HYPERFEED TECHNOLOGIES INC
Form 10-Q
May 09, 2002

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC  20549**

# FORM 10-Q

ý **Quarterly Report Pursuant to Section 13 or 15(d) of**

**the Securities Exchange Act of 1934**

**For the quarterly period ended March 31, 2002**

**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 ý No o

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 23,891,141 shares of the registrant s common stock ($.001 par value) were outstanding as of April 30, 2002.

**HYPERFEED TECHNOLOGIES, INC.**

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**HYPERFEED TECHNOLOGIES, INC.**

**Consolidated Balance Sheets**

**March 31, 2002 and December 31, 2001**

| **ASSETS** | **March 31, 2002 (Unaudited)** | **December 31, 2001 (Audited)** |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents | $ 690,097 | $ 607,263 |
| Restricted cash equivalents | 250,000 | 250,000 |
| Accounts receivable, less allowance for doubtful accounts of: 2002: $333,197; 2001: $413,554 | 1,151,640 | 1,310,936 |
| Note receivable | 100,000 | 100,000 |
| Prepaid license fees, current | 910,000 | 1,330,000 |
| Prepaid expenses and other current assets | 418,005 | 312,106 |
| TOTAL CURRENT ASSETS | 3,519,742 | 3,910,305 |
| Property and equipment | | |
| Satellite receiving equipment | 89,417 | 89,417 |
| Computer equipment | 2,979,103 | 3,214,129 |
| Communication equipment | 1,427,646 | 1,631,960 |
| Furniture and fixtures | 394,016 | 430,996 |
| Leasehold improvements | 972,481 | 962,288 |
| | 5,862,663 | 6,328,790 |
| Less: Accumulated depreciation and amortization | 3,136,697 | 3,306,865 |
| | 2,725,966 | 3,021,925 |
| Goodwill and other intangible assets, net of accumulated amortization of: 2002: $446,201; 2001: $327,895 | 1,125,308 | 1,243,614 |
| Software development costs, net of accumulated amortization of: 2002: $2,173,758; 2001: $7,199,318 | 2,075,562 | 2,069,975 |
| Deposits and other assets | 129,288 | 128,936 |
| TOTAL ASSETS | $ 9,575,866 | $ 10,374,755 |

See Notes to Consolidated Financial Statements.

| **LIABILITIES AND STOCKHOLDERS EQUITY** | **March 31, 2002 (Unaudited)** | **December 31, 2001 (Audited)** |
|---|---|---|
| Current Liabilities | | |
| Notes payable | $ -- | $ 250,000 |
| Accrued satellite termination fees | 150,000 | 225,000 |
| Accounts payable | 988,924 | 1,070,163 |
| Accrued expenses | 455,647 | 340,286 |
| Accrued compensation | 291,424 | 240,297 |
| Income taxes payable | -- | 5,000 |
| Unearned revenue | 1,269,155 | 1,565,446 |
| | | |
| TOTAL CURRENT LIABILITIES | 3,155,150 | 3,696,192 |
| | | |
| Unearned revenue, less current portion | 6,990 | 35,435 |
| Accrued expenses, less current portion | 63,156 | 72,178 |
| | | |
| TOTAL NONCURRENT LIABILITIES | 70,146 | 107,613 |
| | | |
| TOTAL LIABILITIES | 3,225,296 | 3,803,805 |
| | | |
| Stockholders Equity | | |
| Common stock, $.001 par value; authorized 50,000,000 shares; issued and outstanding 23,891,141 shares at March 31, 2002 and 23,849,605 shares at December 31, 2001 | 23,891 | 23,850 |
| Additional paid-in capital | 44,199,704 | 44,179,600 |
| Accumulated deficit | (37,873,025) | (37,632,500) |
| TOTAL STOCKHOLDERS EQUITY | 6,350,570 | 6,570,950 |
| | | |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | $ 9,575,866 | $ 10,374,755 |

See Notes to Consolidated Financial Statements.

