeed Technologies, Inc. (HyperFeed or the Company) and its subsidiary, PCQuote.com, Inc. (PCQuote), and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The interim consolidated financial statements include all adjustments, including the elimination of all significant intercompany transactions in consolidation, which, in the opinion of management, are necessary in order to make the financial statements not misleading. The amounts indicated as "audited" have been extracted from the Company's December 31, 2000 annual report. For further information, refer to the consolidated financial statements and footnotes included in HyperFeed s annual report on Form 10-K for the year ended December 31, 2000.

SOFTWARE DEVELOPMENT COSTS: The Company's continuing investment in software development consists primarily of enhancements to its existing Windows-based private network and Internet services, development of new data analysis software and programmer tools designed to afford easy access to its data-feed for data retrieval and analysis purposes, and application of new technology to increase the data volume and delivery speed of its distribution system and network.

Costs associated with the planning and design phase of software development, including coding and testing activities necessary to establish technological feasibility of computer software products to be licensed or otherwise marketed, are charged to research and development as incurred. Once technological feasibility has been determined, costs incurred in the construction phase of software development including coding, testing, and product quality assurance are capitalized.

Amortization commences at the time of capitalization or, in the case of a new service offering, at the time the service becomes available for use. Unamortized capitalized costs determined to be in excess of the net realizable value of the product are expensed at the date of such determination. The accumulated amortization and related software development costs are removed from the respective accounts in the year following full amortization.

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The Company's policy is to amortize capitalized software costs by the greater of (a) the ratio that current gross revenue for a product bear to the total of current and anticipated future gross revenue for that product or (b) the straight line method over the remaining estimated economic life of the product including the period being reported on, principally three years. The Company assesses the recoverability of its software development costs against estimated future undiscounted cash flows. Given the highly competitive environment and technological changes, it is reasonably possible that those estimates of anticipated future gross revenue, the remaining estimated economic life of the product, or both may be reduced significantly.

FINANCIAL INSTRUMENTS: The Company has no financial instruments for which the carrying value materially differs from fair value.

INCOME TAXES: Income taxes are accounted for under the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

REVENUE RECOGNITION: The Company principally derives its revenue from service contracts for the provision of market data only (HyperFeed® license fees), service contracts for the provision of market data together with analytical software (Analytics license fees), and the sale of advertising on its Web site, www.pcquote.com. Revenue from service contracts is recognized ratably over the contract term as the contracted services are rendered. Revenue from the sale of advertising is recognized as the advertising is displayed on the Web site. HyperFeed license fees and Analytics license fees for satellite and landline services are generally billed one month in advance with 30-day payment terms. License fees for Analytics on the Internet are generally paid by credit card within five days prior to the month of service. These and other payments received prior to services being rendered are classified as unearned revenue on the balance sheet. Revenue and the related receivable for advance billings are not reflected in the financial statements. Customers' deposits on service contracts are classified as either current unearned revenue, if the contract expires in one year or less, or non-current unearned revenue, if the contract expiration date is greater than one year.

HyperFeed services primarily consist of the provision of HyperFeed market data and HyperFeed market data with analytics to the business-to-business marketplace, while PCQuote services primarily consist of analytics service, powered by the HyperFeed datafeed, to the consumer marketplace. In addition, PCQuote sells advertising on its Web site. Web advertising revenues are recognized in the period in which the advertising is displayed.

The Company applies the provisions of Statement of Position 97-2, Software Revenue Recognition, , as amended, which specifies the following four criteria that must be met prior to recognizing revenue: (1) persuasive evidence of the existence of an arrangement, (2) delivery, (3) fixed or determinable fee, and (4) probable collection. In addition, revenue earned on software arrangements involving multiple elements is allocated to each element based on the relative fair value of the elements. When applicable, revenue allocated to the Company's software products (including specified upgrades/enhancements) is recognized upon delivery of the products. Revenue allocated to post contract customer support is recognized ratably over the term of the support and revenue allocated to service elements (such as training) is recognized as the services are performed.

