

HYPERFEED TECHNOLOGIES INC
Form 10-Q
May 15, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

**ý Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2003

Or

**o 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)

Edgar Filing: HYPERFEED TECHNOLOGIES INC - Form 10-Q

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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No .

As of May 1, 2003, the registrant had 25,101,950 shares of \$.001 par value common stock outstanding.

HYPERFEED TECHNOLOGIES, INC.

INDEX

PART I. Financial Information

Item 1.	Financial Statements
	<u>Consolidated Balance Sheets as of March 31, 2003 (unaudited) and December 31, 2002</u>
	<u>Consolidated Statements of Operations for the three-month periods ended March 31, 2003 and 2002 (unaudited)</u>
	<u>Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2003 and 2002 (unaudited)</u>
	<u>Notes to Unaudited Interim Consolidated Financial Statements</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>

PART II. Other Information

<u>Item 1.</u>	<u>Legal Proceedings</u>
<u>Item 2.</u>	<u>Changes in Securities and Use of Proceeds</u>
<u>Item 5.</u>	<u>Other Information</u>
<u>Item 6.</u>	<u>Exhibits and Reports on Form 8-K</u>
	<u>Company's Signature Page</u>
	<u>Certifications</u>

Edgar Filing: HYPERFEED TECHNOLOGIES INC - Form 10-Q

HYPERFEED TECHNOLOGIES, INC. AND SUBSIDIARY

Consolidated Balance Sheets

March 31, 2003 and December 31, 2002

	March 31, 2003 (Unaudited)	December 31, 2002 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 525,886	\$ 1,096,711
Accounts receivable, less allowance for doubtful accounts of: 2003: \$85,013; 2002: \$82,355	594,631	700,942
Note receivable, less allowance for doubtful accounts of: 2003: \$150,000; 2002: \$150,000	199,142	199,142
Prepaid expenses and other current assets	404,939	328,128
TOTAL CURRENT ASSETS	1,724,598	2,324,923
Property and equipment		
Computer equipment	2,387,839	3,345,614
Communication equipment	1,405,152	1,463,954
Furniture and fixtures	82,839	108,947
Leasehold improvements	523,645	531,397
	4,399,475	5,449,912
Less: Accumulated depreciation and amortization	2,835,758	3,762,376
	1,563,717	1,687,536
Intangible assets, net of accumulated amortization of: 2003: \$25,000; 2002: \$10,000		
Software development costs, net of accumulated amortization of: 2003: \$2,347,954; 2002: \$3,189,313	155,000	170,000
	1,934,808	2,013,703
Deposits and other assets	98,857	99,428
TOTAL ASSETS	\$ 5,476,980	\$ 6,295,590
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	\$ 1,231,344	\$ 1,249,350
Accrued expenses	531,913	717,519
Accrued restructuring charge	257,926	405,301
Accrued compensation	91,709	106,576
Unearned revenue	1,231,050	1,173,402
TOTAL CURRENT LIABILITIES	3,343,942	3,652,148
Accrued expenses, less current portion		
	286,695	36,089
Unearned revenue, less current portion		
	11,236	12,536
TOTAL NONCURRENT LIABILITIES	297,931	48,625

Edgar Filing: HYPERFEED TECHNOLOGIES INC - Form 10-Q

TOTAL LIABILITIES	3,641,873	3,700,773
Stockholders' Equity		
Common stock, \$.001 par value; authorized 50,000,000 shares; issued and outstanding 25,101,950 shares at March 31, 2003 and 25,030,689 shares at December 31, 2002	25,102	25,031
Additional paid-in capital	44,578,167	44,563,060
Accumulated deficit	(42,768,162)	(41,993,274)
TOTAL STOCKHOLDERS' EQUITY	1,835,107	2,594,817
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,476,980	\$ 6,295,590

See Notes to Unaudited Interim Consolidated Financial Statements.

HYPERFEED TECHNOLOGIES, INC. AND SUBSIDIARY

Consolidated Statements of Operations

	For The Three Months Ended	
	March 31, 2003	March 31, 2002
	(Unaudited)	(Unaudited)
REVENUE		
HyperFeed Services	\$ 3,034,173	\$ 4,747,077
PCQuote Services	618,493	899,163
TOTAL REVENUE	3,652,666	5,646,240
DIRECT COST OF SERVICES		
HyperFeed Services	2,148,093	2,619,255
PCQuote Services	261,510	800,987
TOTAL DIRECT COST OF SERVICES	2,409,603	3,420,242
GROSS MARGIN	1,243,063	2,225,998
OPERATING EXPENSES		
Sales	449,078	569,284
General and administrative	776,415	816,816
Product and market development	506,466	595,689
Depreciation and amortization	288,865	488,437
TOTAL OPERATING EXPENSES	2,020,824	2,470,226
LOSS FROM OPERATIONS	(777,761)	(244,228)
INTEREST INCOME (EXPENSE)		
Interest income	2,873	6,475
Interest expense		(2,772)
NET INTEREST INCOME	2,873	3,703
LOSS BEFORE INCOME TAXES	(774,888)	(240,525)
Income taxes		
NET LOSS	\$ (774,888)	\$ (240,525)
Basic and diluted net loss per share	\$ (0.03)	\$ (0.01)
Basic and diluted weighted-average common shares outstanding	25,030,689	23,849,605

See Notes to Unaudited Interim Consolidated Financial Statements.

Edgar Filing: HYPERFEED TECHNOLOGIES INC - Form 10-Q

HYPERFEED TECHNOLOGIES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

	For The Three Months Ended	
	March 31, 2003	March 31, 2002
	(Unaudited)	(Unaudited)
Cash Flows From Operating Activities:		
Net loss	\$ (774,888)	\$ (240,525)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	288,865	488,437
Provision for doubtful accounts	30,000	
Amortization of software development costs	341,750	330,347
Amortization of value assigned to warrant issued in lieu of license fees		420,000
Changes in assets and liabilities:		
Accounts receivable	76,311	159,296
Prepaid expenses and other current assets	(76,811)	(105,899)
Deposits and other assets	571	(352)
Accounts payable	(18,006)	(81,239)
Accrued expenses	(97,242)	157,466
Accrued satellite termination fees		(75,000)
Income taxes payable		(5,000)
Unearned revenue	56,348	(324,736)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(173,102)	722,795
Cash Flows From Investing Activities:		
Purchase of property and equipment	(150,046)	(74,172)
Software development costs capitalized	(262,855)	(335,934)
NET CASH USED IN INVESTING ACTIVITIES	(412,901)	(410,106)
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock	15,178	20,145
Principal payments on notes payable		(250,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	15,178	(229,855)
Net increase (decrease) in cash and cash equivalents	(570,825)	82,834
Cash and cash equivalents:		
Beginning of the period	1,096,711	607,263
End of the period	\$ 525,886	\$ 690,097

See Notes to Unaudited Interim Consolidated Financial Statements.