**HYPERFEED TECHNOLOGIES, INC.**

**Consolidated Statements of Operations**

| | For The Three Months Ended March 31, 2002 (Unaudited) | For The Three Months Ended March 31, 2001 (Unaudited) |
|---|---|---|
| REVENUE | | |
| HyperFeed Services | $ 4,747,077 | $ 6,866,395 |
| PCQuote Services | 899,163 | 2,889,922 |
| TOTAL REVENUE | 5,646,240 | 9,756,317 |
| DIRECT COST OF SERVICES | | |
| HyperFeed Services | 2,619,255 | 3,275,977 |
| PCQuote Services | 800,987 | 2,237,091 |
| TOTAL DIRECT COST OF SERVICES | 3,420,242 | 5,513,068 |
| GROSS MARGIN | 2,225,998 | 4,243,249 |
| OPERATING EXPENSES | | |
| Sales | 569,284 | 918,025 |
| General and administrative | 816,816 | 1,231,046 |
| Product and market development | 595,689 | 1,103,786 |
| Depreciation and amortization | 488,437 | 327,827 |
| TOTAL OPERATING EXPENSES | 2,470,226 | 3,580,684 |
| INCOME (LOSS) FROM OPERATIONS | (244,228) | 662,565 |
| INTEREST INCOME (EXPENSE) | | |
| Interest income | 6,475 | 36,478 |
| Interest expense | (2,772) | (30,011) |
| NET INTEREST INCOME | 3,703 | 6,467 |
| INCOME (LOSS) BEFORE INCOME TAXES | (240,525) | 669,032 |
| INCOME TAXES | | 25,000 |
| INCOME (LOSS) BEFORE MINORITY INTEREST | (240,525) | 644,032 |
| Minority interest | | 1,829 |
| NET INCOME (LOSS) | $ (240,525) | $ 645,861 |
| Basic net income (loss) per share | $ (0.01) | $ 0.04 |

| | | | | |
|---|---|---|---|---|
| Diluted net income (loss) per share | $ | (0.01) | $ | 0.03 |
| | | | | |
| Basic weighted-average common shares outstanding | | 23,849,605 | | 15,759,281 |
| Diluted weighted-average common shares outstanding | | 23,849,605 | | 21,749,619 |

See Notes to Consolidated Financial Statements.

**HYPERFEED TECHNOLOGIES, INC.**

**Consolidated Statements of Cash Flows**

| | For The Three Months Ended March 31, 2002 (Unaudited) | | For The Three Months Ended March 31, 2001 (Unaudited) | |
|---|---|---|---|---|
| Cash Flows From Operating Activities: | $ | (240,525) | $ | 645,861 |
| Net income (loss) | | | | |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | 488,437 | | 327,827 |
| Depreciation and amortization | | | | |
| Provision for doubtful accounts | | | | 66,000 |
| Amortization of software development costs | | 330,347 | | 469,047 |
| Amortization of value assigned to warrant issued in lieu of license fees | | 420,000 | | 420,000 |
| Minority interest in loss | | | | (1,829) |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | | 159,296 | | 625,134 |
| Prepaid expenses and other current assets | | (105,899) | | (860,288) |
| Deposits and other assets | | (352) | | (43,730) |
| Accounts payable | | (81,239) | | 633,687 |
| Accrued expenses | | 157,466 | | (173,398) |
| Accrued satellite termination fees | | (75,000) | | (108,000) |
| Income taxes payable | | (5,000) | | 25,000 |
| Unearned revenue | | (324,736) | | 97,979 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | | 722,795 | | 2,123,290 |
| Cash Flows From Investing Activities: | | | | |
| Purchase of property and equipment | | (74,172) | | (709,504) |
| Software development costs capitalized | | (335,934) | | (395,759) |
| NET CASH USED IN INVESTING ACTIVITIES | | (410,106) | | (1,105,263) |
| Cash Flows From Financing Activities: | | | | |
| Proceeds from issuance of common stock | | 20,145 | | 57,349 |
| Principal payments on notes payable | | (250,000) | | (325,000) |
| NET CASH USED IN FINANCING ACTIVITIES | | (229,855) | | (267,651) |
| Net increase in cash and cash equivalents | | 82,834 | | 750,376 |
| Cash and cash equivalents: | | | | |
| Beginning of the period | | 607,263 | | 2,522,593 |
| End of the period | $ | 690,097 | $ | 3,272,969 |

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, 2001 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, 2001.

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 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 in the year following full amortization.

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

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

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

REVENUE RECOGNITION: The Company principally derives its revenue from service contracts for the provision of market data only ( HyperFeed® license fees ), service contracts for the provision of market data together with analytical software ( Analytics license fees ), and the sale of advertising on its Web site, www.pcquote.com. Revenue from service contracts is recognized ratably over the contract term as the contracted services are rendered. Revenue from the sale of advertising is recognized as the advertising is displayed on the Web site. HyperFeed license fees and Analytics license fees for satellite and landline services are generally billed one month in advance with 30-day payment terms. License fees for Analytics on the Internet are generally paid by credit card within five days prior to the month of service. These and other payments received prior to services being rendered are classified as unearned revenue on the balance sheet. 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.

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, three years for developed technology and customer lists and five years for noncompete agreements. During the first quarter of 2002, the Company implemented SFAS 142, Goodwill and Other Intangible Assets, which replaces the requirements to amortize intangible assets with indefinite lives and goodwill with a requirement for an annual impairment test.

