

HYPERFEED TECHNOLOGIES INC
Form 10-Q
November 09, 2001

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 September 30, 2001

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)

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: 23,796,336 shares of the Company's common stock (\$.001 par value) were outstanding as of October 31, 2001.

HYPERFEED TECHNOLOGIES, INC.

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HYPERFEED TECHNOLOGIES, INC.

Consolidated Balance Sheets

September 30, 2001 and December 31, 2000

ASSETS	September 30, 2001 (Unaudited)	December 31, 2000 (Audited)
Current Assets		
Cash and cash equivalents	\$ 743,569	\$ 2,522,593
Restricted cash equivalents	200,000	200,000
Accounts receivable, less allowance for doubtful accounts of: 2001: \$179,295; 2000: \$89,724	1,844,386	2,848,983
Note receivable	100,000	---
Prepaid license fees, current	1,680,000	1,680,000
Prepaid expenses and other current assets	460,307	235,512
TOTAL CURRENT ASSETS	5,028,262	7,487,088
Property and equipment		
Satellite receiving equipment	89,417	282,474
Computer equipment	3,141,891	4,520,991
Communication equipment	1,605,854	1,243,584
Furniture and fixtures	430,996	194,818
Leasehold improvements	954,560	831,348
	6,222,718	7,073,215
Less: Accumulated depreciation and amortization	2,937,508	4,247,134
	3,285,210	2,826,081
Prepaid license fees, net of accumulated amortization of: 2001: \$4,130,000; 2000: \$2,870,000	70,000	1,330,000
Goodwill and other intangible assets, net of accumulated amortization of: 2001: \$204,652	1,366,857	---
Software development costs, net of accumulated amortization of: 2001: \$6,625,955; 2000: \$7,795,215	2,313,094	2,602,283

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Deposits and other assets		133,966		80,808
TOTAL ASSETS	\$	12,197,389	\$	14,326,260

See Notes to Consolidated Financial Statements.

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HYPERFEED TECHNOLOGIES, INC.

Consolidated Balance Sheets

September 30, 2001 and December 31, 2000

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2001 (Unaudited)	December 31, 2000 (Audited)
Current Liabilities		
Notes payable	\$ 500,000	\$ 1,199,634
Accrued satellite termination fees	300,000	399,000
Accounts payable	1,858,106	1,744,102
Accrued expenses	627,170	759,818
Accrued compensation	163,197	269,736
Income taxes payable	---	35,000
Unearned revenue	1,775,744	2,559,252
TOTAL CURRENT LIABILITIES	5,224,217	6,966,542
Noncurrent Liabilities		
Notes payable, less current portion	---	250,000
Accrued satellite termination fees, less current portion	---	225,000
Accrued expenses, less current portion	81,200	108,264
Unearned revenue, less current portion	46,015	82,090
Minority interests	---	1,829
TOTAL NONCURRENT LIABILITIES	127,215	667,183
TOTAL LIABILITIES	5,351,432	7,633,725
Stockholders' Equity		
Preferred Stock, \$.001 par value; authorized 5,000,000 shares; issued and outstanding:		
Series A 5% convertible: 0 shares at September 30, 2001 and 19,075		
shares at December 31, 2000	---	19
Series B 5% convertible: 0 shares at September 30, 2001 and 28,791		
shares at December 31, 2000	---	29
Common stock, \$.001 par value; authorized 50,000,000 shares; issued and outstanding 23,796,336 shares at September 30, 2001 and 15,756,310 shares at December 31, 2000	23,796	15,756

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Additional paid-in capital - Series A 5% convertible preferred stock	---	3,086,013
Additional paid-in capital - Series B 5% convertible preferred stock	---	4,664,891
Additional paid-in capital - common stock	37,292,910	25,555,214
Additional paid-in capital - convertible subordinated debenture and warrants	6,859,097	8,630,491
Accumulated deficit	(37,329,846)	(35,259,878)
TOTAL STOCKHOLDERS EQUITY	6,845,957	6,692,535
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 12,197,389	\$ 14,326,260

See Notes to Consolidated Financial Statements.

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HYPERFEED TECHNOLOGIES, INC.