HYPERFEED TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

PRINCIPLES OF CONSOLIDATION: The accompanying unaudited 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 consolidated interim 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, 2002 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, 2002.

SOFTWARE DEVELOPMENT COSTS: The Company s continuing investment in software development consists primarily of enhancements to its existing Windows-based market data distribution platform, the direct exchange services, the development of new data analysis software and programmer tools and the application of new technology to increase the data volume and delivery speed of the Company s distribution system.

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 expensed as research and development costs 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 effective in the year following full amortization.

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 three years, the remaining estimated economic life of the product including the period being reported. 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.

Edgar Filing: HYPERFEED TECHNOLOGIES INC - Form 10-Q

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.

STOCK BASED COMPENSATION: At March 31, 2003, the Company had one stock-based employee compensation plan. The Company has adopted the disclosure-only provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation (SFAS 123), as amended by FASB Statement No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148) and will continue to use the intrinsic value based method of accounting prescribed by APB No. 25, Accounting for Stock Issued to Employees. Under APB No. 25, no compensation cost has been recognized for options granted with an option price equal to the grant date market value of the Company's common stock. Had compensation cost for the Company's options granted been determined based on the fair value of the option at the grant date consistent with the provisions of SFAS 123, the Company's net income and net income per share for the quarters ended March 31, 2003 and 2002 would have been decreased to the pro forma amounts indicated below:

	Three months ended	
	March 31,	
	2003	2002
Net loss, as reported	\$ (774,888)	\$ (240,525)
Less: Stock-based compensation expense determined under fair value method for all awards, net of related taxes	(53,126)	(773,334)
Pro forma net loss	\$ (828,014)	\$ (1,013,859)
Basic and diluted net loss per share, as reported	\$ (0.03)	\$ (0.01)
Pro forma basic and diluted net loss per share	\$ (0.03)	\$ (0.04)

The value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Three months ended	
	March 31,	
	2003	2002
Risk-free interest rate	2.77%	4.27%
Volatility factor	100%	106%
Dividend yield	0.00%	0.00%
Expected term of options	5 years	5 years
Weighted-average fair value of options granted	\$ 0.20	\$ 0.50

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions. In addition, option pricing models require the input of highly subjective assumptions including expected stock price characteristics which are significantly different from those of traded options. Because changes in the subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a reliable single measure of the fair value of stock-based compensation awards.

Edgar Filing: HYPERFEED TECHNOLOGIES INC - Form 10-Q

EARNINGS PER SHARE: Basic earnings per share (EPS) is based on the weighted-average number of shares outstanding and excludes the dilutive effect of unexercised common stock equivalents. Diluted earnings per share includes the dilutive effect of unexercised common stock equivalents. The Company had equity securities that, if exercised, would have had a dilutive effect on EPS had the Company generated income during the quarters ended March 31, 2003 and 2002. The dilutive effect of such securities would have been an additional 12,474 and 47,647 weighted-average shares outstanding during the quarters ended March 31, 2003 and 2002, respectively. For the quarters ended March 31, 2003 and 2002, weighted-average equity securities totaling 6,516,528 and 8,078,389, respectively, were excluded from the calculations as their effect was anti-dilutive due to such securities having exercise prices in excess of the weighted-average fair value of the Company's common stock during the quarterly periods.

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. 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 expects to generate revenue in the future from the Managed Exchange Platform Services (MEPS) model (the licensing of its ticker plant technologies).

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 data feed, to the consumer marketplace. HyperFeed licenses its newly developed MEPS ticker plant technologies to the business-to-business community.

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.

(2) INCOME TAXES

At December 31, 2002, the Company had Federal income tax net operating loss carryforwards of \$24.9 million for Federal income tax purposes and \$24.5 million for the alternative minimum tax. Of these net operating losses, \$1.1 million relates to 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 that will all expire by 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 expire through 2022. The Company has not recorded any tax benefits related to these net operating loss carryforwards.

(3) 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 industry segments for the quarters ended March 31, 2003 and March 31, 2002 is as follows:

	Three months ended				
	March 31, 2003		March 31, 2002		
	Amount	%	Amount	%	
Sales to unaffiliated customers:					
HyperFeed services	\$ 3,034,173	83.1%	\$ 4,747,077	84.1%	
PCQuote services	618,493	16.9%	899,163	15.9%	
Total revenue	\$ 3,652,666	100.0%	\$ 5,646,240	100.0%	
Operating income (loss):					
HyperFeed services	\$ (715,924)	92.0%	\$ 140,686	*	
PCQuote services	(61,837)	8.0%	(384,914)	*	
Total operating loss	\$ (777,761)	100.0%	\$ (244,228)	*	
Identifiable assets:					
HyperFeed services	\$ 5,149,176	94.0%	\$ 8,027,796	83.8%	
PCQuote services	327,804	6.0%	1,548,070	16.2%	
Total identifiable assets	\$ 5,476,980	100.0%	\$ 9,575,866	100.0%	

* not meaningful

(4) LITIGATION

On July 3, 2002, the Company filed a two-count action against PC Quote Canada asserting breach of Agency License Agreement (the Agreement) and fraud and unjust enrichment and requests damages, plus interest, costs and attorneys fees. The defendant filed an answer, affirmative defenses and counterclaim asserting that oral agreement modified the Agency License Agreement and requests damages.

Edgar Filing: HYPERFEED TECHNOLOGIES INC - Form 10-Q

On January 28, 2003, the defendant filed a motion for a preliminary injunction to enjoin HyperFeed from terminating services provided under the Agreement and HyperFeed has agreed not to terminate such services until a court-ordered audit of the defendant's records has been completed.

