

HYPERFEED TECHNOLOGIES INC

Form 10-Q

August 05, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

☒

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

For the quarterly period ended: **June 30, 2004**

OR

☐

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

For the transition period from _____ to _____

Commission file number **0-13093**

HYPERFEED TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

36-3131704

(I.R.S. Employer
Identification No.)

300 S. Wacker Drive, Suite 300, Chicago, Illinois

(Address of Principal Executive Offices)

60606

(Zip Code)

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

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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 ☒ No ☐

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

The number of shares of common stock outstanding as of August 4, 2004 was 3,061,733 shares.

HYPERFEED TECHNOLOGIES, INC.

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PART I**ITEM 1. Financial Statements****HYPERFEED TECHNOLOGIES, INC. AND SUBSIDIARY****Consolidated Balance Sheets (Unaudited)**

June 30, 2004 and December 31, 2003

	June 30, 2004	December 31, 2003
Assets		
Current Assets		
Cash and cash equivalents	\$ 363,029	\$ 4,668,038
Accounts receivable, less allowance for doubtful accounts of: 2004: \$9,996; 2003: \$0	1,818,681	797,048
Notes receivable, less allowance for doubtful accounts of: 2004: \$50,000; 2003: \$50,000	129,630	150,465
Prepaid expenses and other current assets	290,066	173,816
Assets related to discontinued operations	462,217	811,878
Total Current Assets	3,063,623	6,601,245
Property and equipment		
Computer equipment	1,539,092	2,343,853
Communication equipment	1,031,370	1,296,550
Furniture and fixtures	107,429	82,839
Leasehold improvements	531,809	531,809
	3,209,700	4,255,051
Less: Accumulated depreciation and amortization	(2,190,615)	(3,019,964)
	1,019,085	1,235,087
Intangible assets, net of accumulated amortization of: 2004: \$100,000; 2003: \$70,000	80,000	110,000
Software development costs, net of accumulated amortization of: 2004: \$2,480,239; 2003: \$2,733,126	1,750,047	1,732,721
Deposits and other assets	35,205	35,205
Total Assets	\$ 5,947,960	\$ 9,714,258
Liabilities and Stockholders' Equity		
Current Liabilities		
Notes payable	\$ 200,000	\$
Accounts payable	794,924	605,644
Accrued expenses	572,715	587,193
Accrued compensation	107,424	73,157
Income taxes payable	40,000	40,000
Unearned revenue	903,710	15,000
Liabilities related to discontinued operations	1,212,424	2,419,879
Total Current Liabilities	3,831,197	3,740,873
Accrued expenses, less current portion	295,609	292,676

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Total Noncurrent Liabilities	295,609	292,676
Total Liabilities	4,126,806	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 3,061,733 shares at June 30, 2004 and 3,051,989 shares at December 31, 2003	3,062	3,052
Additional paid-in capital	46,105,117	46,070,113
Accumulated deficit	(44,287,025)	(40,392,456)
Total Stockholders' Equity	1,821,154	5,680,709
Total Liabilities and Stockholders' Equity	\$ 5,947,960	\$ 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 June 30,		For The Six Months Ended June 30,	
	2004	2003	2004	2003
Revenue				
HyperFeed	\$ 1,218,168	\$	\$ 1,867,178	\$
HYPRWare	114,250	166,000	240,551	341,029
Total Revenue	1,332,418	166,000	2,107,729	341,029
Direct Costs of Revenue	457,797	339,641	921,465	676,385
Gross Margin	874,621	(173,641)	1,186,264	(335,356)
Operating Expenses				
Sales and marketing	490,894	142,975	978,741	142,975
General and administrative	662,908	655,337	1,684,996	1,235,040
Research and development	419,773	432,248	743,526	854,748
Operations	602,586		1,280,680	
Depreciation and amortization	201,240	268,671	415,308	539,436
Total Operating Expenses	2,377,401	1,499,231	5,103,251	2,772,199
Loss from Operations	(1,502,780)	(1,672,872)	(3,916,987)	(3,107,555)
Other Income (Expense)				
Interest income	1,443	3,205	8,207	6,078
Interest expense	(267)	(312)	(267)	(312)
Other Income, Net	1,176	2,893	7,940	5,766
Loss from Continuing Operations Before Income Taxes	(1,501,604)	(1,669,979)	(3,909,047)	(3,101,789)
Income tax benefit (expense)	(65,000)	277,000	6,000	529,000
Loss from Continuing Operations	(1,566,604)	(1,392,979)	(3,903,047)	(2,572,789)
Discontinued Operations				
Income (loss) from discontinued operations	(169,829)	587,287	(360,522)	1,244,209
Income tax benefit (expense) from discontinued operations	65,000	(138,000)	138,000	(390,000)
Gain on disposition of discontinued operations		362,189	375,000	362,189
Income tax expense from gain on disposition of discontinued operations		(139,000)	(144,000)	(139,000)
Income from Discontinued Operations	(104,829)	672,476	8,478	1,077,398
Net Loss	\$ (1,671,433)	\$ (720,503)	\$ (3,894,569)	\$ (1,495,391)
Basic and diluted net income (loss) per share:				
Continuing operations	\$ (0.52)	\$ (0.50)	\$ (1.28)	\$ (0.98)
Discontinued operations	(0.03)	0.24	0.01	0.41
Basic and diluted net loss per share	\$ (0.55)	\$ (0.26)	\$ (1.27)	\$ (0.57)
Basic and diluted weighted-average common shares outstanding	3,058,892	2,776,121	3,055,900	2,640,349