Consolidated Statements of Operations (Unaudited)

	For The Nine Months Ended	
	September 30, 2001	September 30, 2000
REVENUE		
HyperFeed Services	\$ 19,503,229	\$ 16,250,500
PCQuote Services	7,683,365	19,468,098
TOTAL REVENUE	27,186,594	35,718,598
DIRECT COST OF SERVICES		
HyperFeed Services	10,206,182	9,231,065
PCQuote Services	6,403,874	14,252,554
TOTAL DIRECT COST OF SERVICES	16,610,056	23,483,619
GROSS MARGIN	10,576,538	12,234,979
OPERATING EXPENSES		
Sales	2,865,906	3,072,955
General and administrative	3,533,132	3,822,173
Product and market development	4,095,548	3,231,721
Depreciation and amortization	1,235,898	1,273,185
TOTAL OPERATING EXPENSES	11,730,484	11,400,034
INCOME (LOSS) FROM OPERATIONS	(1,153,946)	834,945
OTHER INCOME (EXPENSE)		
Interest income	96,223	47,685
Interest expense	(62,388)	(156,367)
NET OTHER INCOME (EXPENSE)	33,835	(108,682)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	(1,120,111)	726,263
INCOME TAXES	24,231	---

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INCOME (LOSS) BEFORE MINORITY INTEREST		(1,144,342)		726,263
Minority interest in subsidiary		1,829		(984)
NET INCOME (LOSS)		(1,142,513)		725,279
Preferred dividends		(927,455)		---
NET INCOME (LOSS) AVAILABLE FOR COMMON STOCKHOLDERS	\$	(2,069,968)	\$	725,279
Basic net income (loss) per share available for common stockholders	\$	(0.13)	\$	0.05
Diluted net income (loss) per share available for common stockholders	\$	(0.13)	\$	0.03
Basic weighted-average common shares outstanding		16,411,456		15,637,322
Diluted weighted-average common shares outstanding		16,411,456		23,963,383

See Notes to Consolidated Financial Statements.

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HYPERFEED TECHNOLOGIES, INC.

Consolidated Statements of Operations (Unaudited)

	For The Three Months Ended	
	September 30, 2001	September 30, 2000
REVENUE		
HyperFeed Services	\$ 6,120,165	\$ 5,997,355
PCQuote Services	2,054,998	6,369,630
TOTAL REVENUE	8,175,163	12,366,985
DIRECT COST OF SERVICES		
HyperFeed Services	3,496,993	3,007,227
PCQuote Services	1,880,670	4,508,297
TOTAL DIRECT COST OF SERVICES	5,377,663	7,515,524
GROSS MARGIN	2,797,500	4,851,461
OPERATING EXPENSES		
Sales	893,305	1,024,662
General and administrative	1,173,092	1,285,905
Product and market development	1,030,170	1,354,001
Depreciation and amortization	474,829	384,165
TOTAL OPERATING EXPENSES	3,571,396	4,048,733
INCOME (LOSS) FROM OPERATIONS	(773,896)	802,728
OTHER INCOME (EXPENSE)		
Interest income	19,561	17,549
Interest expense	(12,451)	(48,989)
NET OTHER INCOME (EXPENSE)	7,110	(31,440)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	(766,786)	771,288
INCOME TAXES	(769)	---

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INCOME (LOSS) BEFORE MINORITY INTEREST		(766,017)		771,288
Minority interest in subsidiary		---		(4,853)
NET INCOME (LOSS)		(766,017)		766,435
Preferred dividends		(927,455)		---
NET INCOME (LOSS) AVAILABLE FOR COMMON STOCKHOLDERS	\$	(1,693,472)	\$	766,435
Basic net income (loss) per share available for common stockholders	\$	(0.10)	\$	0.05
Diluted net income (loss) per share available for common stockholders	\$	(0.10)	\$	0.03
Basic weighted-average common shares outstanding		17,347,863		15,668,724
Diluted weighted-average common shares outstanding		17,347,863		23,994,785

See Notes to Consolidated Financial Statements.

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HYPERFEED TECHNOLOGIES, INC.