On March 28, 2003, the defendant filed an amended counterclaim claiming breach of the contract. In its amended counterclaim, the defendant (1) claims unjust enrichment, (2) claims overpayment of communication fees, (3) claims that HyperFeed licensed directly to users in Canada and/or allowed U.S. customers to do so in violation of the defendant's exclusive license in Canada, (4) claims breach of contract for terminating the Agreement, and (5) requests an injunction. The defendant requests damages in excess of \$1.4 million. HyperFeed answered the counterclaim denying all material allegations and believes the claims are without merit. HyperFeed intends to complete the audit, obtain answers to outstanding discovery, aggressively seek to collect all past due amounts and vigorously defend against asserted claims.

(5) PRIVATE PLACEMENT OFFERING

On March 17, 2003, HyperFeed announced a planned private placement of 5,260,628 shares of common stock (representing 17.4% of the Company's outstanding common stock including the shares from this transaction) at \$0.2705 per share to its executive officers, individual board members, and its largest investor, PICO Holdings, Inc. ("PICO"), for an aggregate purchase price of \$1,423,000. The price per share was determined using the average closing price of the common stock for the twenty trading days prior to and including the date the stock was priced, March 13, 2003.

The transaction is expected to close in May after HyperFeed's annual meeting, pending shareholder approval. PICO has notified HyperFeed of its intent to approve the private placement.

The securities to be issued in the private placement have not been registered under the Securities Act of 1933 (the "Securities Act") or other applicable securities laws and may not be sold or transferred except pursuant to an effective registration statement under the Securities Act and other applicable securities laws or an appropriate exemption from any applicable registration requirements.

PART I. ITEM 2

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

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. HyperFeed undertakes no obligation to publicly release the results of any revision to these forward-looking statements which may be made to reflect events or circumstances after the dates hereof or to reflect the occurrence of unanticipated events. 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. Among these factors are:

- (i) that the information is of a preliminary nature and may be subject to further adjustment;
- (ii) variability in HyperFeed's quarterly operating results;
- (iii) our ability to fund our current and future business strategies either through continuing operations or external financing;
- (iv) our ability to attract and retain qualified management and key employees;
- (v) our ability to successfully compete against competitive products and services;
- (vi) our ability to maintain relationships with key suppliers and providers of market data;
- (vii)

Edgar Filing: HYPERFEED TECHNOLOGIES INC - Form 10-Q

our ability to maintain our existing customer base while increasing the Company's presence in the financial institutional marketplace;

- (viii) our ability to develop and introduce new product and service initiatives in a timely manner and at competitive price and performance levels;
 - (ix) the effect of economic and business conditions generally;
 - (x) risks related to pending or future legal proceedings;
 - (xi) risks relating to possible delisting from The Nasdaq SmallCap Market; and
 - (xii) other risks identified from time to time in HyperFeed's reports and registration statements filed with the Securities and Exchange Commission.
-

OVERVIEW

During 2002 and in the first quarter of 2003, the Company has experienced a loss of customers due to economic conditions and a shift in customer needs. In addition to a significant slow-down experienced by the day-trading industry, many of HyperFeed's largest institutional customers were retail brokerages affected by the same financial market downturn. These conditions prompted the Company to focus on products and services that produce the most revenue from its ticker plant technologies.

In August and September 2002, HyperFeed hired a new senior management team, which subsequently restructured the Company's staff, product initiatives, and facilities. In October 2002, HyperFeed reduced its workforce by 21%. In addition, facilities were consolidated to garner additional cost savings.

The new senior management team's product restructuring was driven by the financial market industry's need to get data feed connections directly from exchanges. The Company realized that the anticipated market for a consolidated data feed would be coupled with the market's need for ticker plant technologies. Accordingly, management constructed a new sales strategy for packaging and selling the Company's services. The sales model includes direct sales, alliance partner sales, and business development, which are expected to reflect revenue growth during 2003.

RECENT BUSINESS DEVELOPMENTS

HyperFeed and TIBCO Establish Strategic Partnership to Embed TIBCO Software in HyperFeed's Ticker Plant Technologies

On May 12, 2003, HyperFeed announced a partnership with TIBCO Software, Inc., a leading enabler of real-time business, to embed TIBCO's software products into HyperFeed's ticker plant technologies and to resell the software into its clients' infrastructures. By offering TIBCO technology as a part of the Company's Managed Exchange Platform, HyperFeed is linking the TIBCO libraries to the HyperFeed executable and using these libraries to facilitate communications between the platform and the client. The synergy of TIBCO software, HyperFeed's ticker plant technologies, and the clients' infrastructures ensures speedy arrival and distribution of market data and gives HyperFeed customers more choices for connectivity. The agreement also gives HyperFeed the power to re-sell TIBCO's SmartSockets® family of solutions to HyperFeed customers.

Notification of Delisting from The Nasdaq SmallCap Market

In May 2003, the Company received notification from Nasdaq indicating that the Company failed to comply with the minimum \$1.00 per share continued listing requirements set forth in NASD Marketplace Rule 4310(c)(4) and that it is not in compliance with listing maintenance standards established by Nasdaq requiring that the Company have stockholders' equity of at least \$2.5 million, or a \$35 million market value of listed securities, or \$500,000 of net income from continuing income for the most recently completed fiscal year or two of the three most recently completed fiscal years.

Nasdaq further informed the Company that if it did not appeal the decision, HyperFeed's common stock would be delisted from The Nasdaq SmallCap Market at the opening of business on May 22, 2003. The Company has requested a hearing with Nasdaq to appeal Nasdaq's determination to delist HyperFeed's common stock from The Nasdaq SmallCap Market. During the appeal process, HyperFeed's common stock will continue to be traded on The Nasdaq SmallCap Market. However, there can be no assurances that the appeal will be successful. If the Company's appeal is unsuccessful, then its common stock will be delisted from The Nasdaq SmallCap Market.

If the Company were to be delisted from The Nasdaq SmallCap Market, its shares likely will trade in the over-the-counter (OTC) market. A switch to the OTC market will likely result in more volatility for the Company's stock, less volume, and no analyst coverage. As a result, the Company's stock price would likely decline further and the ability of any potential or future investors to achieve liquidity from HyperFeed's common stock could be severely limited, not only in the number of shares that could be bought and sold at a given price, but also through delays in the timing of transactions and reduction in media coverage of the Company. This could inhibit, if not preclude, the Company's ability to raise additional working capital on acceptable terms, if at all. In addition, current and prospective customers and strategic partners may limit or cease their business relationships with the Company because of concerns or perceptions regarding its listing status and future liquidity.