GOODWILL AND OTHER INTANGIBLE ASSETS: Intangible assets consist principally of developed technology, noncompete agreements, customer lists, and the excess of acquisition costs over the estimated fair value of net assets acquired (goodwill). The fair value of intangible assets acquired is determined primarily through the use of independent appraisals. Amortization is calculated using the straight-line method over the respective estimated useful lives, generally three to five years.

(2) NOTES PAYABLE

The Company has a \$1,500,000 term loan with a bank, payable in monthly installments of \$25,000 plus interest at prime (6.75% at June 30, 2001). The loan is collateralized by substantially all assets of the Company. At June 30, 2001, the outstanding balance was \$49,634.

On September 3, 1999, the Company's subsidiary, PCQuote.com, Inc., borrowed \$2.0 million from Motorola, Inc. The promissory note bears interest at the prime rate from time to time as announced in the Wall Street Journal (6.75% at June 30, 2001). Payments are due in eight equal installments on a quarterly basis commencing June 30, 2000 through March 31, 2002 and are subject to early repayment upon the closing of an initial public offering of PCQuote's common stock. At June 30, 2001, the outstanding balance was \$750,000.

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(3) INCOME TAXES

At December 31, 2000, the Company had federal income tax net operating loss carryforwards of approximately \$28,175,000 for federal income tax purposes and approximately \$26,519,000 for the alternative minimum tax. Approximately \$1,058,000 of these net operating losses relates to the exercise of incentive employee stock options and will be credited directly to stockholders' equity when realized. The Company also had research and development credits of \$106,000 which will expire in years 2010 to 2011 if not previously utilized. The future utilization of these net operating losses and research and development credits will be limited due to changes in Company ownership. The net operating loss carryforwards will expire, if not previously utilized, as follows: 2001: \$1,539,000; 2002: \$560,000; 2003: \$79,000; 2004: \$576,000; 2005: \$1,557,000; 2006 \$301,000 and thereafter \$23,563,000.

(4) SEGMENT INFORMATION

While the Company operates in one industry, financial services, in applying SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company has identified two segments within which it operates. The parent Company's services are principally in the business-to-business sector, while its subsidiary, PCQuote, operates in the business-to-consumer marketplace. The Company evaluates performance and allocates resources based on operating profitability and growth potential. The accounting policies of the reportable segments are the same as those described in Note 1. Financial information relating to the segments for the quarters ended June 30, 2001 and June 30, 2000 is as follows:

| | June 30, 2001 | | June 30, 2000 | |
|-----------------------------------------|-----------------------|---------------|----------------------|---------------|
| | Amount | % | Amount | % |
| Sales to unaffiliated customers: | | | | |
| HyperFeed services | \$ 6,516,669 | 70.4% | \$ 5,401,314 | 43.2% |
| PCQuote services | 2,738,445 | 29.6% | 7,098,522 | 56.8% |
| Total revenue | \$ 9,255,114 | 100.0% | \$ 12,499,836 | 100.0% |
| Operating income (loss): | | | | |
| HyperFeed services | \$ 760,932 | * | \$ 2,470 | 1.7% |
| PCQuote services | (1,803,547) | * | 144,041 | 98.3% |
| Total operating income (loss) | \$ (1,042,615) | * | \$ 146,511 | 100.0% |
| Identifiable assets: | | | | |
| HyperFeed services | \$ 10,812,140 | 73.0% | \$ 6,439,574 | 41.5% |
| PCQuote services | 3,999,795 | 27.0% | 9,087,028 | 58.5% |
| Total identifiable assets | \$ 14,811,935 | 100.0% | \$ 15,526,602 | 100.0% |