Consolidated Statements of Cash Flows (Unaudited)

	For the Nine Months Ended	
	September 30, 2001	September 30, 2000
Cash Flows From Operating Activities:		
Net income (loss)	\$ (1,142,513)	\$ 725,279
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,235,899	1,273,184
Provision for doubtful accounts	245,000	180,000
Amortization of software development costs	1,514,133	1,870,589
Amortization of value assigned to common stock warrant issued in lieu of cash license fees	1,260,000	1,260,000
Minority interest in subsidiary	(1,829)	984
Changes in assets and liabilities:		
Accounts receivable	759,597	(1,410,891)
Prepaid expenses and other current assets	(224,795)	(86,166)
Deposits and other assets	(53,158)	8,439
Accounts payable	114,004	1,147,963
Accrued expenses	(266,251)	(1,252,561)
Income taxes payable	(35,000)	(5,000)
Accrued satellite termination expense	(324,000)	(450,000)
Unearned revenue	(819,583)	408,826
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,261,504	3,670,646
Cash Flows From Investing Activities:		
Purchase of property and equipment	(1,490,376)	(1,305,232)
Purchase of Marketscreen, net of cash acquired	(424,009)	---
Software development costs capitalized	(1,224,944)	(919,038)
Issuance of note receivable	(100,000)	---
NET CASH USED IN INVESTING ACTIVITIES	(3,239,329)	(2,224,270)
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock	148,435	310,533
Principal payments on notes payable	(949,634)	(725,000)
NET CASH USED IN FINANCING ACTIVITIES	(801,199)	(414,467)

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Net increase (decrease) in cash and cash equivalents		(1,779,024)		1,031,909
Cash and cash equivalents:				
Beginning of the period		2,522,593		1,452,186
End of the period	\$	743,569	\$	2,484,095
Supplemental disclosure of non-cash transactions:				
Value of stock consideration for acquisition of Marketscreen	\$	1,147,500	\$	---
Preferred stock dividend paid in common stock	\$	927,455	\$	---

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 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, 2000 annual report. For further information, refer to the 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.

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.

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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

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 (6.0% at September 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. The balance, as of September 30, 2001, is \$0.5 million.

(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 may 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 September 30, 2001 and September 30, 2000 is as follows:

	September 30, 2001		September 30, 2000	
	Amount	%	Amount	%
Sales to unaffiliated customers:				
HyperFeed services	\$ 6,120,165	74.9 %	\$ 5,997,355	48.5 %
PCQuote services	2,054,998	25.1 %	6,369,630	51.5 %
Total revenue	\$ 8,175,163	100.0 %	\$ 12,366,985	100.0 %
Operating income (loss):				
HyperFeed services	\$ 346,390	*	\$ 479,401	59.7 %
PCQuote services	(1,120,286)	*	323,327	40.3 %
Total operating income (loss)	\$ (773,896)	*	\$ 802,728	100.0 %
Identifiable assets:				
HyperFeed services	\$ 9,230,863	75.7 %	\$ 7,073,916	45.8 %
PCQuote services	2,966,526	24.3 %	8,382,293	54.2 %
Total identifiable assets	\$ 12,197,389	100.0 %	\$ 15,456,209	100.0 %

* not meaningful

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

	September 30, 2001		September 30, 2000	
	Amount	%	Amount	%
Sales to unaffiliated customers:				
HyperFeed services	\$ 19,503,229	71.7 %	\$ 16,250,500	45.5 %
PCQuote services	7,683,365	28.3 %	19,468,098	54.5 %
Total revenue	\$ 27,186,594	100.0 %	\$ 35,718,598	100.0 %
Operating income (loss):				
HyperFeed services	\$ 2,669,709	*	\$ 639,583	76.6 %
PCQuote services	(3,823,655)	*	195,362	23.4 %
Total operating income (loss)	\$ (1,153,946)	*	\$ 834,945	100.0 %
Identifiable assets:				
HyperFeed services	\$ 9,230,863	75.7 %	\$ 7,073,916	41.5 %
PCQuote services	2,966,526	24.3 %	8,382,293	58.5 %
Total identifiable assets	\$ 12,197,389	100.0 %	\$ 15,456,209	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.

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,

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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.

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(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 of Marketscreen is as follows:

Fair value of common stock issued	\$	1,147,500
Cash consideration		400,000
Acquisition fees and expenses		60,109
Total purchase price	\$	1,607,609
Tangible net assets acquired		(36,100)
Technology		(1,327,239)
Noncompete agreements		(132,724)
Customer Lists		(12,800)
Excess purchase price (goodwill)	\$	98,746

The fair value of identifiable intangible assets acquired was obtained through an independent appraisal. The identifiable intangible assets acquired will be amortized using the straight-line method over their estimated useful lives of three to five years.