Hyperfeed to Provide Managed Exchange Platform Services (MEPS) to a Major Exchange

On May 1, 2003, HyperFeed signed its first customer for HyperFeed's ticker plant technologies in a MEPS model. The customer, a major options exchange, will use MEPS to increase performance and reliability of market data for its innovative new hybrid trading system. HyperFeed's MEPS coupled with one of the customer's products will offer exchange members exchange data with minimal latency and cost. HyperFeed's MEPS will be installed at the customer's physical location in a self-contained ticker plant while HyperFeed remotely manages the data quality and exchange permissioning.

HyperFeed's MEPS contains five components: FEPs (Front End Processors), Data Management, Value Added Services, Technologies, and Tools and Adaptors. The customer will be utilizing specific services within each of the above MEPS components to power a variety of quote devices.

Restructure of Lease Agreement

On March 27, 2003, the Company executed an amendment to the leased space on the 3rd floor of 300 South Wacker Drive. Concurrent with this amendment, the Company also terminated the lease on the 20th floor of 300 South Wacker. The amendment and the termination were effective March 1, 2003 and primarily provided for a termination of the 20th floor lease, rent abatement and a tenant improvement allowance on the 3rd floor in 2005, and extension of the lease term on the 3rd floor for 5 years to December 31, 2009. The Company secured a \$75,000 letter of credit as part of the amendment.

Line of Credit

On March 24, 2003, HyperFeed announced that it has received a \$0.5 million line of credit from its current financial institution, Lakeside Bank. The line of credit was issued at the prime rate, and allows the Company to borrow up to 80% of eligible accounts receivable and 50% of net property, plant and equipment. As of March 31, 2003, the Company had not borrowed on the line of credit.

Private Placement

On March 17, 2003, HyperFeed announced a planned private placement of 5,260,628 shares of common stock (representing 17.4% of the Company's outstanding common stock including the shares from this transaction) at \$0.2705 per share to its executive officers, individual board members, and its largest investor, PICO Holdings, Inc. (PICO), for an aggregate purchase price of \$1,423,000. The price per share was determined using the average closing price of the common stock for the twenty trading days prior to and including the date the stock was priced, March 13, 2003.

The transaction is expected to close in May after HyperFeed's annual meeting, pending shareholder approval. PICO has notified HyperFeed of its intent to approve the private placement.

The securities to be issued in the private placement have not been registered under the Securities Act of 1933 (the Securities Act) or other applicable securities laws and may not be sold or transferred except pursuant to an effective registration statement under the Securities Act and other applicable securities laws or an appropriate exemption from any applicable registration requirements.

RESULTS OF OPERATIONS:

FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002

Total revenue decreased by 35.3% for the first three months of 2003 to \$3.7 million from \$5.6 million for the comparable period in 2002. Both our HyperFeed services and our PCQuote services posted decreases in the first quarter of 2003 from 2002. HyperFeed service revenue decreased

Edgar Filing: HYPERFEED TECHNOLOGIES INC - Form 10-Q

\$1.7 million, or 36.1%, from \$4.7 million in 2002 to \$3.0 million in 2003. Decreases in the number of end users and related services associated with the provision of analytics applications accounted for 45.3% of the decline in HyperFeed service revenue. Additionally, decreases in data feed license fees accounted for 53.9% of the decline in HyperFeed service revenue, of which 25.9% resulted from a reduction in services provided to our largest customer. Revenue from our PCQuote services decreased \$0.3 million, or 31.2%, to \$0.6 million for the first three months of 2003 from \$0.9 million for the same period in 2002. Decreases in consumer end users accounted for 49.5% of the decline in PCQuote service revenue. Also, decreases in revenue from Townsend Analytics, Ltd. accounted for 32.8% of the decline in PCQuote service revenue.

Direct costs of services decreased \$1.0 million, or 29.5%, to \$2.4 million for the first quarter of 2003 from \$3.4 million in 2002. Direct costs, as a percentage of revenue, increased to 66.0% from 60.6% for the three months ended March 31, 2003. Principal components of the decrease were royalties and payments to providers of market data, attributable to the decline in analytics subscriptions, and the decrease in amortization of prepaid license fees, which were fully amortized in the fourth quarter of 2002. Amortization of software development costs remained unchanged at \$0.3 million for the three months ended March 31, 2003 and 2002. Gross margin decreased \$1.0 million, or 44.2%, to \$1.2 million for the first three months of 2003 from \$2.2 million for the same period in 2002. As a percentage of revenue, gross margin decreased for the first three months of 2003 to 34.0% from 39.4% for the same period in 2002.

Edgar Filing: HYPERFEED TECHNOLOGIES INC - Form 10-Q

Direct costs associated with HyperFeed services decreased from \$2.6 million for the quarter ended March 31, 2002 to \$2.1 million for the quarter ended March 31, 2003, an 18.0% decrease. The principal components of the decrease were costs related to product royalties and exchange fees, directly attributable to the decrease in analytics subscription revenue. The resulting gross margin for the first quarter decreased to \$0.9 million in 2003 from \$2.1 million in 2002. HyperFeed services gross margin as a percentage of HyperFeed services revenue decreased to 29.2% for the first quarter of 2003 from 44.8% for the comparable period in 2002. This decrease in gross margin is due to declines in revenue exceeding the cost saving measures implemented in the fourth quarter of 2002.

Direct costs associated with PCQuote services decreased to \$0.3 million for the 2003 quarter from \$0.8 million in the comparable 2002 quarter, a 67.4% decrease. The amortization of prepaid license fees, which were fully amortized in the fourth quarter of 2002, was the principal component of the decrease in direct costs. The resulting gross margin for the first quarter increased to \$0.4 million in 2003 from \$0.1 million in 2002. PCQuote services gross margin as a percentage of PCQuote services revenue increased to 57.7% for the first quarter of 2003 from 10.9% for the comparable period in 2002.