* not meaningful

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Financial information relating to the segments for the six months ended June 30, 2001 and June 30, 2000 is as follows:

| | June 30, 2001 | | June 30, 2000 | |
|-----------------------------------------|----------------------|---------------|----------------------|---------------|
| | Amount | % | Amount | % |
| Sales to unaffiliated customers: | | | | |
| HyperFeed services | \$ 13,383,064 | 70.4% | \$ 10,253,145 | 43.9% |
| PCQuote services | 5,628,367 | 29.6% | 13,098,468 | 56.1% |
| | | | | |
| Total revenue | \$ 19,011,431 | 100.0% | \$ 23,351,613 | 100.0% |
| Operating income (loss): | | | | |
| HyperFeed services | \$ 2,323,319 | * | \$ 160,182 | * |
| PCQuote services | (2,703,369) | * | (127,965) | * |
| | | | | |
| Total operating income (loss) | \$ (380,050) | * | \$ 32,217 | * |
| Identifiable assets: | | | | |
| HyperFeed services | \$ 10,812,140 | 73.0% | \$ 6,439,574 | 41.5% |
| PCQuote services | 3,999,795 | 27.0% | 9,087,028 | 58.5% |
| | | | | |
| Total identifiable assets | \$ 14,811,935 | 100.0% | \$ 15,526,602 | 100.0% |

* not meaningful

(5) OTHER COMMITMENTS

The Company and SpaceCom Systems, Inc. (SpaceCom) entered into a settlement agreement as of November 1, 1999 related to the lease of satellite transmission space by the Company from SpaceCom. The lease was for 112 kilobits (kb) of transmission capacity for payment of approximately \$56,000 per month until, under certain circumstances, either August 1, 2002 or January 1, 2006. The Company and SpaceCom agreed to terminate the lease, and any and all claims or obligations thereunder, in exchange for the Company's agreement to pay SpaceCom an aggregate of \$1,411,245 as follows: \$179,245 on November 1, 1999, and ten equal monthly installments of \$50,000 each from December 1, 1999 through September 1, 2000, and twelve equal monthly installments of \$36,000 each from October 1, 2000 through September 1, 2001, and twelve equal monthly installments of \$25,000 each from October 1, 2001 and ending on September 1, 2002.

(6) PURCHASE OF MARKETSCREEN.COM, INC. ASSETS

On April 30, 2001, HyperFeed acquired certain assets of Marketscreen.com, Inc. (Marketscreen) for \$100,000 and 450,000 shares of HyperFeed common stock and, in conjunction with the Marketscreen acquisition, acquired certain assets of Lasdorf Corporate Services, Inc. (Lasdorf) for \$300,000. Marketscreen is a provider of comprehensive stock screens tailored to the needs of financial resource providers, including online brokerages, investment firms, and financial portals. Lasdorf licensed certain technology and intellectual property to Marketscreen. The 450,000 shares of HyperFeed common stock are held in escrow. The ultimate payout of such shares is subject to certain restrictions as defined within the asset purchase agreement. The acquisition of Marketscreen and of Lasdorf's intellectual property were accounted for under the purchase method of accounting. The purchase price allocation is preliminary. Upon the completion of the valuation of the identifiable intangible assets acquired, these assets will be amortized using the straight-line method over their estimated useful lives, expected to be three to five years. Any excess purchase price will be allocated to goodwill. The pro forma effect of this acquisition was not material.

(7) SUBSEQUENT EVENTS

On July 31, 2001, PCQuote and Townsend Analytics, Ltd. (Townsend) entered into an agreement to terminate their Software License and Distributor Agreement dated May 28, 1999. PCQuote subsequently entered into a new agreement with Townsend to market the Internet version of the software application currently marketed as PCQuote 6.0 RealTick. Under the new agreement, Townsend will provide the services, formerly provided by PCQuote, to our existing subscribers of its software and pay to PCQuote a portion of the license fee collected from those subscribers and new subscribers referred through PCQuote. The new agreement replaced the prior agreement between Townsend Analytics and the Company's subsidiary, PCQuote.