(2) INCOME TAXES

At December 31, 2001, the Company had Federal income tax net operating loss carryforwards of approximately $22,878,000 for Federal income tax purposes and approximately $22,393,000 for the alternative minimum tax. Approximately $1,058,000 of these net operating losses relates to exercise of incentive employee stock options and will be credited directly to stockholders equity when realized. The Company also had research and development credits of $106,000 which will expire in years 2010 and 2011 if not previously utilized. The future utilization of these net operating losses and research and development credits will be limited due to changes in Company ownership. The net operating loss carryforwards will expire, if not previously utilized, as follows: 2002: $560,000; 2003: $79,000; 2004: $576,000; 2005: $1,557,000; 2006: $301,000; and thereafter $19,805,000.

(3) SEGMENT INFORMATION

While the Company operates in one industry, financial services, in applying SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information , the Company has identified two segments within which it operates. The parent Company s services are principally in the business-to-business sector, while its subsidiary, PCQuote, operates in the business-to-consumer marketplace. The Company evaluates performance and allocates resources based on operating profitability and growth potential. The accounting policies of the reportable segments are the same as those described in Note 1. Financial information relating to industry segments for the quarters ended March 31, 2002 and March 31, 2001 is as follows:

| | March 31, 2002 | | | March 31, 2001 | | |
|---|---|---|---|---|---|---|
| | | Amount | % | | Amount | % |
| **Sales to unaffiliated customers:** | | | | | | |
| HyperFeed services | $ | 4,747,077 | 84.1% | $ | 6,866,395 | 70.4% |
| PCQuote services | | 899,163 | 15.9% | | 2,889,922 | 29.6% |
| Total revenue | $ | 5,646,240 | 100.0% | $ | 9,756,317 | 100.0% |
| **Operating income (loss):** | | | | | | |
| HyperFeed services | $ | 140,686 | * | $ | 1,562,387 | * |
| PCQuote services | | (384,914) | * | | (899,822) | * |
| Total operating income (loss) | | ($244,228) | * | $ | 662,565 | * |
| **Identifiable assets:** | | | | | | |
| HyperFeed services | $ | 8,027,796 | 83.8% | $ | 9,295,038 | 61.2% |
| PCQuote services | | 1,548,070 | 16.2% | | 5,882,871 | 38.8% |
| Total identifiable assets | $ | 9,575,866 | 100.0% | $ | 15,177,909 | 100.0% |

* not meaningful

(4) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ( SFAS 142 ). 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.

Also on January 1, 2002, the Company adopted SFAS No. 144, "Accounting for Impairment of Long-Lived Assets" ("SFAS 144"). Management has determined that the adoption of SFAS 144 will not have a material impact on its consolidated financial statements.

Intangible asset data as of March 31, 2002 is as follows:

| | As of March 31, 2002 Gross Carrying Amount | Accumulated Amortization |
|---|---|---|
| Amortized intangible assets | | |
| Developed technology | $ 1,327,239 | $ (405,545) |
| Noncompete agreements | 132,724 | (24,333) |
| Customer lists | 12,800 | (3,911) |
| | | |
| Unamortized intangible assets | | |
| Goodwill | $ 86,334 | |
| | | |
| Aggregate amortization expense | | |
| For the quarter ended March 31, 2002 | $ 118,306 | |
| | | |
| Estimated amortization | | |
| For the year ended December 31, 2002 | $ 473,225 | |
| For the year ended December 31, 2003 | 473,225 | |
| For the year ended December 31, 2004 | 175,438 | |
| For the year ended December 31, 2005 | 26,545 | |

The Company s operating results for the first quarter of 2001 do not include any amortization of goodwill and other intangible assets as such assets arose from business combinations consumated subsequent to March 31, 2001.

**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 Retains Trimedia and the Tolan Company**

On April 12, 2002, HyperFeed announced that it has retained New York-based Trimedia for public relations services, and the Chicago-based Tolan Company for investor relations services. Trimedia will develop and implement a media relations program to help communicate to the public HyperFeed s commitment to providing top-notch data delivery systems. The Tolan Company will be relied upon to execute and strategically expand HyperFeed s existing investor relations programs.

RESULTS OF OPERATIONS:

FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001

Total revenue decreased 42.1% for the first three months of 2002 to $5.6 million from $9.8 million for the comparable period in 2001. Both our HyperFeed services and our PCQuote services posted decreases in the first quarter of 2002 from 2001. HyperFeed service revenue decreased $2.1 million, or 30.9%, from $6.9 million in 2001 to $4.7 million in 2002. Decreases in the number of end users and related services associated with the provision of the RealTick analytics application accounted for $1.4 million of the decline in HyperFeed service revenue. Revenue from our PCQuote services decreased $2.0 million, or 68.9%, to $0.9 million for the first three months of 2002 from $2.9 million for the same period in 2001. This decline is principally due to the transfer at the end of the third quarter 2001 of PCQuote 6.0 RealTick Internet customers to Townsend Analytics, Ltd. ( Townsend ).

