HYPERFEED TECHNOLOGIES INC
Form 10-Q
May 06, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: March 31, 2004

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

HYPERFEED TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-3131704**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
300 S. Wacker Drive, Suite 300, Chicago, Illinois	**60606**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: **(312) 913-2800**

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:
Common stock, par value $.001 per share

Indicate by check mark whether the registrant (1) has filed all reports 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 ý No o

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

The number of shares of common stock outstanding as of May 5, 2004 was 3,056,238 shares.

HYPERFEED TECHNOLOGIES, INC.

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PART I

ITEM 1. Financial Statements

HYPERFEED TECHNOLOGIES, INC. AND SUBSIDIARY

Consolidated Balance Sheets (Unaudited)

March 31, 2004 and December 31, 2003

	March 31, 2004	December 31, 2003
Assets		
Current Assets		
Cash and cash equivalents	$ 1,160,396	$ 4,668,038
Accounts receivable, less allowance for doubtful accounts of: 2004: $4,998; 2003: $0	1,442,828	797,048
Notes receivable, less allowance for doubtful accounts of: 2004: $50,000; 2003: $50,000	142,131	150,465
Prepaid expenses and other current assets	234,343	173,816
Assets related to discontinued operations	626,965	811,878
Total Current Assets	3,606,663	6,601,245
Property and equipment		
Computer equipment	1,534,482	2,343,853
Communication equipment	1,031,370	1,296,550
Furniture and fixtures	104,830	82,839
Leasehold improvements	531,809	531,809
	3,202,491	4,255,051
Less: Accumulated depreciation and amortization	(2,019,441)	(3,019,964)
	1,183,050	1,235,087
Intangible assets, net of accumulated amortization of: 2004: $85,000; 2003: $70,000	95,000	110,000
Software development costs, net of accumulated amortization of: 2004: $2,160,819; 2003: $2,733,126	1,727,720	1,732,721
Deposits and other assets	35,205	35,205
Total Assets	$ 6,647,638	$ 9,714,258
Liabilities and Stockholders Equity		
Current Liabilities		
Accunts payable	$ 570,125	$ 605,644
Accrued expenses	674,049	587,193
Accrued compensation	79,968	73,157
Income taxes payable	40,000	40,000
Unearned revenue	460,000	15,000
Liabilities related to discontinued operations	1,051,120	2,419,879
Total Current Liabilities	2,875,262	3,740,873
Accrued expenses, less current portion	294,142	292,676

Total Noncurrent Liabilities	294,142	292,676
Total Liabilities	3,169,404	4,033,549
Stockholders Equity		
Preferred stock, $.001 par value; authorized 5,000,000 shares; none issued and outstanding		
Common stock, $.001 par value; authorized 50,000,000 shares; issued and outstanding 3,056,421 shares at March 31, 2004 and 3,051,989 shares at December 31, 2003	3,056	3,052
Additional paid-in capital	46,090,770	46,070,113
Accumulated deficit	(42,615,592)	(40,392,456)
Total Stockholders Equity	3,478,234	5,680,709
Total Liabilities and Stockholders Equity	$ 6,647,638	$ 9,714,258

See Notes to Unaudited Interim Consolidated Financial Statements.

HYPERFEED TECHNOLOGIES, INC. AND SUBSIDIARY

Consolidated Statements of Operations (Unaudited)

	For The Three Months Ended March 31,	
	2004	**2003**
Revenue		
HyperFeed	$ 649,010	$
HYPRWare	126,301	175,029
Total Revenue	775,311	175,029
Direct Costs of Revenue	463,668	336,744
Gross Margin	311,643	(161,715)
Operating Expenses		
Sales and marketing	487,847	
General and administrative	1,022,088	579,703
Research and development	323,753	422,500
Operations	678,094	
Depreciation and amortization	214,068	270,765
Total Operating Expenses	2,725,850	1,272,968
Loss from Operations	(2,414,207)	(1,434,683)
Other Income		
Interest income	6,764	2,873
Net Other Income	6,764	2,873
Loss from Continuing Operations Before Income Taxes	(2,407,443)	(1,431,810)
Income tax benefit	71,000	252,000
Loss from Continuing Operations	(2,336,443)	(1,179,810)
Discontinued Operations		
Income (loss) from discontinued operations, net of taxes (benefit) of: 2004: $(73,000); 2003: $252,000	(117,693)	404,922
Gain on disposition of discontinued operations, net of taxes of: 2004: $144,000	231,000	
Income from Discontinued Operations	113,307	404,922
Net Loss	$ (2,223,136)	$ (774,888)
Basic and diluted net income (loss) per share:		
Continuing operations	$ (0.77)	$ (0.47)