PART I. ITEM 2

Management's Discussion and Analysis of
Results of Operations and Financial Condition

INTRODUCTION SAFE HARBOR DISCLOSURE

The following discussion and analysis contains historical information. It also contains forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, particularly in reference to statements regarding our expectations, plans and objectives. You can generally identify forward-looking statements by the use of the words "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "continue," or similar language. Forward-looking statements involve substantial risks and uncertainties. You should give careful consideration to cautionary statements made in this discussion and analysis. We base our statements on our current expectations. Forward-looking statements may be impacted by a number of factors, risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Our filings with the Securities and Exchange Commission identify factors that could cause material differences. Among these factors are our ability to:

- (i) fund our current and future business strategies either through continuing operations or external financing;
- (ii) attract and retain key employees;
- (iii) compete successfully against competitive products and services;
- (iv) maintain relationships with key suppliers and providers of market data; and
- (v) respond to the effect of economic and business conditions generally.

RECENT BUSINESS DEVELOPMENTS

HyperFeed Releases SmarTicker

On June 19, 2001, HyperFeed announced the release of SmarTicker, HyperFeed's proprietary technology that allows financial institutions to receive quote data and other financial market information directly from multiple exchanges and other data sources. HyperFeed unveiled SmarTicker at the Securities Industry Association's annual conference in New York City where exchanges, brokerages, market data vendors, and other industry constituents gathered to address a variety of issues, including revamping the structure of market data dissemination.

SmarTicker is the equivalent of putting HyperFeed's own ticker processing capabilities at the customer's site. The software is a cost-effective way to reduce instances of latency, bad information, or missed quotes, as there is no intermediary-the institution connects directly to the data source. Moreover, HyperFeed is also offering remote maintenance services for those customers that want HyperFeed to perform data integrity and quality control functions, thereby mitigating the need for additional staff.

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Key features of SmarTicker include:

Customized data: Subscribers can process customized data feeds with preferred local/global content; a proprietary datafeed; or specialized content currently unavailable within the existing HyperFeed datafeed.

Immediate access: The capabilities already include many exchanges, reducing the amount of research and development costs.

Maintenance and monitoring: HyperFeed can remotely perform maintenance function providing corrections for bad ticks and other incomplete information, reducing or eliminating the need for additional data integrity staff.

HyperFeed Announces the Addition of International Data

On May 22, 2001, HyperFeed announced that it has added international market data to its proprietary datafeed. This will allow institutions to receive quotes and trade information on international issues, on a real-time basis, through HyperFeed.

HyperFeed plans a phased rollout of international exchange data beginning with major European markets followed by major Asian markets, Australia, Brazil and Mexico. Remaining world markets will be added based upon customer demand.

HyperFeed Adds Fundamental Content of FT Interactive Data

On May 16, 2001, HyperFeed announced that it has expanded the offerings of its datafeed to include access to content provided by FT Interactive Data, a supplier of global securities pricing, dividend, corporate action and descriptive information on more than 3.5 million securities.

FT Interactive Data's content greatly enhances the quality and depth of fundamental data on the equities carried on HyperFeed. Fundamental data, used to assess a stock's investment quality, includes information such as dividend frequency, earnings per share and beta, a common measure of an issue's volatility.

FT Interactive Data's fundamental data will be integrated into HyperFeed's datafeed in two phases. In the first phase, HyperFeed has replaced fundamental content that it previously offered with that of FT Interactive Data's. In phase two, a broader array of descriptive information will become available.

The addition of FT Interactive Data is just part of a series of new content launches that HyperFeed intends to roll out and is in conjunction with the company's strategy to further penetrate the institutional and retail marketplace. HyperFeed also plans to add content from electronic communications networks (ECNs) and international exchanges.

HyperFeed Announces Agreement to Provide Portfolio Management Capabilities

On May 10, 2001, HyperFeed announced it signed a development agreement with Quantitative Science Technologies, LLC (QST) to provide a Web-based, portfolio management tool to HyperFeed's PCQuote customers. QST will develop a software product customized for HyperFeed's datafeed with functionality comparable to QST's "Virtual Portfolio Manager" software currently marketed to professional money managers. This agreement, targeted squarely at the individual investor, further supports HyperFeed's new and comprehensive strategy for PCQuote customers.