See Notes to Unaudited Interim Consolidated Financial Statements.

HYPERFEED TECHNOLOGIES, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows (Unaudited)

	For The Six Months Ended June 30,	
	2004	2003
Cash Flows from Operating Activities:		
Net loss	\$ (3,894,569)	\$ (1,495,391)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	415,308	539,436
Amortization of software development costs	658,910	676,385
Provision for doubtful accounts	9,996	
Gain on sale of equipment	(4,888)	
Changes in assets and liabilities, net of effects from dispositions:		
Accounts receivable	(1,031,629)	(66,508)
Prepaid expenses and other current assets	(116,250)	(67,181)
Deposits and other assets		20,366
Accounts payable	189,280	257,853
Accrued expenses	22,722	158,275
Unearned revenue	888,710	
Net cash provided by (used in) continuing operations	(2,862,410)	23,235
Net cash used in discontinued operations	(857,794)	(600,215)
Net Cash Used In Operating Activities	(3,720,204)	(576,980)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(190,418)	(347,402)
Software development costs capitalized	(676,236)	(597,168)
Proceeds from sale of equipment	26,000	
Repayment (issuance) of note receivable	20,835	(150,000)
Net Cash Used In Investing Activities	(819,819)	(1,094,570)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	35,014	1,454,253
Issuance of notes payable	200,000	67,115
Net Cash Provided By Financing Activities	235,014	1,521,368
Net decrease in cash and cash equivalents	(4,305,009)	(150,182)
Cash and cash equivalents:		
Beginning of the period	4,668,038	1,096,711
End of the period	\$ 363,029	\$ 946,529

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 HTPX and HBox 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.

STOCK BASED COMPENSATION: At June 30, 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 and six months ended June 30, 2004 and 2003:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net loss, as reported	\$ (1,671,433)	\$ (720,503)	\$ (3,894,569)	\$ (1,495,391)
Compensation benefit related to stock options granted	72,812	73,828	7,233	20,702
Pro forma net loss	\$ (1,598,621)	\$ (646,675)	\$ (3,887,336)	\$ (1,474,689)
Basic and diluted net loss per share, as reported	\$ (0.55)	\$ (0.26)	\$ (1.27)	\$ (0.57)
Pro forma basic and diluted net loss per share	\$ (0.52)	\$ (0.23)	\$ (1.27)	\$ (0.56)

The compensation benefit related to stock options granted resulted from the cancellation during the second quarters of 2003 and 2004 of certain options that had not become fully vested at the time of cancellation.

ACCOUNTS RECEIVABLE: Included in the Company's accounts receivable balances in the Consolidated Balance Sheets are unbilled receivables of \$337,000 and \$356,000 at June 30, 2004 and December 31, 2003, respectively.

SOFTWARE LICENSE INDEMNIFICATIONS: In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires that the Company recognize the fair value for certain guarantee and indemnification arrangements issued or modified by the Company after December 31, 2002. In addition, the Company must continue to monitor the conditions that are subject to the guarantees and indemnifications, as required under previously existing generally accepted accounting principles, in order to identify if a loss has occurred. If the Company determines that a loss is probable, the estimated loss must be recognized as it relates to applicable guarantees and indemnifications. Some of the software licenses granted by the Company contain provisions that indemnify customers of the Company's software from damages and costs resulting from claims alleging that the Company's software infringes on the intellectual property rights of a third party. Historically, the Company has not been required to pay material amounts in connection with claims asserted under these provisions and, accordingly, the Company has not recorded a liability relating to these indemnification provisions.