Discontinued operations		0.04		0.16
Basic and diluted net loss per share	$	(0.73)	$	(0.31)
Basic and diluted weighted-average common shares outstanding		3,052,906		2,503,069

See Notes to Unaudited Interim Consolidated Financial Statements.

HYPERFEED TECHNOLOGIES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

	For The Three Months Ended March 31, 2004	2003
Cash Flows from Operating Activities:		
Net loss	$ (2,223,136)	$ (774,888)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	214,068	270,765
Amortization of software development costs	339,490	336,744
Provision for doubtful accounts	4,998	
Changes in assets and liabilities, net of effects from dispositions:		
Accounts receivable	(650,778)	(30,512)
Prepaid expenses and other current assets	(60,527)	(73,097)
Deposits and other assets		1,502
Accounts payable	(35,519)	231,931
Accrued expenses	95,133	218,213
Unearned revenue	445,000	
Net cash provided by (used in) continuing operations	(1,871,271)	180,658
Net cash used in discontinued operations	(1,183,846)	(353,760)
Net Cash Used In Operating Activities	(3,055,117)	(173,102)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(147,031)	(150,046)
Software development costs capitalized	(334,489)	(262,855)
Repayment of note receivable	8,334	
Net Cash Used In Investing Activities	(473,186)	(412,901)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	20,661	15,178
Net Cash Provided By Financing Activities	20,661	15,178
Net decrease in cash and cash equivalents	(3,507,642)	(570,825)
Cash and cash equivalents: Beginning of the period	4,668,038	1,096,711
End of the period	$ 1,160,396	$ 525,886

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. and its subsidiary, HYPRWare, Inc. (collectively, HyperFeed or the Company), 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. For further information, refer to the consolidated financial statements and footnotes included in the Company s annual report on Form 10-K for the year ended December 31, 2003.

SOFTWARE DEVELOPMENT COSTS: On October 31, 2003, the Company sold its consolidated market data feed business. Following the sale of its consolidated market data feed business, HyperFeed s continuing investment in software development related primarily to developing enhancements to its MEPS and H.Box software products. Prior to the sale of its consolidated market data feed business, HyperFeed also invested in enhancements to its Windows-based market data distribution platform and direct exchange services software, and 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 market data distribution system.

Software development costs are accounted for in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed. 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 s financial instruments include accounts receivable, notes receivable, accounts payable, and accrued expenses. The Company has no financial instruments for which the carrying value materially differs from fair value.

INCOME TAXES: Deferred 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, 2004, the Company had one stock-based employee compensation plan. The plan is accounted for under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation is reflected in net income (loss), as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation for the three months ended March 31, 2004 and 2003:

	Three months ended March 31,			
		2004		**2003**
Net loss, as reported	$	(2,223,136)	$	(774,888)
Compensation expense related to stock options granted		(65,579)		(53,126)
Pro forma net loss	$	(2,288,715)	$	(828,014
Basic and diluted net loss per share, as reported	$	(0.73)	$	(0.31)
Pro forma basic and diluted net loss per share	$	(0.75)	$	(0.33)

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 three months ended March 31, 2004. The Company had an additional 60,702 weighted-average shares outstanding during the three months ended March 31, 2004, which would have had a dilutive effect on EPS had the Company generated income during the three months ended March 31, 2004. The Company did not have any equity securities that, if exercised, would have had a dilutive effect on EPS had the Company generated income during the three months ended March 31, 2003. For the three months ended March 31, 2004 and 2003, weighted-average equity securities totaling 493,958 and 671,659, respectively, were excluded from the EPS 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 such three month periods.