RESULTS OF OPERATIONS:

FOR THE SIX MONTHS AND QUARTERS ENDED JUNE 30, 2001 AND 2000

Total revenue decreased \$4.3 million, or 18.6%, to \$19.0 million for the six months ended June 30, 2001, and decreased \$3.2 million, or 26.0%, to \$9.3 million for the quarter ended June 30, 2001 versus the comparable prior year periods. Our HyperFeed services posted increases for the first six months of 2001 over 2000 and for the quarter ended June 30, 2001 over 2000; however, our PCQuote services posted decreases for the same periods. For the first six months of 2001, HyperFeed service revenue increased \$3.1 million, or 30.5%, to \$13.4 million in 2001 as compared to the same period in 2000. For the quarter ended June 30, 2001, HyperFeed service revenue increased \$1.1 million, or 20.6%, from \$5.4 million in 2000 to \$6.5 million in 2001. Revenue growth was experienced through increases in analytics subscriptions and datafeed license fees. Revenue from our PCQuote services decreased \$7.5 million, or 57.0%, to \$5.6 million for the first six months of 2001 from \$13.1 million for the same period in 2000. For the second quarter in 2001, revenue from PCQuote services decreased \$4.4 million, or 61.4%, from \$7.1 million in 2000 to \$2.7 million in 2001. This decline is principally due to the transition of AB Watley, formerly our largest client, from a private-label version of third-party software through PCQuote to a HyperFeed datafeed only customer.

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Direct costs of services decreased \$4.7 million, or 29.7%, to \$11.2 million for the six months ended June 30, 2001 from \$16.0 million for the comparable 2000 period, and decreased \$2.8 million, or 32.6%, to \$5.7 million for the quarter ended June 30, 2001 as compared to \$8.5 million for the comparable 2000 period. Principal components of the decrease were royalties and payments to providers of market data, principally attributable to the transition of AB Watley from PCQuote to HyperFeed. Amortization of software development costs decreased for the six months from \$1.3 million in 2000 to \$1.0 million in 2001. Gross margin increased \$0.4 million, or 5.4%, to \$7.8 million for the first six months of 2001 from \$7.4 million for the same period in 2000, but decreased \$0.5 million, or 12.0%, to \$3.5 million for the quarter ended June 30, 2001 from \$4.0 million for the comparable 2000 period.

Direct costs associated with HyperFeed services increased from \$6.2 million for the six months ended June 30, 2000 to \$6.7 million for the first six months of 2001, a 7.8% increase. For the quarter ended June 30, 2001, direct costs associated with HyperFeed services were \$3.4 million, a 7.2% increase from \$3.2 million in the same period of 2000. Increases in datafeed operations, directly attributable to the increase in revenue, were offset by decreases in license and exchange fees related to the September 1, 2000 reduction of the fees charged by Nasdaq NMS for professional subscriptions to their data. Amortization of software development costs decreased 6.6% to \$731,000 for the first six months of 2001 from \$783,000 for the same period in 2000. For the quarter ended June 30, 2001, amortization of software development costs decreased 5.5% to \$384,000, from \$406,000 in the second quarter of 2000. For the first six months of 2001, resulting gross margin for HyperFeed services increased \$2.6 million, or 65.6%, to \$6.7 million in 2001 from \$4.0 million in 2000. For the quarter ended June 30, 2001, the resulting gross margin for HyperFeed services was \$3.1 million, an increase of \$0.9 million, or 40.2%, from the \$2.2 million recognized in the second quarter of 2000.

Direct costs associated with PCQuote services decreased to \$4.5 million for the first six months of 2001 from \$9.7 million in the comparable 2000 period, a 53.6% decrease. For the quarter ended June 30, 2001, direct costs associated with PCQuote services were \$2.3 million, a 56.7% decrease from \$5.3 million in the same period of 2000. The transfer of AB Watley from PCQuote's private-labeled third-party software to a HyperFeed datafeed client substantially reduced royalty and exchange fees, the principal component of direct costs. Software amortization decreased 55.8% for the first six months to \$243,000 in 2001 from \$549,000 in 2000, and decreased 55.8% for the second quarter to \$121,000 in 2001 from \$274,000 in 2000. The gross margin on PCQuote services decreased 67.1% to \$1.1 million for the first six months of 2001 from \$3.4 million in the comparable 2000 period. PCQuote services gross margin decreased 75.1% from \$1.8 million in the second quarter of 2000 to \$452,000 for the same period in 2001.

