HYPERFEED TECHNOLOGIES INC
Form 10-Q
August 04, 2005

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: June 30, 2005

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 (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**

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 August 3, 2005 was 3,090,900 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, 2005		December 31, 2004
Assets				
Current Assets				
Cash and cash equivalents	$	176,870	$	193,702
Accounts receivable, less allowance for doubtful accounts of: 2005: $41,204; 2004: $34,031		368,035		576,092
Notes receivable, less allowance for doubtful accounts of: 2005: $10,830; 2004: $60,830		90,493		93,798
Prepaid expenses and other current assets		186,234		125,890
Assets related to discontinued operations		57,094		72,270
Total Current Assets		878,726		1,061,752
Property and equipment				
Computer equipment		1,381,448		1,627,021
Communication equipment		783,430		1,031,370
Furniture and fixtures		84,426		106,559
Leasehold improvements		9,260		531,809
		2,258,564		3,296,759
Less: Accumulated depreciation and amortization		(1,603,797)		(2,457,645)
Property and equipment, net		654,767		839,114
Intangible assets, net of accumulated amortization of: 2005: $341,250; 2004: $229,167		316,250		78,333
Licensed and developed software costs, net of accumulated amortization of: 2005: $2,019,252; 2004: $3,016,799		2,896,782		1,686,975
Deposits and other assets		47,060		46,472
Total Assets	$	4,793,585	$	3,712,646
Liabilities and Stockholders Equity				
Current Liabilities				
Convertible note payable to affiliate	$	2,805,000	$	
Line of credit		500,000		465,000
Accounts payable		1,076,384		634,299
Accrued expenses		597,629		170,547
Accrued professional fees		124,000		158,225
Accrued compensation		87,447		77,763
Income taxes payable		27,270		27,270
Unearned revenue		173,243		268,042
Liabilities related to discontinued operations		810,420		849,172
Total Current Liabilities		6,201,393		2,650,318
Accrued expenses, less current portion		1,081,707		297,164
Total Noncurrent Liabilities		1,081,707		297,164
Total Liabilities		7,283,100		2,947,482
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 3,090,900 shares at June 30, 2005 and 3,064,493 shares at December 31, 2004		3,091		3,065
Additional paid-in capital		46,890,132		46,111,516
Accumulated deficit		(49,382,738)		(45,349,417)
Total Stockholders Equity		(2,489,515)		765,164
Total Liabilities and Stockholders Equity	$	4,793,585	$	3,712,646

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, 2005	For The Three Months Ended June 30, 2004	For The Six Months Ended June 30, 2005	For The Six Months Ended June 30, 2004
Revenue				
HyperFeed	$ 957,744	$ 1,218,168	$ 1,751,925	$ 1,867,178
HYPRWare	86,785	114,250	181,658	240,551
Total Revenue	1,044,529	1,332,418	1,933,583	2,107,729
Direct Costs of Revenue	278,754	457,797	561,997	921,465
Gross Margin	765,775	874,621	1,371,586	1,186,264
Operating Expenses				
Sales and marketing	505,447	490,894	848,771	978,741
General and administrative	737,814	662,908	1,537,883	1,684,996
Research and development	336,320	419,773	731,405	743,526
Operations	542,449	602,586	1,045,248	1,280,680
Depreciation and amortization	195,907	201,240	408,856	415,308
Total Operating Expenses	2,317,937	2,377,401	4,572,163	5,103,251
Loss from Operations	(1,552,162)	(1,502,780)	(3,200,577)	(3,916,987)
Other Income (Expense)				
Interest income	44	1,443	82	8,207
Interest expense	(495,504)	(267)	(793,177)	(267)
Other Income (Expense), Net	(495,460)	1,176	(793,095)	7,940
Loss from Continuing Operations Before Income Taxes	(2,047,622)	(1,501,604)	(3,993,672)	(3,909,047)
Income tax benefit (expense)		(65,000)		6,000
Loss from Continuing Operations	(2,047,622)	(1,566,604)	(3,993,672)	(3,903,047)
Discontinued Operations				
Loss from discontinued operations	(17,050)	(169,829)	(39,649)	(360,522)
Income tax benefit (expense) from discontinued operations		65,000		138,000
Gain on disposition of discontinued operations				375,000
Income tax expense from gain on disposition of discontinued operations				(144,000)
Income (Loss) from Discontinued Operations	(17,050)	(104,829)	(39,649)	8,478
Net Loss	$ (2,064,672)	$ (1,671,433)	$ (4,033,321)	$ (3,894,569)
Basic and diluted net income (loss) per share:				
Continuing operations	$ (0.66)	$ (0.52)	$ (1.30)	$ (1.28)
Discontinued operations	(0.01)	(0.03)	(0.01)	0.01
Basic and diluted net loss per share	$ (0.67)	$ (0.55)	$ (1.31)	$ (1.27)
Basic and diluted weighted-average common shares outstanding	3,090,333	3,058,892	3,084,390	3,055,900