REVENUE RECOGNITION: HyperFeed revenue is principally derived from licensing technology and providing management and maintenance services of MEPS and H.Box software, ticker plant technologies, and managed services. Additionally, HyperFeed derives revenue from the development of customized software. Revenue is recognized (1) ratably over the term of the agreement for MEPS and H.Box and (2) based on the application of contract accounting for the development of customized software.

On October 31, 2003, the Company sold its consolidated market data feed business. Revenue recognized prior to October 31, 2003, related to the assets sold and included in discontinued operations was principally derived from service contracts for the provision of market data only and service contracts for the provision of market data together with analytical software. HyperFeed primarily serviced the business-to-business marketplace. Revenue from service contracts was recognized ratably over the contract term as the contracted services were rendered. HyperFeed customers were generally billed one month in advance with 30-day payment terms. Payments received prior to services being rendered and customers deposits on service contracts are classified on the balance sheet as liabilities related to discontinued operations.

The Company applies the provisions of the American Institute of Certified Public Accountants (AICPA) Statement of Position 97-2, Software Revenue Recognition (SOP 97-2), and related interpretations, 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.

Under SOP 97-2, revenue from contracts that do not require significant production, modification, or customization of software may be recognized when the above criteria are met. If the fee is considered fixed and determinable, it should be recognized as revenue when the sale is effected. If the fee is not considered fixed and determinable, it should be recognized as revenue as payments from customers become due. Revenue from contracts that require significant production, modification, or customization of software must be accounted for in conformity with the provisions of Accounting Research Bulletin No. 45, Long-Term Construction Contracts, using the relevant guidance therein, and AICPA Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1). SOP 81-1 provides for revenue recognition under the percentage-of-completion or completed contract method depending on the facts and circumstances of contracts entered into and management s ability to reasonably estimate its progress toward completion. Contract losses, if any, are provided for in their entirety in the period they become known, without regard to the percentage-of-completion. For those contracts which the Company cannot reasonably estimate progress toward completion, the Company employs the completed contract method of accounting.

HyperFeed signed a contract in March 2004 with Telerate (formerly known as MoneyLine Telerate) to license HyperFeed s H.Box and MEPS technology to Telerate and provide related maintenance. The Company will recognize revenue from this contract as payments from the customer become due. The amount of fees from the Telerate contract included in revenue for the quarter ended March 31, 2004 was $0.2 million.

On June 2, 2003, the Company sold certain assets of HYPRWare, consisting of its retail investor unit and Web site. Revenue recognized prior to June 2, 2003 related to the HYPRWare assets sold was primarily derived from analytics service, powered by the HyperFeed data feed, for Internet users in the consumer marketplace and from the sale of advertising on its Web site. Revenue from the sale of advertising was recognized as the advertising was displayed on the Web site.

HYPRWare derives revenue from royalties related to license fees for customers it referred to Townsend Analytics, Ltd. prior to December 31, 2002. Revenue is recorded as royalties are reported from Townsend.

(2) RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements for the prior year to reflect the sale on October 31, 2003 of the consolidated market data feed service contracts and the sale on June 2, 2003 of the individual retail investor unit and related assets, both of which have been accounted for as discontinued operations. Certain costs formerly reported as a component of data feed operations in direct costs of revenue are now reported as operating expenses consistent with the current business model. Additionally, the Company has refined its method of tax allocation to quarterly periods and the prior year amounts reflect this change.

(3) INCOME TAXES

At December 31, 2003, the Company had net operating loss carryforwards of approximately $23.8 million for Federal income tax purposes and approximately $23.8 million for the alternative minimum tax. In 2003, the Company utilized Federal income tax net operating loss carryforwards of approximately $0.5 million and alternative minimum tax net operating loss carryforwards of approximately $0.1 million. Approximately $1.1 million of these net operating losses relates to exercise of incentive employee stock options and are expected to be credited directly to stockholders equity when realized. The Company also had research and development credits of $0.1 million that will all expire by 2011 if not previously utilized. The Company s net operating loss carryforwards are limited to $10.1 million for 2003 and an additional $1.2 million for each subsequent year thereafter. The net operating loss carryforwards expire through 2023. The Company has not recorded any tax benefits related to these net operating loss carryforwards.