Total operating expenses decreased to \$2.0 million for the first quarter of 2003 from \$2.5 million for the comparable 2002 period, an 18.2% decrease. Decreases, principally due to cost saving measures associated with the restructuring in the fourth quarter of 2002, were experienced in all categories. As a percentage of revenue, total operating expenses increased to 55.3% for the first three months in 2003 from 43.7% for the same period in 2002. This increase was due to declines in revenue exceeding the cost saving measures implemented in the fourth quarter of 2002.

Sales costs decreased 21.1% to \$0.4 million for the first quarter of 2003 as compared to \$0.6 million for the same 2002 period, as a result of lower commission expense commensurate with the decrease in revenue. Sales costs as a percentage of revenue increased to 12.3% in the first quarter of 2003 from 10.1% for the comparable 2002 period.

General and administrative expenses remained unchanged for the first quarter of 2003 at \$0.8 million compared to the same 2002 period. General and administrative expenses as a percentage of revenue increased to 21.3% in the first quarter of 2003 from 14.5% for the comparable 2002 period.

Product and market development costs decreased 15.0% to \$0.5 million for the 2003 quarter from \$0.6 million for the 2002 quarter, principally due to reductions in employee compensation and related expenses attributable to the workforce reduction in the fourth quarter of 2002. Product and market development costs as a percentage of revenue increased to 13.9% in the first quarter of 2003 from 10.6% for the comparable 2002 period.

Depreciation and amortization decreased to \$0.3 million for the first quarter of 2003 from \$0.5 million for the comparable 2002 period as a result of the write-down of intangible assets and write-off of certain fixed assets relating to the restructuring in the fourth quarter of 2002. Depreciation and amortization as a percentage of revenue decreased to 7.9% in the first quarter of 2003 from 8.7% for the comparable 2002 period.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's unaudited interim consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

On an on-going basis, management evaluates its estimates and judgments, including those related to bad debts and intangible assets. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

ALLOWANCE FOR DOUBTFUL ACCOUNTS: We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make payments for services or debtors to satisfy note receivable obligations. We analyze accounts receivable, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts and notes receivable. If the financial condition of our customers or debtors deteriorates, resulting in an impairment of their ability to make payments, additional allowances may be required.

VALUATION OF INTANGIBLE ASSETS AND SOFTWARE DEVELOPMENT COSTS: We assess the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, and significant negative industry or economic trends. The Company assesses the recoverability of its software development costs against estimated future revenue over the estimated remaining economic life of the software.

LIQUIDITY AND CAPITAL RESOURCES:

Net cash and cash equivalents decreased \$570,825 from year-end 2002 to \$525,886 at the end of the first quarter of 2003. The decrease is primarily due to our continuing investment in equipment and our developed technology.

Operating activities used \$173,102 of cash and provided \$722,795 of cash for the three months ended March 31, 2003 and 2002, respectively. Cash used in operating activities for the first quarter of 2003 is primarily attributable to our net loss, offset by non-cash items such as depreciation and amortization of long-lived assets. Cash provided by operating activities for the first quarter of 2002 was primarily due to non-cash items, including amortization of prepaid license fees as a result of the value assigned to the warrant issued in April 1999 to CNNfn, offset by changes in operating assets and liabilities.

Net cash used in investing activities was \$412,901 and \$410,106 for the three months ended March 31, 2003 and 2002, respectively. Capital expenditures were \$150,046 for the quarter ended March 31, 2003 as compared to \$74,172 for the same 2002 quarter. The increase in capital expenditures is primarily due to our new business strategy of licensing our ticker plant technology in a MEPS model. We anticipate our capital expenditures to continue to increase as we purchase equipment to support and maintain our MEPS product. However, we expect to finance capital expenditures relating to specific customers. Capitalized software costs were \$262,855 and \$335,934 for the quarters ended March 31, 2003 and 2002, respectively.

Financing activities provided \$15,178 of cash and used \$229,855 of cash for the three months ended March 31, 2003 and 2002, respectively. Net proceeds from the sale of shares of common stock to employees pursuant to our Employee Stock Purchase Plan provided \$15,178 and \$20,145 for the quarters ended March 31, 2003 and 2002, respectively. In the first quarter of 2002, we made the last \$250,000 installment payment on our note payable to Motorola. There were no new direct borrowings during the period.

On March 18, 2003, the Company obtained a \$500,000 line of credit from Lakeside Bank bearing interest at the prime rate. The Company can borrow up to 80% of eligible accounts receivable and 50% of net property, plant and equipment. As of March 31, 2003, the Company had not borrowed on the line of credit.

On March 17, 2003, HyperFeed announced a planned private placement of \$1,423,000 (representing 17.4% of the Company's outstanding common stock including the shares from this transaction) from its executive officers, individual board members, and its largest investor, PICO Holdings, Inc., whose officers are also HyperFeed board members. The transaction is expected to close in May after HyperFeed's annual meeting, pending shareholder approval. PICO Holdings, Inc. has notified HyperFeed of its intent to approve the private placement.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) was a loss of \$147,000 for the first quarter of 2003 versus income of \$995,000 for the same period in 2002. We believe our existing capital resources, available line of credit, cash generated from continuing operations, proceeds from the planned private placement of shares of our common stock, and our ability to access external capital, if necessary, are sufficient for working capital and to fund operations over the next twelve months.

As 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.

EFFECT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to these unaudited interim consolidated financial statements. Management does not believe the adoption of SFAS 148 will have a significant impact on the Company's consolidated financial statements.

In November 2002, the FASB reached a consensus on EITF Issue 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables* (the Issue). The guidance in this Issue is effective for revenue arrangements entered into for fiscal years beginning after June 15, 2003. The Issue addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, the Issue addresses how to determine whether an arrangement involving multiple deliverables contains more than one earnings process and, if it does, how to divide the arrangement into separate units of accounting consistent with the identified earnings processes for revenue recognition purposes. The Issue also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. Management is currently reviewing the impact that EITF 00-21 will have on the Company's future results of operations, but upon our initial review the Company does not believe the Issue will have a significant impact on its accounting for multiple element arrangements.

FACTORS THAT MAY AFFECT FUTURE RESULTS

You should read the following factors in conjunction with the factors discussed elsewhere in this and our other filings with the SEC and in materials incorporated by reference in these filings. The following is intended to highlight certain factors that may affect the financial condition and results of operations of HyperFeed and are not meant to be an exhaustive discussion of risks that apply to HyperFeed. Like other businesses, HyperFeed is susceptible to macroeconomic downturns in the United States or abroad, as were experienced in fiscal year 2002, and continues into fiscal year 2003, that may affect the general economic climate and performance of HyperFeed or its customers.