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, 2005		For The Six Months Ended June 30, 2004	
Cash Flows from Operating Activities:				
Net loss	$	(4,033,321)	$	(3,894,569)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization		408,856		415,308
Amortization of licensed and developed software costs		512,208		658,910
Provision for doubtful accounts		17,456		9,996
Gain on sale of equipment				(4,888)
Interest and other expense related to convertible note payable to affiliate		776,250		
Changes in assets and liabilities, net of effects from dispositions:				
Accounts receivable		190,601		(1,031,629)
Prepaid expenses and other current assets		(60,344)		(116,250)
Deposits and other assets		(587)		
Accounts payable		442,085		189,280
Accrued expenses		187,084		22,722
Unearned revenue		(94,799)		888,710
Net cash used in continuing operations		(1,654,511)		(2,862,410)
Net cash used in discontinued operations		(23,576)		(857,794)
Net Cash Used In Operating Activities		(1,678,087)		(3,720,204)
Cash Flows from Investing Activities:				
Purchase of property and equipment		(112,427)		(190,418)
Licensed and developed software costs capitalized		(722,015)		(676,236)
Proceeds from sale of equipment				26,000
Purchase of intangible asset		(350,000)		
Repayment of note receivable		3,305		20,835
Net Cash Used In Investing Activities		(1,181,137)		(819,819)
Cash Flows from Financing Activities:				
Proceeds from issuance of common stock		2,392		35,014
Proceeds from convertible note payable to affiliate		2,805,000		
Net borrowings under line of credit		35,000		200,000
Net Cash Provided By Financing Activities		2,842,392		235,014
Net decrease in cash and cash equivalents		(16,832)		(4,305,009)
Cash and cash equivalents:				
Beginning of the period		193,702		4,668,038
End of the period	$	176,870	$	363,029
Supplemental disclosures of noncash operating activities:				
Beneficial conversion feature and commitment fee related to convertible note payable to affiliate (Note 5)	$	776,250	$	
Supplemental disclosures of noncash investing and financing activities:				
Acquisition of licensed software utilizing long-term commitment (Note 4)	$	1,000,000	$	

See Notes to Unaudited Interim Consolidated Financial Statements.

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HYPERFEED TECHNOLOGIES, INC. AND SUBSIDIARY

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

HyperFeed Technologies, Inc. (HyperFeed or the Company) is a provider of enterprise-wide ticker plant and transaction technology software and services to exchanges, financial institutions, content providers, channel partners, and value-added resellers. HyperFeed s advanced software technology serves as a corporate-wide ticker plant, enabling firms in the financial services industry with the flexibility and agility to control their own data sources and data content in a cost-effective manner.

The Company has over twenty years experience designing, building, and running ticker plants for the North American financial marketplace. The Company s software technology, including the Company s HTPX product, is currently being used by over thirty customers, including exchanges, large financial institutions, and customers of the Company s Data Delivery Utility product. Additionally, the Company has deployed more than 1,500 of HyperFeed s high performance single server HBOX products at customer sites. HyperFeed s technology supports many firms demanding transaction and order routing systems.

The Company principally derives revenue from licensing technology and providing management and maintenance services of HTPX and HBOX software, ticker plant technologies, and managed services. Additionally, the Company derives revenue from the development of customized software.

HYPRWare, Inc. (HYPRWare) is a majority-owned subsidiary of HyperFeed that receives royalties for former customers currently serviced by a channel partner.