(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. HyperFeed derives revenue principally in the business-to-business sector and HYPRWare derives revenue from royalties related to license fees collected by Townsend from subscribers who had been referred through HYPRWare. The accounting policies of the reportable segments are the same as those described in Note 1. Financial information relating to industry segments were as follows for the three months ended March 31, 2004 and March 31, 2003:

		Three Months Ended March 31,		
		2004		2003
Sales to unaffiliated customers				
HyperFeed	$	649,010	$	
HYPRWare		126,301		175,029
Total revenue	$	775,311	$	175,029
HyperFeed		83.7%		%
HYPRWare		16.3%		100.0%
Total revenue		100.0%		100.0%
Operating income (loss) from continuing operations				
HyperFeed	$	(2,527,089)	$	(1,576,160)
HYPRWare		112,882		141,477
Total operating loss from continuing operations	$	(2,414,207)	$	(1,434,683)
HyperFeed		*		*
HYPRWare		*		*
Total operating loss from continuing operations		*		*
Identifiable assets				
HyperFeed	$	6,291,331	$	5,149,176
HYPRWare		356,307		327,804
Total identifiable assets	$	6,647,638	$	5,476,980
HyperFeed		94.6%		94.0%
HYPRWare		5.4%		6.0%
Total identifiable assets		100.0%		100.0%

* not meaningful

(5) DISCONTINUED OPERATIONS

On October 31, 2003, the Company sold its consolidated market data feed business to Interactive Data Corporation (IDC), for $8.5 million. The sale allowed HyperFeed to focus on its business model as a utility provider of technology, software, and managed services for financial institutions. The sale price of $8.5 million included (1) an initial payment of $7.0 million cash paid on October 31, 2003, (2) $625,000 in holdbacks payable upon completion of custom software and the fulfillment of certain transition services and (3) an $875,000 indemnification holdback. The Company also entered into a transition services agreement whereby IDC reimburses HyperFeed on a monthly basis for direct costs relative to the purchased business. These costs include costs associated with resources dedicated to the transition, communications expenses, and related other costs. The Company recorded $375,000 of the $625,000 in holdbacks related to completion of customer software and fulfillment of certain transition services during the first quarter of 2004 and incurred inbound communications costs associated with its obligations under the transition services agreement of $282,000 in the first quarter of 2004. However, both the inbound communications costs incurred and the $375,000 of holdback recorded are reflected in discontinued operations.

On June 2, 2003, the Company sold the individual retail investor unit and related assets of its subsidiary, PCQuote.com, Inc., to Money.net, Inc. The sale was part of the Company s strategy to reduce its dependence on revenue from the individual investor and replace and grow that revenue with revenue from MEPS technology licensing sales. The sale price consisted of (1) $150,000 cash received in June 2003, (2) $70,000 cash received in July 2003, and (3) a $150,000 promissory note due in twelve equal installments commencing on July 15, 2003 with an interest rate of 8.0% per annum.

The dispositions have been accounted for as discontinued operations in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets and, accordingly, amounts in the consolidated statements of operations for all periods shown have been reclassified to reflect the dispositions as discontinued operations. The results of operations for the discontinued businesses are as follows:

	Three Months Ended March 31, 2004		2003
Revenue			
HyperFeed	$	$	3,034,173
HYPRWare			443,464
Total Revenue			3,477,637
Direct Costs of Revenue			
HyperFeed			1,749,543
HYPRWare			261,510
Total Direct Costs of Revenue			2,011,053
Gross Margin			1,466,584
Operating Expenses	190,693		809,662
Income (loss) from discontinued operations before income taxes	(190,693)		656,922
Income tax expense (benefit)	(73,000)		252,000
Income (loss) from discontinued operations	$ (117,693)	$	404,922

Assets and liabilities related to discontinued operations consist of the following:

	March 31, 2004	December 31, 2003
Assets Related to Discontinued Operations		
Accounts receivable, net of allowance for doubtful accounts of 2004: $189,400; 2003: $153,625	$ 568,080	$ 645,322
Prepaid expenses and other current assets	30,434	138,105
Deposits and other assets	28,451	28,451
Total Assets Related to Discontinued Operations	$ 626,965	$ 811,878
Liabilities Related to Discontinued Operations		
Accounts payable	$ 818,300	$ 2,016,425
Accrued expenses	173,114	313,840
Accrued compensation	10,566	40,474
Unearned revenue	49,140	49,140
Total Liabilities Related to Discontinued Operations	$ 1,051,120	$ 2,419,879

(6) SUBSEQUENT EVENTS

HyperFeed restructured its operations in April 2004, which included as part of such restructuring a reduction in staff equal to 17% of HyperFeed s labor costs.