Nasdaq may delist our common stock, which could decrease the market price of our common stock and make it more difficult for our stockholders to dispose of or obtain quotations for our common stock and for us to obtain financing.

In May 2003, we received notification from Nasdaq indicating that we failed to comply with the minimum \$1.00 per share continued listing requirements set forth in NASD Marketplace Rule 4310(c)(4) and that we are not in compliance with listing maintenance standards established by Nasdaq requiring that we have stockholders' equity of at least \$2.5 million, or a \$35 million

market value of listed securities, or \$500,000 of net income from continuing income for the most recently completed fiscal year or two of the three most recently completed fiscal years.

Nasdaq further informed us that if we did not appeal its decision, our common stock would be delisted from The Nasdaq SmallCap Market at the opening of business on May 22, 2003. We have requested a hearing with Nasdaq to appeal Nasdaq's determination to delist our common stock from The Nasdaq SmallCap Market. During the appeal process, our common stock will continue to be traded on The Nasdaq SmallCap Market. However, there can be no assurances that the appeal will be successful. If our appeal is unsuccessful, then our common stock will be delisted from The Nasdaq SmallCap Market.

If we were to be delisted from The Nasdaq SmallCap Market, our shares likely will trade in the over-the-counter (OTC) market. A switch to the OTC market will likely result in more volatility for our stock, less volume, and no analyst coverage. As a result, our stock price would likely decline further and the ability of any potential or future investors to achieve liquidity from our common stock could be severely limited, not only in the number of shares that could be bought and sold at a given price, but also through delays in the timing of transactions and reduction in media coverage of the Company. This could inhibit, if not preclude, our ability to raise additional working capital on acceptable terms, if at all. In addition, current and prospective customers and strategic partners may limit or cease their business relationships with us because of concerns or perceptions regarding our listing status and future liquidity.

HyperFeed has experienced and expects to continue to experience significant period-to-period fluctuations in its revenues and operating results, which may result in volatility in the price of its stock.

HyperFeed's quarterly revenues and operating results have varied significantly in the past and are likely to vary substantially from quarter to quarter in the future. Accordingly, you should not rely on period-to-period comparisons as an indication of future performance. In addition, these variations may cause our stock price to fluctuate. If quarterly results fail to meet public expectations, the price of our stock may decline.

HyperFeed's revenues and operating results are affected by a wide variety of factors, including factors that generally affect everyone in its industry and factors that are more specific to its business and products. The principal risk we face in our business include the following:

Our ability to fund our current and future business strategies either through continuing operations or external financing;

Our ability to successfully compete against competitive products and services;

Our ability to maintain our existing customer base while increasing the Company's presence in the financial institutional marketplace;

The loss or gain of important customers;

Our ability to maintain relationships with key suppliers and providers of market data;

Our ability to successfully attract, retain and integrate qualified management and key employees;

Our ability to develop and introduce new products and services in a timely manner and at competitive price and performance levels;

The timing of the development and introduction of new products or enhanced versions of existing products;

Market acceptance of new products;

Increased competition, and competitive pricing pressure;

Our ability to anticipate evolving trends in the industry and changing customer product requirements;

The competitiveness of our customers;

Risks related to pending or future legal proceedings; and

Acts of terrorism and international conflicts.

The above factors have affected our business in the past and may affect us in the future.

HyperFeed has a recent history of operating losses and may not become or remain profitable.

HyperFeed has sustained significant losses in recent years and may not become profitable in the future. If we incur additional losses or fail to achieve profitability in the future, this will hinder our ability to operate our current business and may affect the trading price of our common stock. We incurred a net loss of \$1.4 million for the fiscal year ended December 31, 2001 and a net loss of \$4.4 million for the fiscal year ended December 31, 2002. As of December 31, 2002, we had an accumulated deficit of approximately \$42.0 million. These conditions raise doubt about our ability to operate profitably in the future.

We may require additional financing to continue to operate our business that may not be readily available or available on favorable terms to us.

In order to remain competitive, HyperFeed must continue to make investments in research and development and capital equipment. We believe that existing liquid resources and funds generated from operations, if any, combined with the ability to borrow funds will be adequate to meet our operating and capital requirements and obligations into the foreseeable future. We may, from time to time, seek additional equity or debt financing. However, those funds, when needed, might not be available on terms that we find acceptable. Any future equity financing will also lead to dilution to existing shareholders. We have explored, and continue to explore, multiple alternatives that may be available for the purpose of enhancing stockholder value. These alternatives may include a merger, a spin-off or sale of part or all of our business, a strategic relationship or joint venture and future equity financings. There can be no assurances, however, that we will conclude a transaction.

If the recent restructuring and new business strategy implemented by HyperFeed is unsuccessful, its business will be adversely affected.

In October 2002, as part of its transition to a financial services provider serving institutional customers, HyperFeed restructured its operations by reducing its workforce, streamlining operating expenses, and consolidating excess facilities. HyperFeed has implemented a new business plan, fiscal framework, product strategy, and sales methodology focused on serving the financial institutional marketplace. For over 20 years, HyperFeed's ticker plant technologies were proprietary and used behind-the-scenes to process its consolidated market data feed, HyperFeed® Market Data, for its customers. But in response to market trends demanding direct exchange connectivity, the current model allows the same advanced and robust ticker plant technologies to be used by its customers in a MEPS model. This opens new markets for HyperFeed to serve exchanges and content providers as well as financial institutions and redistributors. If HyperFeed is unsuccessful in implementing its new business strategy or if the anticipated benefits of the restructuring and new business strategy is not realized or does not receive market acceptance, HyperFeed's business will be adversely affected.

We may not be able to keep pace with continuing changes in information processing technology, evolving industry standards, and client preferences.

The financial information industry and the securities industry are constantly changing and evolving. Recent trends in these industries have included rampant data vendor consolidation, the proliferation of program trading, and the advent of new exchange depth products. Together with the effect of current economic conditions, these factors are influencing financial institutions to get market data feeds directly from each exchange. While HyperFeed's MEPS model was introduced in response to these emerging trends, financial market data and securities industries will likely continue to change and evolve. The success of our business will depend on our ability to successfully foresee, identify, and adapt to evolving trends in the industries in which we operate.