CURRENT OPERATIONS: The Company has sustained significant losses in recent years and in the first six months of 2005. In particular, the Company incurred a net loss of $4.0 million for the first six months of 2005, compared to a net loss of $3.9 million for the same period in 2004, and an overall net loss of $4.9 million for the fiscal year ended December 31, 2004. The recurring losses may raise substantial doubt about the Company s ability to continue as a going concern. The Company expects to secure additional capital from PICO in the quarter ending September 30, 2005. The Company currently believes, although there can be no assurances in this regard, that its existing and anticipated capital resources, including cash and cash equivalents, accounts receivable, assets related to discontinued operations, cash expected to be received from holdbacks associated with the sale of its institutional consolidated market data feed business, available credit under the Restated Convertible Note, and potential capital from financing sources, including PICO, are sufficient to fund its operations over the next twelve months. However, the Company may not have sufficient capital resources to repay or refinance the Restated Convertible Note when it comes due in March of 2006. If the Company requires additional capital resources, there can be no assurances that such capital will be available or that such capital will be available on terms satisfactory to the Company; if the Company does not obtain such capital, then the Company will be able to fund its operations for a shorter period of time.

Following the sale of its institutional consolidated market data feed business in late 2003, HyperFeed has completed almost two years of operations under its 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, rather than principally using its ticker plant technology internally as part of a consolidated market data feed business to service customers. In addition, the Company announced in the first quarter of 2005 its acquisition of the assets of Focus Technology Group LLC, including its Smart Order Routing Technology for Traders (SORTT). SORTT features the ability to ensure Regulation NMS compliance as well as to break apart an electronic order and send it to multiple execution venues to gain price improvement.

In the second quarter of 2005, the Company entered into an exclusive license agreement to license globally in perpetuity the source code for Telerate s Trading Room System (TRS) and Active8 technology from Reuters Limited and Moneyline Telerate. Under the terms of the license, the Company is entitled to use and further develop the TRS technology and the Active8 technology to offer its own market data platform and associated data display workstation worldwide. Based on the TRS technology, HyperFeed launched the HyperFeed Market Data Platform (HMDP) product. HMDP integrates market data from many sources into many types of display or application software - transactional, web distribution, risk management, or other mid- and back-office system. Based on the Active8 technology, HyperFeed launched the Open Collaborative Container (OCC) product to work with HMDP. OCC is intended to provide a professional financial desktop that is fully customizable for various classes of end users. HMDP and OCC expand the Company s product line and the Company intends to market them globally.

Under the current business model, HyperFeed entered into agreements to provide its technology and services to a variety of participants in the financial services industry. Many of these agreements were entered into in the latter part of 2004 and in the first six months of 2005 (Recent Agreements). Substantially all of these agreements are structured to provide a license fee that is payable monthly over a multiple year term. The Company believes that its revenues in any given period will increase to the extent it recognizes revenue from the Recent Agreements. Further, the Company believes that it will continue to develop and realize new customers for its technology and services.

In the first quarter of 2005, the Company amended and restated an existing Convertible Note with PICO Holdings Inc. (PICO), the Company s majority stockholder, increasing the amount available for borrowing from $1.5 million up to $4.0 million, payable one year from the date of the amendment, as described in Note 5 of the Notes to Unaudited Interim Consolidated Financial Statements.

PRINCIPLES OF CONSOLIDATION: The accompanying unaudited interim consolidated financial statements include the accounts of HyperFeed and its subsidiary HYPRWare 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, 2004.

REVENUE RECOGNITION: The Company principally derives revenue from licensing technology and providing management and maintenance services of HTPX and HBOX software, ticker plant technologies, and managed services. Additionally, the Company derives revenue from the development of customized software.

Revenue is recognized from the licensing of HTPX and HBOX (1) as payments from customers become due when the fee is not fixed or determinable at the outset of the arrangement or (2) ratably over the term of the agreement when post-contract customer support (PCS) has a duration of one year or less. PCS is recognized ratably over the term. Revenue for the development of customized software, consulting, and implementation services is recognized based on time and materials from the application of contract accounting for the development of customized software, or based on an hourly rate when it is not a fixed fee arrangement. For licensing of the Company s software through its sales channels, revenue is recognized as payments from the reseller become due and generally commences after the software is installed at the reseller s customer site.