Total operating expenses increased 11.0% to \$8.2 million for the six months ended June 30, 2001 from \$7.4 million for the comparable 2000 period, and increased 18.3% to \$4.6 million for the quarter ended June 30, 2001 as compared to \$3.9 million for the comparable 2000 period. The increases are due to our consumer marketing campaign.

Sales costs remained essentially unchanged at \$2.0 million for the first six months of 2001 as compared to the same 2000 period. For the second quarter of 2001, sales costs were \$1.1 million, an 8.8% increase from the prior year period of \$1 million. The increase in sales costs for the quarter was the result of additional sales personnel added during the quarter.

General and administrative expenses decreased 6.9% to \$2.4 million in the first six months of 2001 from \$2.5 million for the first six months of 2000. For the quarter ended June 30, 2001, general and administrative expenses decreased 18.2% to \$1.1 million from \$1.4 million in same period in 2000. The decreases were principally due to reductions in professional fees and consulting fees.

Product and market development costs increased 63.3% to \$3.1 million for the six months ended June 30, 2001 from \$1.9 million for the comparable 2000 period, and increased 85.4% to \$2.0 million for the quarter ended June 30, 2001 as compared to \$1.1 million for the comparable 2000 period. The increase was due to our consumer marketing campaign to promote our new services.

Depreciation and amortization decreased 14.4% to \$761,000 for the first six months of 2001 from \$889,000 for the comparable 2000 period, and decreased 6.1% to \$433,000 in the second quarter of 2001 from \$461,000 for the comparable 2000 period.

LIQUIDITY AND CAPITAL RESOURCES

Net cash and cash equivalents increased \$106,000 from year-end 2000 to \$2.6 million at the end of the second quarter of 2001. Expenditures for new equipment were \$1,139,000, a 14.6% increase from the \$994,000 for the same period in 2000. The increase in expenditures was to support the growth in our business, as well as to enhance our communications and market data processing infrastructures. Capitalized software costs of \$831,000 for the six months ended June 30, 2001 were \$228,000, or 37.8%, higher than the \$603,000 recorded for the same period for 2000, principally due to the development of new applications and services to be introduced this year. There were no new direct borrowings during the six months ended June 30, 2001, and the Company repaid \$150,000 of the principal balance on the bank term loan and \$500,000 on the note payable to Motorola. We received approximately \$114,000 in net proceeds from the sale of shares of common stock to employees pursuant to our Employee Stock Purchase Plan and the sale of shares of common stock to employees who exercised options previously granted to them under our 1999 Combined Incentive and Non-Statutory Stock Option Plan.

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In the second quarter of 2001, HyperFeed acquired certain assets of Marketscreen for \$100,000 and 450,000 shares of HyperFeed common stock and, in conjunction with the Marketscreen acquisition, acquired certain assets of Lasdorf Corporate Services, Inc. (Lasdorf) for \$300,000. The 450,000 shares of HyperFeed common stock are held in escrow. The ultimate payout of such shares is subject to certain restrictions as defined within the asset purchase agreement.

In the second quarter of 2001, HyperFeed loaned \$100,000 to Quantitative Science Technologies, LLC (QST) in connection with its agreement to develop and provide a Web-based, portfolio management tool to HyperFeed's PCQuote customers. HyperFeed received a warrant to purchase a 5% interest of QST at an aggregate exercise price of \$.01 and an exercise term of ten years.

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased to \$2.2 million for the first six months of 2001 from \$3.1 million for the comparable 2000 period, and decreased to \$316,000 for the second quarter of 2001 as compared to \$1.7 million for the same period in 2000. We believe our existing capital resources, our ability to access external capital, if necessary, and cash generated from continuing operations are sufficient for working capital purposes for at least the next twelve months.