ITEM 2 Management s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of HyperFeed Technologies, Inc. (HyperFeed) and its subsidiary, HYPRWare, Inc. (HYPRWare), (collectively, the Company) to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any statements of the plans, strategies and objectives of management for future operations; any statements regarding future economic conditions or performance; any statement of expectation or belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties, and assumptions referred to above include the performance of contracts by suppliers, customers, and partners; the variability in quarterly operating results; the funding of current and future business strategies either through continuing operations or external financing; attracting and retaining qualified management and key employees; the timely development and introduction of new product and service initiatives at competitive prices and performance levels; pending or future legal proceedings; the effect of economic and business conditions generally; and risks that are otherwise described in the Company s annual report on Form 10-K for the year ended December 31, 2003 and from time to time in the Company s other reports and registration statements filed with the Securities and Exchange Commission.

OVERVIEW

In the fourth quarter of 2003, we completed our transition to our current business model; that is, a business model built on providing ticker plant technologies and related consulting services directly and through sales channels in the financial services industry. This transition began in 2002 when we recruited a new management team, and began to restructure and pursue a new business strategy. We sold PCQuote.com, Inc. (PCQuote) to Money.net in June 2003 and sold the remainder of our consolidated market data feed business to Interactive Data Corporation (IDC) in October 2003. Beginning in May 2003, rather than principally supplying our ticker plant technology to customers as part of our consolidated market data feed business, we began to provide our ticker plant technology directly and through sales channels.

The execution of our new business model is expected to result in there being a different set of variables that are necessary for an investor to appropriately understand and evaluate our Company. In particular, under our old business model, revenues were largely derived from subscription fees from customers of our consolidated market data feed products. These subscription fees were largely dependent on the number of end users of our customers products and services.

Under our new business model, we expect to derive our revenues from licensing and consulting fees. In general, we expect that our licensing fees will be structured either as a reoccurring monthly fee, based upon the nature, size, and scope of the licensee, or as a monthly fee, based upon the number of end users that rely upon the products and services offered by the licensee. Consulting fees charged to clients are expected to vary based upon the nature, size, and scope of the projects undertaken.

In addition to changes in the variables that impact our revenues, the execution of our new business model is expected to change the variables that impact our direct costs of revenue and gross margin. Under our old business model, our direct costs of revenue was composed largely of access and user fees to exchanges, royalties, communications expenses, and labor, which were, in each case, necessary to support our consolidated market data feed products. Under our new business model, our direct costs of revenue are expected to be composed largely of software development amortization costs and labor associated with consulting services.

Although we do not expect that the variables that impact our operating expenses will change as dramatically as those that impact our revenues and direct costs of revenue, we do expect that categories of operating expenses such as sales and marketing and research and development will change in response to the demands of executing our new business model.

The sale of PCQuote and the remainder of our consolidated market data feed business resulted in the reclassification of the consolidated statements of operations data for all periods to reflect such events. Both PCQuote and our consolidated market data feed business have been accounted for as discontinued operations. Certain costs formerly reported as a component of the consolidated market data feed business included in the direct costs of revenue are now reported as operating expenses.

While the sale of PCQuote and the remainder of our consolidated market data feed business improved our cash position and overall financial strength, we expect to face many challenges in building our business around our new business model. In particular, our ability to successfully execute our new business model will be dependent on our ability to maintain and develop advanced ticker plant technologies in a cost effective manner and aggressively license such technologies to the financial services industry.