The Company applies the provisions of Statement of Position (SOP) 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 values 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 is recognized as revenue when the sale is effected. If the fee is not considered fixed and determinable, it is recognized as revenue as payments from customers become due. Revenue allocated to PCS 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.

In accordance with SOP 97-2, revenue from contracts that do not require significant production, modification, or customization of software is recognized when the above criteria are met. Revenue from contracts that require significant production, modification, or customization of software is accounted for in conformity with the provisions of Accounting Research Bulletin No. 45, Long-Term Construction Contracts, using the relevant guidance therein, and SOP 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. 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 for which the Company cannot reasonably estimate progress toward completion, the Company employs the completed contract method of accounting. Revenue from arrangements accounted for under contract accounting are allocated among licensed technologies, managed services, and consulting fees based on the contractual terms of the arrangements.

The use of contract accounting inherently includes the use of estimates of progress toward completion. Such estimates are subject to periodic revisions and, as a result, the financial statements could be materially impacted.

The Company applies the provisions of Emerging Issues Task Force (EITF) Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, EITF 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one earnings process and, if it does, how to divide the arrangement into separate units of accounting consistent with the identified earnings processes for revenue recognition purposes. EITF 00-21 also addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement.

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

LICENSED AND DEVELOPED SOFTWARE COSTS: Licensed and developed software costs are accounted for in accordance with Statement of Financial Accounting Standards (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. In accordance with SFAS No. 86, the Company has capitalized licensed software for which the Company believes technological feasibility has been established.

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 licensed and developed software 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 (1) the ratio that current gross revenue for a product bear to the total of current and anticipated future gross revenue for that product or (2) 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 licensed and developed software costs against estimated future undiscounted cash flows. Given the highly competitive environment in which the Company operates and rapid 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, 2005, the Company had one stock-based employee compensation plan as described in Note 4 of the Notes to Consolidated Financial Statements in the Company s annual report on Form 10-K for the year ended December 31, 2004. 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, 2005 and 2004:

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net loss, as reported	$ (2,064,672)	$ (1,671,433)	$ (4,033,321)	$ (3,894,569)
Compensation benefit (expense) related to stock options granted and employee stock purchase plan issuances, net of taxes	(47,285)	61,532	(100,283)	(7,140)
Pro forma net loss	$ (2,111,957)	$ (1,609,901)	$ (4,133,604)	$ (3,901,709)

Basic and diluted net loss per share, as reported	$	(0.67)	$	(0.55)	$	(1.31)	$	(1.27)
Pro forma basic and diluted net loss per share	$	(0.68)	$	(0.53)	$	(1.34)	$	(1.28)

The compensation benefit related to stock options granted and employee stock purchase plan issuances for the three months ended June 30, 2004 resulted from the cancellation during the second quarter of 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 zero at December 31, 2004 and $18,750 at June 30, 2005.

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) 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 by providing ticker plant technologies and related consulting services, 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, 2005 and June 30, 2004:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	**2004**	**2005**	**2004**
Sales to unaffiliated customers				
HyperFeed	$ 957,744	$ 1,218,168	$ 1,751,925	$ 1,867,178
HYPRWare	86,785	114,250	181,658	240,551
Total revenue	$ 1,044,529	$ 1,332,418	$ 1,933,583	$ 2,107,729
HyperFeed	91.7%	91.4%	90.6%	88.6%
HYPRWare	8.3%	8.6%	9.4%	11.4%
Total revenue	100.0%	100.0%	100.0%	100.0%
Operating income (loss) from continuing operations				
HyperFeed	$ (1,638,235)	$ (1,608,670)	$ (3,378,124)	$ (4,135,759)
HYPRWare	86,073	105,890	177,547	218,772
Total operating loss from continuing operations	$ (1,552,162)	$ (1,502,780)	$ (3,200,577)	$ (3,916,987)
HyperFeed	*	*	*	*
HYPRWare	*	*	*	*
Total operating loss from continuing operations	*	*	*	*
Identifiable assets				
HyperFeed	$ 4,655,788	$ 5,290,393	$ 4,655,788	$ 5,290,393
HYPRWare	137,797	195,350	137,797	195,350
Total identifiable assets	$ 4,793,585	$ 5,485,743	$ 4,793,585	$ 5,485,743
HyperFeed	97.1%	96.4%	97.1%	96.4%
HYPRWare	2.9%	3.6%	2.9%	3.6%
Total identifiable assets	100.0%	100.0%	100.0%	100.0%