As we have previously reported, we have explored multiple alternatives that may be available for the purpose of enhancing stockholder value, including a merger, a spin-off or sale of part of our business, a strategic relationship or joint venture with another technology or financial services firm and equity financing. We continue to explore opportunities to enhance stockholder value.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" ("SFAS 141") which supersedes APB Opinion No. 16, "Business Combinations", and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises". SFAS 141 addresses financial accounting and reporting for business combinations and requires that all business combinations within the scope of the SFAS 141 be accounted for using only the purchase method. SFAS 141 is required to be adopted for all business combinations initiated after June 30, 2001. Management is currently evaluating the impact that adoption of SFAS 141 will have on its consolidated financial statements.

Also in June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") which supersedes APB Opinion No. 17, "Intangible Assets". SFAS 142 addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition. SFAS 142 also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The provisions of SFAS 142 are required to be applied starting with fiscal years beginning after December 15, 2001. SFAS 142 is required to be applied at the beginning of an entity's fiscal year and to be applied to all goodwill and other intangible assets recognized in its financial statements at that date. Management is currently evaluating the impact that adoption of SFAS 142 will have on its consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk during the six-month period ended June 30, 2001. For additional information, refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the first and second quarters of 2001, we issued 41,849 and 34,346 shares of our common stock, respectively, to employees, who purchased the shares under our Employee Stock Purchase Plan.

During the first and second quarters of 2001, 3,991 and 6,833 shares of our common stock, respectively, were purchased by employees who exercised stock options granted to them under our 1999 Combined Incentive and Non-Statutory Stock Option Plan.

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In the second quarter of 2001, as part of the consideration by HyperFeed for the acquisition of certain assets of Marketscreen, HyperFeed issued 450,000 shares of HyperFeed common stock. The 450,000 shares of HyperFeed common stock are held in escrow. The ultimate payout of such shares is subject to certain restrictions as defined within the asset purchase agreement.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The annual meeting of the stockholders of HyperFeed Technologies, Inc. was held on May 22, 2001. The following proposals were submitted, considered and voted upon, as indicated below, by the stockholders.

1. To elect seven members to our Board of Directors to serve until the 2002 Annual Meeting, or until their successors are elected and shall have qualified.

| Director | Shares For | Shares Against | Shares Withheld |
|---------------------|------------|----------------|-----------------|
| Jim R. Porter | 14,909,779 | | 58,502 |
| John R. Hart | 14,909,779 | | 58,502 |
| Charles J. Henry | 14,909,779 | | 58,502 |
| Ronald Langley | 14,894,938 | | 73,343 |
| Louis J. Morgan | 14,909,779 | | 58,502 |
| Kenneth J. Slepicka | 14,909,779 | | 58,502 |
| John L. Borling | 14,909,779 | | 58,502 |

Vote totals include count of 100 votes for each of the 47,866 preferred shares voted.

2. To approve and ratify the appointment of KPMG LLP as our independent auditors for 2001.

| Shares For | Shares Against | Abstentions |
|------------|----------------|-------------|
| 14,887,135 | 52,013 | 29,133 |

Vote totals include count of 100 votes for each of the 47,866 preferred shares voted.

No other matters were submitted for vote.

ITEM 6. EXHIBITS and REPORTS on FORM 8-K

EXHIBITS

4 (a) Statement of Registration Rights between HyperFeed Technologies, Inc. and Marketscreen.com, Inc. dated April 27, 2001.

10 (a) Asset Purchase Agreement and Plan of Reorganization between HyperFeed Technologies, Inc. and Marketscreen.com, Inc. dated April 27, 2001.

10 (b) Asset Purchase Agreement between HyperFeed Technologies, Inc. and Lasdorf Corporate Services, Inc. dated April 27, 2001.

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REPORTS ON FORM 8-K

There were no reports on Form 8-K filed during the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HYPERFEED TECHNOLOGIES, INC.

Date: August 14, 2001

By: /s/ Jim R. Porter

Jim R. Porter
Chairman and Chief Executive Officer

By: /s/ John E. Juska

John E. Juska
Chief Financial Officer and Principal Accounting Officer