RECENT DEVELOPMENTS

In March 2004, HyperFeed signed a new agreement with Telerate (formerly known as MoneyLine Telerate) to license HyperFeed s H.Box and MEPS technology to Telerate and provide related maintenance. Under this agreement, Telerate has been granted an unlimited number of licenses to use HyperFeed s MEPS and H.Box products with Telerate s in-house ticker plant. The agreement also calls for Telerate to make payments of $7.2 million over 34 months, with $2.2 million due in the first year of the contract, $2.7 million due in the second year of the contract, and $2.4 million in the third year of the contract. HyperFeed will recognize revenue as payments from Telerate become due. Although the contract provides for these payments, there can be no assurances that the Company will receive these amounts.

HyperFeed restructured its operations in April 2004, which included as part of such restructuring a reduction in staff equal to 17% of HyperFeed s labor costs. This reduction in staff was completed in April 2004. The Company currently expects that its labor and benefits expenses will be reduced by approximately $100,000 per month beginning in May 2004 as a result of this restructuring.

RESULTS OF OPERATIONS: FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

The Company has reclassified its consolidated statements of operations data for all periods presented to reflect the sale on October 31, 2003 of its consolidated market data feed service business and the sale on June 2, 2003 of the individual retail investor unit and related assets of its subsidiary, both of which have been accounted for as discontinued operations.

Revenue

Total revenue for the three months ended March 31, 2004 increased 343.0% to $0.8 million compared with $0.2 million for the three months ended March 31, 2003. HyperFeed revenue increased for the three months ended March 31, 2004 compared to the same period in 2003. HYPRWare revenue decreased for the first quarter ended March 31, 2004 compared to the same period in 2003.

HyperFeed revenue increased to $0.6 million for the three months ended March 31, 2004. HyperFeed had no comparable revenue for the three months ended March 31, 2003. HyperFeed revenue is derived from MEPS and H.Box software and ticker plant technologies and includes license and consulting revenue, including revenue from multi-year contracts with CBOE, Telerate, Philadelphia Stock Exchange, and ComStock. All HyperFeed revenue associated with the consolidated market data feed service contracts sold to IDC has been included in discontinued operations for the three months ended March 31, 2003. HyperFeed currently expects that future revenue will be derived principally from licensing and consulting fees. In this regard, there is no assurance that the Company will be able to successfully license its ticker plant technologies, software, and managed services.

HYPRWare revenue decreased 27.8% to $0.1 million for the three months ended March 31, 2004 compared with $0.2 million for the three months ended March 31, 2003. HYPRWare derives revenue from royalties related to license fees for customers it referred to Townsend prior to December 31, 2002. The decline in HYPRWare service revenue is due to a decrease in royalties from Townsend. All HYPRWare revenue associated with the consolidated market data feed service contracts sold to IDC and to Money.net has been included in discontinued operations for the three months ended March 31, 2003. HyperFeed currently expects that any future revenue recognized by HYPRWare will be derived exclusively from royalties from the licensing agreement with Townsend.

Direct Costs of Revenue

Total direct costs of revenue increased 37.7% to $0.5 million for the three months ended March 31, 2004 compared with $0.3 million for the three months ended March 31, 2003. The principal component of this increase was software development labor costs related to development of customer specific software. Amortization of software development costs remained unchanged at $0.3 million for the three months ended March 31, 2004 and 2003. There are no direct costs of revenue related to HYPRWare service revenue as such amounts consist solely of royalty income. Gross margin increased to $0.4 million for the three months ended March 31, 2004 compared with a loss of $0.2 million for the three months ended March 31, 2003. Direct costs as a percentage of total revenue decreased to 59.8% for the three months ended March 31, 2004 compared with 192.4% for the three months ended March 31, 2003.

Operating Expenses

Total operating expenses increased 114.1% to $2.7 million for the three months ended March 31, 2004 compared with $1.3 million for the three months ended March 31, 2003. Increases in sales and marketing, general and administrative, and operations were partially offset by decreases in research and development and depreciation and amortization for the three months ended March 31, 2004. As a percentage of total revenue, total operating expenses decreased to 351.6% for the three months ended March 31, 2004 compared to 727.3% for the three months ended March 31, 2003.

Sales and marketing costs were $0.5 million for the three months ended March 31, 2004. All sales costs prior to May 2003 have been reclassified as discontinued operations. Beginning in May 2003, the Company recognized sales costs pertaining to MEPS and H.BOX licensing as operating expenses. Sales costs as a percentage of total revenue were 62.9% for the three months ended March 31, 2004.