* percentages not meaningful

(3) INTANGIBLES

On September 23, 2004, HyperFeed repurchased a customer contract that had been sold by HyperFeed to Interactive Data Corporation (IDC) as part of the sale of HyperFeed s institutional consolidated market data feed business in October 2003. As a result of this repurchase, the Company recorded an intangible asset of $127,500. At June 30, 2005, the intangible asset was fully amortized.

On February 16, 2005, the Company acquired Focus Technology Group LLC (Focus), a Delaware limited liability company, developer of Smart Order Routing Technology for Traders (SORTT). The acquisition strengthened the Company s position as a leading neutral provider of high performance financial utilities for electronic trading by adding broker-neutral smart order routing technology to the Company s product offerings.

The terms and conditions of the acquisition, including the purchase of the SORTT technology, were specified in an Asset Purchase Agreement by and among the Company and Focus. The Company purchased substantially all of the assets of Focus, which primarily consisted of developed technology, a customer contract and relationships. The aggregate purchase price consisted of guaranteed and contingent payments. The guaranteed portion of the purchase price was $350,000, with $250,000 paid at closing and $100,000 due on the first anniversary following closing. The Company s obligation to make the contingent payments depends on the achievement of certain growth targets for license and maintenance revenues from the SORTT applications, and will be accounted for as royalty expense in the appropriate periods. The contingent portion will be paid, if at all, during the three year period following the closing and may not exceed $3.4 million in the aggregate. As of June 30, 2005, the Company did not have any obligation to make the contingent payments. The Company also entered into employment agreements with two principals of Focus.

The acquisition of Focus was considered to be an acquisition of a development stage enterprise, as defined under SFAS No. 141, Business Combinations, and was not considered a business combination. As a result, the transaction was accounted for under SFAS No. 142, Goodwill and Other Intangible Assets. The purchase price of $350,000 was allocated to the identifiable intangible assets acquired including developed technology, customer contracts and relationships, and non-compete conditions as noted in the Asset Purchase Agreement on the basis of their estimated fair values on the acquisition date. The Company allocated $250,000 to developed technology, $80,000 to non-compete agreements, and $20,000 to customer contracts, with amortization periods of three years, two years, and one year, respectively. The results of operations of Focus will be included in the 2005 Consolidated Statement of Operations from the date of the acquisition. In connection with the Focus acquisition, the Company incurred transaction fees of approximately $26,000, including legal and accounting fees.

Intangible asset data is as follows as of June 30, 2005:

		Gross Carrying Amount		**Accumulated Amortization**
Amortized intangibles				
Developed technology	$	430,000	$	(191,250)
Non-compete agreements		80,000		(15,000)
Acquired customer contract		147,500		(135,000)
Total	$	657,500	$	(341,250)
Estimated amortization, for the year ended				
December 31, 2005	$	203,750		
December 31, 2006		125,833		
December 31, 2007		88,333		

December 31, 2008	10,417

The net amortized intangibles at June 30, 2005 are $316,250. The weighted average amortization period is 2.53 years in total.

(4) LICENSED SOFTWARE

On May 20, 2005, the Company entered into an exclusive license agreement with Reuters Limited, a corporation organized under the laws of England and Wales (Reuters), and Moneyline Telerate, a Delaware corporation (Telerate), to license globally in perpetuity the source code for both Telerate s Trading Room System (TRS) and Telerate s Active8 technology. In accordance with SFAS No. 86, the Company has recorded the $1.0 million license fee as an asset under licensed and developed software costs with the corresponding liability recorded under accrued expenses. The license fee is due in two installments with 25% payable January 15, 2006 and the remainder payable January 15, 2007. The licensed software has an estimated useful life of three years and amortization will begin in the third quarter of 2005.