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

Direct costs of services decreased 38.0% to $3.4 million for the first quarter of 2002 from $5.5 million in 2001. Principal components of the decrease were royalties and payments to providers of market data, principally attributable to the transfer at the end of the third quarter 2001 of PCQuote 6.0 RealTick Internet customers to Townsend and the decline in analytics subscriptions. Amortization of software development costs decreased 29.6% for the quarter from $469,000 in 2001 to $330,000 in 2002. Gross margin decreased 47.5% to $2.2 million for the quarter from $4.2 million for the prior year quarter.

Direct costs associated with HyperFeed services decreased from $3.3 million for the quarter ended March 31, 2001 to $2.6 million for the March 31, 2002 quarter, a 20.0% decrease. The principal components of the decrease were costs related to license and exchange fees, directly attributable to the decrease in analytics subscription revenue. Amortization of software development costs decreased 5.0% to $330,000 for the 2002 quarter from $348,000 for the 2001 quarter. The resulting gross margin for the first quarter decreased to $2.1 million in 2002 from $3.6

million in 2001.

Direct costs associated with PCQuote services decreased to $0.8 million for the 2002 quarter from $2.2 million in the comparable 2001 quarter, a 64.2% decrease. The transfer at the end of the third quarter 2001 of PCQuote 6.0 RealTick Internet customers to Townsend substantially reduced royalty and exchange fees, the principal component of direct costs. There were no software amortization costs for the 2002 quarter versus $121,000 for the 2001 quarter.

Total operating expenses decreased to $2.5 million for the first quarter of 2002 from $3.6 million for the comparable 2001 period, a 31.0% decrease. Decreases, principally due to cost saving measures implemented in the third quarter of 2001, were experienced in all categories except for depreciation and amortization.

Sales costs decreased 38.0% to $0.6 million for the first quarter of 2002 as compared to $0.9 million for the same 2001 period, as a result of the elimination of our consumer sales force in the third quarter of 2001 and lower commission expense commensurate with the decrease in revenue.

General and administrative expenses decreased 33.6% to $0.8 million for the first quarter of 2002 from $1.2 million for the same 2001 period due to a reduction in personnel at the end of the third quarter of 2001.

Product and market development costs decreased 46.0% to $0.6 million for the 2002 quarter from $1.1 million for the 2001 quarter, principally due to lower advertising expenditures.

Depreciation and amortization increased to $0.5 million for the first quarter of 2002 from $0.3 million for the comparable 2001 period as a result of the amortization of intangible assets acquired from Marketscreen.com, Inc. and Lasdorf Corporate Services, Inc. in the second quarter of 2001.

CRITICAL ACCOUNTING POLICIES

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 revenues and expenses during the reporting period.

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

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

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

LIQUIDITY AND CAPITAL RESOURCES:

Net cash and cash equivalents increased $83,000 from year-end 2001 to $690,000 at the end of the first quarter of 2002. Expenditures for new equipment were $74,000 for the first three months of 2002 versus $710,000 for the same period in 2001. Capitalized software costs of $336,000 for the quarter ended March 31, 2002 were $60,000, or 15.2%, lower than the $396,000 recorded for the same period in 2001. There were no new direct borrowings during the period, and we made the last $250,000 installment payment on our note payable to Motorola. As of March 31, 2002, we retired the note payable to Motorola, making all scheduled payments on time when due, and, as a result, we have no notes payable outstanding. We received approximately $20,000 in net proceeds from the sale of shares of common stock to employees pursuant to our Employee Stock Purchase Plan.

Earnings before interest, taxes, depreciation and amortization ( EBITDA ) was a positive $1.0 million for the first quarter of 2002. We believe our existing capital resources, cash generated from continuing operations, and our ability to access external capital, if necessary, are sufficient for working capital purposes.

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 all or part of our business, a strategic relationship or joint venture with another technology or financial services firm and equity financing. We continue to explore opportunities to enhance stockholder value.

EFFECT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In 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.

**PART II. OTHER INFORMATION**

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company s market risk during the three-month period ended March 31, 2002. For additional information, refer to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the first quarter of 2002, we issued 41,536 shares of our common stock to employees who purchased the shares under our Employee Stock Purchase Plan.

ITEM 6. EXHIBITS and REPORTS on FORM 8-K

REPORTS ON FORM 8-K

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

## SIGNATURES

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

HYPERFEED TECHNOLOGIES, INC.

Date: May 9, 2002

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