General and administrative expenses increased 76.3% to $1.0 million for the three months ended March 31, 2004 compared with $0.6 million for the three months ended March 31, 2003. The increase was primarily due to expenses of $0.4 million incurred in connection with the severance agreement entered into with the Company s former Chief Executive Officer in the first quarter of 2004. General and administrative expenses as a percentage of total revenue decreased to 131.8% for the three months ended March 31, 2004 compared to 331.2% for the three months ended March 31, 2003.

Research and development costs decreased 23.4% to $0.3 million for the three months ended March 31, 2004 compared with $0.4 million for the three months ended March 31, 2003. The decrease resulted from the allocation of software development labor related to development of customer specific software to direct costs of revenue. Research and development costs as a percentage of total revenue decreased to 41.8% for the three months ended March 31, 2004 compared to 241.4% for the three months ended March 31, 2003.

Operations costs were $0.7 million for the three months ended March 31, 2004. All operations costs prior to November 2003 have been reclassified as discontinued operations. Beginning in November 2003, the Company recognized operations costs pertaining to MEPS and H.BOX as operating expenses. Operations costs as a percentage of total revenue were 87.5% for the three months ended March 31, 2004.

Depreciation and amortization decreased 20.9% to $0.2 million for the three months ended March 31, 2004 compared with $0.3 million for the three months ended March 31, 2003. This decrease primarily resulted from assets that became fully depreciated during 2003. Depreciation and amortization as a percentage of total revenue decreased to 27.6% for the three months ended March 31, 2004 compared to 154.7% for the three months ended March 31, 2003.

Discontinued Operations

In October 2003, the Company sold its remaining consolidated market data feed business and, in June 2003, the Company sold the individual retail investor unit and related assets of its subsidiary, PCQuote.com, Inc. The Company recorded a net loss from discontinued operations of $0.1 million, net of a tax benefit of $0.1 million, for the three months ended March 31, 2004 compared with net income of $0.4 million, net of tax expense of $0.3 million, for the three months ended March 31, 2003. The net loss for the first quarter of 2004 resulted from the incurrence of inbound communications costs associated with the Company s obligation under a transition services agreement related to the sale of its consolidated market data feed business. The Company recorded $0.2 million, net of tax expense of $0.1 million, as a gain on disposition of discontinued operations during the first quarter of 2004 related to holdbacks from the sale of the consolidated market data feed business.

LIQUIDITY AND CAPITAL RESOURCES

Net cash and cash equivalents of $1.2 million at March 31, 2004 decreased $3.5 million from $4.7 million at December 31, 2003. This decrease was due to the Company s operating loss, an increase in accounts receivable, and a decrease in liabilities related to discontinued operations.

Operating activities used net cash of $3.1 million for the three months ended March 31, 2004 compared to net cash used of $0.2 million for the three months ended March 31, 2003. For the three months ended March 31, 2004 continuing operations used $1.9 million of cash compared to net cash provided of $0.2 million for the three months ended March 31, 2003. The increase in accounts receivable for the three months ended March 31, 2004 resulted from delayed payment by customers. For the three months ended March 31, 2004 discontinued operations used $1.2 million, resulting from a reduction in accounts payables, compared to cash used of $0.4 million.

Investing activities used net cash of $0.5 million for the three months ended March 31, 2004 compared to net cash used of $0.4 million for the three months ended March 31, 2003. During the three months ended March 31, 2004, the Company invested $0.1 million in equipment and $0.3 million in its developed technology. During the three months ended March 31, 2003, the Company invested $0.2 million in equipment and $0.3 million in its developed technology.

Financing activities provided net cash of $20,661 for the three months ended March 31, 2004 compared to net cash provided of $15,178 for the three months ended March 31, 2003.

The Company has an existing line of credit for $500,000 at prime, secured by the assets of the Company. As of March 31, 2004, the Company had no borrowings against the line of credit.

HyperFeed restructured its operations in April 2004, which included as part of such restructuring a reduction in staff equal to 17% of HyperFeed s labor costs. This reduction in staff was completed in April 2004. The Company currently expects that its labor and benefits expenses will be reduced by approximately $100,000 per month beginning in May 2004 as a result of this restructuring. The Company expects to streamline its inbound communications costs relating to the ticker plant operations, which the Company believes will reduce costs by approximately $45,000 per month beginning in July 2004.