In addition, the financial information industry has experienced and is continuing to experience rapid technological advances and developments. We are actively engaged in research and development activities to try to meet our customers' needs and preferences. There can be no assurance, however, that we will be successful in addressing technological advances and developments on a timely basis or that, if addressed, we will be successful in the marketplace. A delay or failure to address technological advances and developments could have a material adverse effect on our results of operations. In addition, there can be no assurance that technologies developed by others will not render our products and services noncompetitive or obsolete.

HyperFeed's financial performance is highly dependent on the timely and successful introduction of new products and services.

Our financial performance depends in large part upon our ability to successfully develop and market next generation and new products and services in a rapidly changing technological and economic environment. If we fail to successfully identify new product opportunities and timely develop and introduce new products that achieve market acceptance, we may lose our market share and our future revenue and earnings may suffer.

The continued economic downturn and decrease in the activity in financial markets could negatively affect our revenue, which would reduce our profitability.

Our revenue is derived from supplying financial data and quotations related to U.S. financial exchanges and markets. The current financial market downturn and resulting decrease in activity in the financial markets has and may continue to negatively affect our revenue.

We may not be able to successfully integrate new management.

In August and September 2002, HyperFeed hired a new senior management team. If we are unable to successfully integrate these new members into our business, it could have a material adverse effect upon our business, financial condition, and results of operations.

A principal stockholder is in a position to control matters requiring stockholder vote, which may impair investors from realizing maximum returns on their investment in HyperFeed.

A principal stockholder, PICO Holdings, Inc. (PICO), owns or has the right to acquire approximately 50.2% of our shares of common stock that would be outstanding after they exercised their rights to acquire additional shares. In addition, PICO intends to purchase additional shares in a proposed private placement of our common stock. Accordingly, PICO is in a position to control the outcome of matters requiring a stockholder vote, including the election of directors. Such control could have the effect of discouraging, or making more difficult, an unsolicited acquisition of us by means of a tender offer, a proxy contest or otherwise, even though an unsolicited acquisition could have resulted in our stockholders receiving a premium for their shares or be otherwise economically beneficial to them.

Our agreements with exchanges, entitling us to receive information that is necessary for us to conduct our business, could be terminated.

We have agreements in place with various exchanges, which permit us to gather the information we need for our services. These exchanges include:

Canadian/Toronto;

Chicago Board of Trade/Mid America Commodity Exchange;

Chicago Mercantile Exchange;

Montreal;

NASDAQ;

New York Board of Trade;

New York Mercantile Exchange/Commodity Exchange;

New York Stock Exchange/American Stock Exchange; and

Options Price Reporting Authority.

Our agreement with NASDAQ expires on August 2nd of each year, with automatic one-year renewals. However, either party may terminate the agreement, for any reason whatsoever, upon 90-days written notice. Our agreements with all of the other exchanges listed above have a perpetual duration. However, each of those agreements may be terminated, for any reason whatsoever, upon 30-days written notice. All of our agreements with the exchanges listed above may be terminated by such exchanges if any of the following events occur:

non-payment of amounts due;

inadequate control systems over dissemination of data; or

failure to report the proper number of our subscribers.

The termination, expiration, or non-renewal of any of these agreements could inhibit our ability to provide high quality services to our clients and have a material adverse effect upon our business, financial condition, and results of operations.

We rely on software licensing agreements from third parties that could be terminated or allowed to expire.

We license significant software applications from unaffiliated third parties. The termination of these license agreements by unaffiliated third parties could have a material adverse effect on our business, financial condition, and results of operations. These license agreements are for initial terms and provide for automatic renewals unless terminated by delivering written notice prior to the renewal date.

We compete with companies that have greater financial, technical, and monetary resources than we do, which could result in additional pricing pressures on us and reduce our profitability.

The market for ticker plant technologies used to facilitate and manage the direct exchange feeds of financial institutions in a MEPS model is opportune and recently developed. Direct competitors on this front include small consulting shops that sell source servers and in-house development teams. Currently, they only compete with HyperFeed on the first level of service involving FEPs and do not presently offer value added services.

The market for the provision of a domestic consolidated data feed containing real-time streaming financial information such as equities, commodities, futures and options quotations, and news through services and software applications similar to those we provide includes a large amount of competitors and is subject to rapid change. The industry has also seen unprecedented merger and acquisition activity. We believe our primary competitors include Reuters, the ILX unit of Thomson Corporation and the Comstock unit of Standard and Poor's, which was recently acquired by IDC. These competitors have significantly greater financial, technical, and marketing resources and greater name recognition than we do. Our goal is not to compete with these premiere data providers but to license our technology to them. Nonetheless, there can be no assurance that we will be able to achieve our goal or otherwise compete successfully with our existing competitors or with any new competitors.

Our subscription contracts for services and software applications may subject us to litigation, which may be costly for us to defend.

Many of our subscription contracts are for services and software applications that are critical to the operations of our customers' businesses. The failure or inability to deliver services and software to our customers' satisfaction could have a material adverse effect on their operations and could consequently subject us to litigation. Any litigation could cause us to incur legal fees and use management resources, which could have a material adverse effect on our business, financial condition, and results of operations.

Our software may infringe on intellectual property rights of others, which may subject us to litigation.

We believe that our services and software applications do not infringe upon the intellectual property rights of others and that we have all rights necessary to utilize the intellectual property employed in our business. However, we are subject to the risk of litigation alleging infringement of third-party intellectual property rights. We typically license the software we develop for use by our customers, and we generally agree to indemnify our customers against potential third-party intellectual property rights claims. Any claims could require us to:

spend significant sums in litigation;

pay damages;

develop non-infringing intellectual property; and/or

acquire licenses to the intellectual property that is the subject of asserted infringement.

HyperFeed depends on a limited number of customers for a substantial portion of its revenues and a loss of current major customers would significantly reduce HyperFeed's revenues.