(5) LINE OF CREDIT AND RESTATED CONVERTIBLE NOTE

The Company has a line of credit under which it may borrow up to $500,000 at prime. The Company is obligated to make monthly payments in respect of accrued interest. Outstanding principal, together with all accrued and unpaid interest, is due upon demand. The line of credit is secured by the assets of the Company, and contains customary representations, warranties, covenants, and events of default. As of June 30, 2005, the Company had borrowings under the line of credit of $500,000.

On November 2, 2004, the Company issued to PICO a Secured Convertible Promissory Note (the Convertible Note). Under the terms of the Convertible Note, the Company may borrow up to $1.5 million from PICO, at an interest rate of 8%. In connection with issuing the Convertible Note and concurrent with the first draw, the Company recorded a commitment fee by issuing to PICO 25,000 shares of common stock of the Company with a fair value of $75,000 in the first quarter of 2005. As a result, the Company recorded a prepaid asset of $75,000. At June 30, 2005, the prepaid asset was $49,393, net of amortization of $25,607.

On March 28, 2005, the Company and PICO amended and restated the Convertible Note (the Restated Convertible Note). Under the terms of the Restated Convertible Note, the Company may borrow up to $4.0 million at an interest rate of prime plus 2.75%. The Company is obligated to repay all outstanding principal and accrued interest under the Restated Convertible Note on March 28, 2006. The Restated Convertible Note, which is convertible by PICO at any time, provides that the number of shares that PICO would receive in connection with a conversion of any amounts outstanding under the Restated Convertible Note would be determined by dividing the total outstanding amount to be converted by the lesser of 80% of the five-day moving average per share price of the Company s common stock on the date the Restated Convertible Note was given and 80% of the five-day moving average per share price of the Company s common stock on the date of conversion. The five-day moving average per share price of the Company s common stock on the date the Restated Convertible Note was given on March 28, 2005 was $2.03. The number of shares of the Company s common stock issuable upon conversion of the Restated Convertible Note is not subject to a cap.

The Restated Convertible Note contains a beneficial conversion feature and, as a result, the Company recorded additional paid in capital and interest expense of $0.3 million and $0.7 million for the three and six months ended June 30, 2005, respectively, in accordance with EITF Issue No. 00-27, Application of EITF Issue No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, to Certain Convertible Instruments. The Restated Convertible Note is secured by the assets of the Company, subordinate to the security interest granted under the line of credit, and contains customary representations, warranties, covenants, and events of default. As of June 30, 2005, the Company had borrowed $2.8 million under the terms of the Restated Convertible Note and recorded accrued interest of $52,589.

(6) DISCONTINUED OPERATIONS

On October 31, 2003, the Company sold its institutional 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 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. As of June 30, 2005, the Company remains, subject to satisfaction of certain conditions, eligible to receive $785,000 from the holdbacks, net of $90,000 attributable to the customer contract repurchased from IDC on September 23, 2004.

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 monthly installments commencing on July 15, 2003 with an interest rate of 8.0% per annum. At June 30, 2005, the principal balance remaining on the promissory note was $90,493 (all of which is past due), net of an allowance of $10,830. HyperFeed is pursuing collection of this promissory note. See also Note 8 of the Notes to Unaudited Interim Consolidated Financial Statements.

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:

Operating expenses from discontinued operations were $39,649, unadjusted for taxes, and $222,522, net of a $138,000 tax benefit, for the six months ended June 30, 2005 and 2004, respectively. Operating expenses from discontinued operations were $17,050, unadjusted for taxes, and $104,829, net of a $65,000 tax benefit, for the three months ended June 30, 2005 and 2004, respectively. There were no revenue or direct costs of revenue from discontinued operations for the three and six months ended June 30, 2005 and 2004.

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

	June 30, 2005	December 31, 2004
Assets Related to Discontinued Operations		
Accounts receivable, net of allowance for doubtful accounts of 2005: $209,948; 2004: $219,848	$ 57,094	$ 57,090
Prepaid expenses and other current assets		15,180
Total Assets Related to Discontinued Operations	$ 57,094	$ 72,270
Liabilities Related to Discontinued Operations		
Accounts payable	$ 778,383	