Marketscreen commenced operations during 2000. The following unaudited pro forma summary presents the Company's results of operations as if the acquisition accounted for as a purchase had occurred at the beginning of the respective year. This summary is provided for information purposes only. It does not necessarily reflect the actual results that could have occurred had the acquisition been as of the beginning of the respective years or of results that may occur in the future.

	For the Nine Months Ended	
	September 30, 2001	September 30, 2000
Revenues	\$ 27,186,594	\$ 35,723,340
Net income (loss) available for common stockholders	(2,274,120)	334,104
Basic net income (loss) per share available for common stockholders	\$ (0.14)	\$ 0.02
Diluted net income (loss) per share available for common stockholders	\$ (0.14)	\$ 0.01

(7) CONVERSION OF PREFERRED STOCK TO COMMON STOCK

On September 17, 2001, PICO Holdings, Inc. and its affiliates, Citation Insurance Company and Sequoia Insurance Company, converted all of their Series A and Series B convertible preferred stock to HyperFeed common stock.

Under the terms on which the Series A and Series B preferred stock was issued on December 18, 1998, PICO converted 19,075 shares of Series A preferred stock into 3,290,717 shares of HyperFeed common stock. PICO and its affiliates converted 28,791 shares of Series B preferred stock into 4,172,139 shares of HyperFeed common stock. The conversion price was \$1.03, being the last reported sale price for HyperFeed common shares at the close of regular trading on Monday, September 10, 2001. As part of the conversion formula, the preferred stockholders were entitled to include all accrued and unpaid dividends. At the time of the conversion, the accumulated dividend was \$927,455. Although no cash was paid, accounting treatment for the conversion required the recording of a non-cash preferred dividend in the consolidated results of operations. Also as a result of the conversion, there are no preferred shares outstanding.

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 Technologies Restructures for Institutional Push

On September 24, 2001, HyperFeed announced a major step in positioning the Company for long-term growth. In an effort to stay competitive in today's economic slowdown, the Company completed its streamlining process by shifting its focus to better meet the needs of the institutional market. This resulted in the elimination of 47 employees, representing approximately 30 percent of the Company's workforce.

The majority of positions being eliminated supported HyperFeed's consumer services subsidiary, PCQuote. In the future, PCQuote will focus its efforts on providing its Web services to the business community.

HyperFeed is Market Data Provider to Charles Schwab's StreetSmart Pro And Velocity Trading Software

Schwab Expands Contract for HyperFeed Services

On August 22, 2001, HyperFeed announced that it is the primary provider of streaming real-time market data to Charles Schwab & Co. Inc.'s new StreetSmart Pro® and Velocity trading software applications. Schwab's first streaming Nasdaq Level II application, StreetSmart Pro is available to qualified Schwab Signature Platinum customers and offers real-time streaming Nasdaq Level II market maker and ECN quotes, news, interactive technical charting, customizable quote watch lists and time and sales. Velocity trading software is available to Schwab Signature Service Clients and provides users with the ability to customize real-time quote watch lists, make equity trades and monitor their portfolios. Both applications, powered by streaming HyperFeed market data, provide users with access to over 650,000 equity, option and commodity issues.

Schwab had previously been using HyperFeed to supplement the provision of market data to its Internet and on-line service offerings. This announcement marks an expansion of Schwab's contract for services with HyperFeed.

HyperFeed Technologies Selected to Supply Stock Quotes to Nasdaq.com

On August 21, 2001, HyperFeed announced that it was selected by The Nasdaq Stock Market as the primary market data supplier to www.nasdaq.com, Nasdaq's official Web site. HyperFeed's delayed market data was launched on the nasdaq.com Web site in July 2001. Nasdaq.com visitors will see a "powered by HyperFeed" logo when searching for quotes.

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RESULTS OF OPERATIONS:

FOR THE NINE MONTHS AND QUARTERS ENDED SEPTEMBER 30, 2001 AND 2000

Total revenue decreased \$8.5 million, or 23.9%, to \$27.2 million for the nine months ended September 30, 2001, and \$4.2 million, or 33.9%, to \$8.2 million for the quarter ended September 30, 2001 versus the comparable prior year periods. Our HyperFeed services posted increases for the first nine months of 2001 over 2000 and for the quarter ended September 30, 2001; however, our PCQuote services posted decreases for the same periods. For the first nine months of 2001, HyperFeed service revenue increased \$3.3 million, or 20.0%, to \$19.5 million from \$16.3 million in the same period in 2000. For the quarter ended September 30, 2001, HyperFeed service revenue increased \$0.1 million, or 2.0%, to \$6.1 million from \$6.0 million in 2000. Revenue growth was experienced through increases in analytics subscriptions and datafeed license fees. Revenue from our PCQuote services decreased \$11.8 million, or 60.5%, to \$7.7 million for the first nine months of 2001 from \$19.5 million for the same period in 2000. For the third quarter of 2001, revenue from PCQuote services decreased \$4.3 million, or 67.7%, from \$6.4 million in 2000 to \$2.1 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.