A limited number of customers historically have accounted for a substantial portion of HyperFeed's revenues. In the first quarter of 2003, revenues from our largest customer represented approximately 9.1% of the Company's consolidated revenues. In the fiscal year ending December 31, 2002, revenues from one customer represented approximately 16% of the Company's consolidated revenues for that year. We did not have any customers that accounted for 10% or more of consolidated revenue in 2001. Revenues from our largest customer in 2000 represented approximately 21% of the Company's consolidated revenues for that year. We cannot predict whether our current customers will continue to use our products. We have experienced significant changes from year to year in the composition of our major customer base and believe this pattern will continue. The loss of or a significant reduction in purchases by current major customers that are not offset by corresponding increases from other current or future customers would have a material adverse effect on our business, financial condition, and results of operations.

We rely heavily on executive officers who do not have employment contracts.

Our success is highly dependent upon the efforts and abilities of our executive officers. The loss of services of one or more of our executive officers or other key personnel for any reason could have a material adverse effect upon our business, financial condition, and results of operations. Although our executive officers have entered into agreements with us that contain nondisclosure covenants, those agreements do not guarantee their continued employment with us. We continue to recruit financial, technical, and operational personnel. Competition for these people is intense and we may not be able to attract and retain qualified replacements or additional technical or operational personnel. We may not be successful in finding suitable replacements for any senior management personnel who may leave HyperFeed.

Our anti-takeover provisions may not be in the best interests of our stockholders.

Our Certificate of Incorporation and By-laws, the Delaware General Corporation Law and the Exchange Act contain certain provisions that could have the effect of discouraging or making more difficult the acquisition of us by means of a tender offer, a proxy contest or otherwise, even though an acquisition might be economically beneficial to our stockholders.

Our anti-takeover provisions include:

only the Board of Directors or an authorized special committee of the Board of Directors may call meetings of stockholders; and

stockholders must comply with certain advance notice procedures to nominate candidates for election as directors and to submit proposals for consideration at stockholders' meetings.

These provisions may make the removal of management more difficult, even in cases where such removal would be favorable to the interests of our stockholders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk during the three-month period ended March 31, 2003. For additional information, refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

ITEM 4. CONTROLS AND PROCEDURES

Within 90 days prior to the filing date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in the Company's periodic filings with the Securities and Exchange Commission. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of the evaluation referred to above.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On July 3, 2002, the Company filed a two-count action against PC Quote Canada asserting breach of Agency License Agreement (the Agreement) and fraud and unjust enrichment and requests damages, plus interest, costs and attorneys fees. The defendant filed an answer, affirmative defenses and counterclaim asserting that oral agreement modified the Agency License Agreement and requests damages.

On January 28, 2003, the defendant filed a motion for a preliminary injunction to enjoin HyperFeed from terminating services provided under the Agreement and HyperFeed has agreed not to terminate such services until a court-ordered audit of the defendant's records has been completed.

On March 28, 2003, the defendant filed an amended counterclaim claiming breach of the contract. In its amended counterclaim, the defendant (1) claims unjust enrichment, (2) claims overpayment of communication fees, (3) claims that HyperFeed licensed directly to users in Canada and/or allowed U.S. customers to do so in violation of the defendant's exclusive license in Canada, (4) claims breach of contract for terminating the Agreement, and (5) requests an injunction. The defendant requests damages in excess of \$1.4 million. HyperFeed answered the counterclaim denying all material allegations and believes the claims are without merit. HyperFeed intends to complete the audit, obtain answers to outstanding discovery, aggressively seek to collect all past due amounts and vigorously defend against asserted claims.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the first quarter of 2003, we issued 71,261 shares of our common stock to employees who purchased the shares under our Employee Stock Purchase Plan.

ITEM 5. OTHER INFORMATION

In May 2003, the Company received notification from Nasdaq indicating that the Company failed to comply with the minimum \$1.00 per share continued listing requirements set forth in NASD Marketplace Rule 4310(c)(4) and that it is not in compliance with listing maintenance standards established by Nasdaq requiring that the Company have stockholders' equity of at least \$2.5 million, or a \$35 million market value of listed securities, or \$500,000 of net income from continuing income for the most recently completed fiscal year or two of the three most recently completed fiscal years.

Nasdaq further informed the Company that if it did not appeal the decision, HyperFeed's common stock would be delisted from The Nasdaq SmallCap Market at the opening of business on May 22, 2003. The Company has requested a hearing with Nasdaq to appeal Nasdaq's determination to delist HyperFeed's common stock from The Nasdaq SmallCap Market. During the appeal process, HyperFeed's common stock will continue to be traded on The Nasdaq SmallCap Market. However, there can be no assurances that the appeal will be successful. If the Company's appeal is unsuccessful, then its common stock will be delisted from The Nasdaq SmallCap Market.

If the Company were to be delisted from The Nasdaq SmallCap Market, its shares likely will trade in the over-the-counter (OTC) market. A switch to the OTC market will likely result in more volatility for the Company's stock, less volume, and no analyst coverage. As a result, the Company's stock price would likely decline further and the ability of any potential or future investors to achieve liquidity from HyperFeed's common stock could be severely limited, not only in the number of shares that could be bought and sold at a given price, but also through delays in the timing of transactions and reduction in media coverage of the Company. This could inhibit, if not preclude, the Company's ability to raise additional working capital on acceptable terms, if at all. In addition, current and prospective customers and strategic partners may limit or cease their business relationships with the Company because of concerns or perceptions regarding its listing status and future liquidity.

ITEM 6. EXHIBITS and REPORTS on FORM 8-K

(a) Exhibits

Exhibit 99 Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

Exhibit 99.1 Press release dated May 14, 2003.

(b) No reports on Form 8-K were 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: May 15, 2003

By: /s/ Jim R. Porter

Jim R. Porter
Chairman and Chief Executive Officer

By: /s/ Randall J. Frapart

Randall J. Frapart
Chief Financial Officer and Principal Accounting Officer

CERTIFICATION

Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jim R. Porter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HyperFeed Technologies, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

Edgar Filing: HYPERFEED TECHNOLOGIES INC - Form 10-Q

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

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

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

Date: May 15, 2003

/s/ Jim R. Porter
Jim R. Porter
Chairman of the Board of Directors,
and Chief Executive Officer

CERTIFICATION

Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Randall J. Frapart, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HyperFeed Technologies, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

Edgar Filing: HYPERFEED TECHNOLOGIES INC - Form 10-Q

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

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

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

Date: May 15, 2003

/s/ Randall J. Frapart
Randall J. Frapart
Chief Financial Officer