(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.

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The Company has modified its method of tax allocation between quarterly periods. As a result, the amounts reported for quarterly loss from continuing operations in unaudited Footnote 16 of the Company's annual report on Form 10-K for the year ended December 31, 2003 have been adjusted from \$(881,810), \$(1,019,979), \$(894,461), and \$(1,259,120) to \$(1,203,810), \$(1,368,979), \$(1,364,461), and \$(118,120), respectively.

(3) SEGMENT INFORMATION

While the Company operates in one industry, financial services, in applying SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company has identified two segments within which it operates. 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 to Townsend's service over the Internet 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 and six months ended June 30, 2004 and June 30, 2003:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Sales to unaffiliated customers				
HyperFeed	\$ 1,218,168	\$	\$ 1,867,178	\$
HYPRWare	114,250	166,000	240,551	341,029
Total revenue	\$ 1,332,418	\$ 166,000	\$ 2,107,729	\$ 341,029
HyperFeed	91.4%	%	88.6%	%
HYPRWare	8.6%	100.0%	11.4%	100.0%
Total revenue	100.0%	100.0%	100.0%	100.0%
Operating income (loss) from continuing operations				
HyperFeed	\$ (1,608,670)	\$ (1,809,744)	\$ (4,135,759)	\$ (3,385,904)
HYPRWare	105,890	136,872	218,772	278,349
Total operating loss from continuing operations	\$ (1,502,780)	\$ (1,672,872)	\$ (3,916,987)	\$ (3,107,555)
HyperFeed	*	*	*	*
HYPRWare	*	*	*	*
Total operating loss from continuing operations	*	*	*	*
Identifiable assets				
HyperFeed	\$ 5,290,393	\$ 4,645,970	\$ 5,290,393	\$ 4,645,970
HYPRWare	195,350	387,857	195,350	387,857
Total identifiable assets	\$ 5,485,743	\$ 5,033,827	\$ 5,485,743	\$ 5,033,827
HyperFeed	96.4%	92.3%	96.4%	92.3%
HYPRWare	3.6%	7.7%	3.6%	7.7%
Total identifiable assets	100.0%	100.0%	100.0%	100.0%

* not meaningful

(4) 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

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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 other related costs. The Company received \$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. The Company incurred inbound communications costs associated with its obligations under the transition services agreement of \$282,000 in the first quarter of 2004 and \$165,000 in the second quarter of 2004. 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 HTPX 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. At June 30, 2004, the balance remaining on the promissory note was \$101,323. HyperFeed is pursuing collection of this promissory note.

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 June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenue				
HyperFeed	\$	\$ 2,850,989	\$	\$ 5,885,162
HYPRWare		317,596		761,060
Total Revenue		3,168,585		6,646,222
Direct Costs of Revenue				
HyperFeed		1,735,683		3,485,226
HYPRWare		177,820		439,330
Total Direct Costs of Revenue		1,913,503		3,924,556
Gross Margin		1,255,082		2,721,666
Operating Expenses	169,829	667,795	360,522	1,477,457
Income (loss) from discontinued operations before income taxes	(169,829)	587,287	(360,522)	1,244,209
Income tax expense (benefit)	65,000	(138,000)	138,000	(390,000)
Income (loss) from discontinued operations	\$ (104,829)	\$ 449,287	\$ (222,522)	\$ 854,209

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

	June 30, 2004	December 31, 2003
Assets Related to Discontinued Operations		
Accounts receivable, net of allowance for doubtful accounts of 2004: \$185,240; 2003: \$153,625	\$ 298,439	\$ 645,322
Prepaid expenses and other current assets	135,327	138,105
Deposits and other assets	28,451	28,451
Total Assets Related to Discontinued Operations	\$ 462,217	\$ 811,878
Liabilities Related to Discontinued Operations		
Accounts payable	\$ 990,926	\$ 2,016,425
Accrued expenses	158,831	313,840
Accrued compensation	13,527	40,474
Unearned revenue	49,140	49,140

Total Liabilities Related to Discontinued Operations	\$	1,212,424
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