Direct costs of services decreased \$6.9 million, or 29.3%, to \$16.6 million for the nine months ended September 30, 2001 from \$23.5 million for the comparable 2000 period, and decreased \$2.1 million, or 28.4%, to \$5.4 million for the quarter ended September 30, 2001 from \$7.5 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 remained unchanged quarter-to-quarter at \$0.5 million, and decreased for the nine months from \$1.9 million in 2000 to \$1.5 million in 2001. Gross margin decreased \$1.7 million, or 13.6%, to \$10.6 million for the first nine months of 2001 from \$12.2 million for the same period in 2000, and \$2.1 million, or 42.3%, to \$2.8 million for the quarter ended September 30, 2001 from \$4.9 million for the comparable 2000 period.

Direct costs associated with HyperFeed services increased from \$9.2 million for the nine months ended September 30, 2000 to \$10.2 million for the first nine months of 2001, a 10.6% increase. For the quarter ended September 30, 2001, direct costs associated with HyperFeed services were \$3.5 million, a 16.3% increase from \$3.0 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 was unchanged at \$1.1 million for the first nine months of 2001 and 2000 and at \$0.4 million for the quarters ended September 30, 2001 and 2000. For the first nine months of 2001, resulting gross margin increased \$2.3 million, or 32.4%, to \$9.3 million in 2001 from \$7.0 million in 2000. For the quarter ended September 30, 2001, the resulting gross margin for HyperFeed services was \$2.6 million, a decrease of 12.3%, from \$3.0 million in the third quarter of 2000.

Direct costs associated with PCQuote services decreased to \$6.4 million for the first nine months of 2001 from \$14.3 million in the comparable 2000 period, a 55.1% decrease. For the quarter ended September 30, 2001, direct costs associated with PCQuote services were \$1.9 million, a 58.3% decrease from \$4.5 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 to \$0.4 million for the first nine months of 2001 from \$0.7 million for the 2000 period, and decreased for the third quarter to \$0.1 million for 2001 from \$0.2 million for 2000. The gross margin on PCQuote services decreased \$3.9 million, or 75.5%, to \$1.3 million for the first nine months of 2001 from \$5.2 million for the same period of 2000. PCQuote services gross margin decreased \$1.7 million, or 90.6%, to \$0.2 million for the third quarter of 2001 from \$1.9 million for the same 2000 period.

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Total operating expense increased \$0.3 million, or 2.9% to \$11.7 million for the nine months ended September 30, 2001 from \$11.4 million for the comparable 2000 period, and decreased \$0.5 million to \$3.6 million for the quarter ended September 30, 2001 from \$4.0 million. The increase for the nine months was due to our consumer marketing campaign, offset by reductions in general and administrative and sales expenses. The decrease for the three months was due to a reduction in our advertising expenditures.

Sales costs decreased \$0.2 million, or 6.7%, to \$2.9 million for the first nine months of 2001 from \$3.1 million for the same 2000 period. For the third quarter of 2001, sales costs were \$0.9 million, a \$0.1 million, or 12.8%, decrease from \$1.0 million for the prior year period. The decrease in sales costs was attributable to a reduction in PCQuote sales personnel, effected in 2000, in addition to a change in the compensation structure.

General and administrative expenses decreased \$0.3 million, or 7.6%, to \$3.5 million for the first nine months of 2001 from \$3.8 million for the first nine months of 2000. For the quarter ended September 30, 2001, general and administrative expenses decreased \$0.1 million, or 8.8%, to \$1.2 million from \$1.3 million for the same quarter in 2000. The decreases were principally due to reductions in professional fees and consulting fees.