The Company believes its existing capital resources, including cash and cash equivalents, accounts receivable, and assets related to discontinued operations, cash expected to be received from holdbacks associated with the sale of its consolidated market data feed business, available line of credit, and its ability to raise capital, if necessary, will be sufficient to fund its operations over the next twelve months.

Although the Company has taken actions, and intends to take further actions, to reduce its costs, there can be no assurances that such reductions in costs will ensure that the Company has sufficient working capital to fund its operations over the next twelve months if one or more anticipated sources of working capital are not realized by the Company. In particular, the Company's ability to fund its operations over the next twelve months will be dependent, among other things, on its ability to convert accounts receivable and assets related to discontinued operations into cash, on the receipt of holdbacks associated with the sale of our consolidated market data feed business, and on its ability to raise capital. There can be no assurances that the Company will realize capital from any of these sources.

The Company continues to explore multiple alternatives that may be available for the purpose of enhancing stockholder value, including a merger, a spin-off or sale of part of its business, a strategic relationship or joint venture with another technology or financial services firm and equity financing.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses the Company s 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 revenue 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.

Revenue Recognition: The Company principally derives revenue from licensing technology and providing management and maintenance services of MEPS and H.Box software, ticker plant technologies, and managed services. Additionally, the Company derives revenue from the development of customized software. Revenue is recognized (1) ratably over the term of the agreement for MEPS and H.Box and (2) based on the application of contract accounting for the development of customized software.

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 HyperFeed s software products (including specified upgrades/enhancements) is recognized upon delivery of the products. If the fee is considered fixed and determinable, it should be recognized as revenue when the sale is effected. If the fee is not considered fixed and determinable, it should be recognized as revenue as payments from customers become due. 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.

On October 31, 2003, the Company sold its consolidated market data feed business. Revenue recognized prior to October 31, 2003, related to the assets sold and included in discontinued operations was principally derived from service contracts for the provision of market data only and service contracts for the provision of market data together with analytical software. HyperFeed primarily serviced the business-to-business marketplace. Revenue from service contracts was recognized ratably over the contract term as the contracted services were rendered.

On June 2, 2003, the Company sold certain assets of HYPRWare, consisting of its retail investor unit and Web site. Revenue recognized prior to June 2, 2003 related to the HYPRWare assets sold was primarily derived from analytics service, powered by the HyperFeed data feed, for Internet users in the consumer marketplace and from the sale of advertising on its Web site. Revenue from the sale of advertising was recognized as the advertising was displayed on the Web site.

HYPRWare derives revenue from royalties related to license fees for customers it referred to Townsend prior to December 31, 2002.

Allowance For Doubtful Accounts: The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make payments for services or debtors to satisfy note receivable obligations. The Company analyzes accounts receivable, customer credit-worthiness, current economic trends and changes in its customer payment terms when evaluating the adequacy of the allowance for doubtful accounts and notes receivable. If the financial condition of the Company s 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: The Company assesses the impairment of intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers 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 its use of the acquired assets or the strategy for its 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.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

At March 31, 2004, the Company had excess cash invested in a money market account and a short-term certificate of deposit. The Company does not expect any material loss, if at all, on these investments. The Company had no interest bearing debt instruments outstanding at March 31, 2004.

ITEM 4. Controls and Procedures

(a) *Disclosure Controls and Procedures.* The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures (as such term is defined in Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this quarterly report. Based on such evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that the Company file or submit under the Exchange Act.

(b) *Internal Control Over Financial Reporting.* There have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rule 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 31.1 - Certification of the Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.

Exhibit 31.2 - Certification of the Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Exchange Act.

Exhibit 32 Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

(b) Reports on Form 8-K

A Form 8-K was filed on March 17, 2004 attaching a copy of the press release reporting the results of operations and financial condition of the Company for the year ended December 31, 2003.

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 6, 2004

By: /s/ Paul Pluschkell

Paul Pluschkell
President and Chief Executive Officer

By: /s/ Randall J. Frapart

Randall J. Frapart
Chief Financial Officer and Principal Accounting Officer