Product and market development costs increased \$0.9 million, or 26.7%, to \$4.1 million for the nine months ended September 30, 2001 from \$3.2 million for the comparable 2000 period, and decreased 23.9% to \$1.0 million for the quarter ended September 30, 2001 as compared to \$1.4 million in same period in 2000. The increase for the nine months was due to our consumer marketing campaign to promote our new services, which was primarily in the second quarter of 2001. The decrease for the three months was due to a reduction in our advertising expenditures.

Depreciation and amortization decreased to \$1.2 million for the first nine months of 2001 from \$1.3 million for the comparable 2000 period, and increased \$0.1 million to \$0.5 million for the third quarter of 2001 from \$0.4 million for the comparable 2000 period.

LIQUIDITY AND CAPITAL RESOURCES:

Net cash and cash equivalents decreased \$1.8 million from year-end 2000 to \$0.7 million at the end of the third quarter of 2001. Expenditures for new equipment were \$1.5 million, an increase of \$0.2 million, or 14.2%, from \$1.3 million 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 \$1.2 million for the nine months ended September 30, 2001 were 33.3%, higher than the \$0.9 million 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 nine months, and we repaid \$0.2 million of the principal balance on our bank term loan and \$0.8 million on our note payable to Motorola, Inc. We received approximately \$0.1 million in 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.

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.

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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.

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In September 2001, we restructured our operations to increase our focus on the institutional marketplace. As part of the restructuring, we eliminated 47 positions, principally related to our consumer services. The workforce and related reductions are expected to result in savings of approximately \$300,000 per month beginning in the fourth quarter of 2001.

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased to \$2.9 million for the first nine months of 2001 from \$5.2 million for the comparable 2000 period, and decreased to \$0.7 million for the third quarter of 2001 as compared to \$2.1 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 August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which applies to legal obligations that are associated with the retirement of long-lived assets that result from the acquisition, construction, development, and (or) normal operation of a long-lived asset, except for certain obligations of lessees. SFAS 143 requires that an asset retirement liability be recorded at fair value when an enterprise incurs the legal obligation to retire a long-lived asset. The enterprise also would record the carrying amount of the related long-lived asset and depreciate that asset over its useful life. In subsequent periods, the asset retirement liability would be adjusted to reflect (1) the passage of time and (2) changes in the undiscounted estimates of cash flows that were associated with the initial measurement. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002, with earlier application encouraged. Management is currently evaluating the impact that adoption of SFAS 143 will have on its consolidated financial statements.

Also in August 2001, the FASB issued SFAS No. 144, Accounting for Impairment of Long-Lived Assets (SFAS 144). The new standard supercedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of (SFAS 121). Although retaining many of the fundamental recognition and measurement provisions of SFAS 121, the new rules significantly change the criteria that would have to be met to classify an asset as held-for-sale. The new standard also supercedes the provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (APB 30), and will require expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred rather than as of the measurement date as presently required by APB 30. The provisions of SFAS 144 are effective for financial statements beginning after December 15, 2001, but allow for early application. The provisions of SFAS 144 generally are to be applied prospectively; therefore, the adoption of this standard will not affect previously reported financial information. Management is currently evaluating the impact that the adoption of SFAS 144 will have on its consolidated financial statements.

RECENT BUSINESS DEVELOPMENTS

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 nine-month period ended September 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, second and third quarters of 2001, we issued 41,849, 34,346, and 40,151 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. No employees exercised stock options during the third quarter of 2001.

On September 17, 2001, PICO Holdings, Inc. and its affiliates, Citation Insurance Company and Sequoia Insurance Company, converted all of their Series A and Series B preferred stock to HyperFeed common stock. PICO converted 19,075 shares of Series A preferred stock into 3,290,717 shares of HyperFeed common stock. PICO and its affiliates converted 28,791 shares of Series B preferred stock into 4,172,139 shares of HyperFeed common stock. The conversion price of both Series A and Series B was \$1.03, based on HyperFeed's closing price on Monday, September 10, 2001. As a result of the conversion, there are no preferred shares outstanding.

ITEM 6. EXHIBITS and REPORTS on FORM 8-K

RECENT BUSINESS DEVELOPMENTS

REPORTS ON FORM 8-K

A Form 8-K was filed on September 21, 2001 to report the conversion of all Series A and Series B Preferred Stock held by PICO Holdings, Inc. and its affiliates, Citation Insurance Company and Sequoia Insurance Company, into Common Stock.

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: November 9, 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