HYPERFEED TECHNOLOGIES INC
Form 10-K
March 31, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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	**36-3131704**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
300 S. Wacker Drive, Suite 300, Chicago, Illinois	**60606**
(Address of principal executive offices)	(Zip Code)

(312) 913-2800

(Registrant s telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	**Name of each exchange on which registered**
Common Stock, $.001 par value per share	OTC Bulletin Board

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes o No ý

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer ý

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

As of March 28, 2006, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $1,554,882 based on the closing sale price as reported on the OTC Bulletin Board System.

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at March 27, 2006
Common Stock, $.001 par value per share	7,641,889 shares

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Shareholders to be held August 4, 2006 (Proxy Statement)	Parts II and III

Portions of the Registrant s Definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the 2006 Annual Meeting of Stockholders are incorporated by reference into Parts II and III of this report.

This Annual Report on Form 10-K, including Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of HyperFeed Technologies, Inc. (HyperFeed) and its subsidiary, HYPRWare, Inc. (HYPRWare), (collectively, the Company) to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any statements of the plans, strategies and objectives of management for future operations; any statements regarding future economic conditions or performance; any statement of expectation or belief; and any statements of assumptions underlying any of the foregoing. The risks, uncertainties, and assumptions referred to above include risks related to the possibility of requiring additional financing; the possible dilution associated with financing arrangements; the execution of our business plan; the fluctuations in our financial results; our history of operating losses; attracting and retaining qualified management and key employees; the timely development and introduction of new product and service initiatives at competitive prices and performance levels; pending or future legal proceedings; the effect of economic and business conditions generally; and other risks that are described herein, including but not limited to, the items discussed in Risk Factors set forth in Item 1A of this report and that are otherwise described from time to time in the Company s reports and registration statements filed with the Securities and Exchange Commission.

PART I

Item 1. Business.

HyperFeed is a leading provider of ticker plant and smart order routing technologies and managed services to exchanges, financial institutions, hedge funds, and channel partners. Our advanced software technology serves as a corporate-wide ticker plant, providing 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. Our HyperFeed Next Generation Ticker Plant (HTPX) technology, which includes our HVAULT and HBOX products, is designed to support low latency yet high value real-time market data and data services for use in receiving and distributing financial content with a competitive edge. Our dynamic smart order routing utilities (SORTT) are designed to offer price improvement in order execution while assisting firms with compliance with Regulation NMS (REG-NMS). Our High Performance Center technology is a global, highly distributed, fully managed financial content distribution utility with extremely low latency. Our MarketStamp technology, a derivative of SORTT, is an order routing platform that records timestamps and market snapshots to fulfill the requirements of Securities and Exchange Commission (SEC) Rule 11ac-5 and 11ac-7. Our HyperFeed Market Data Platform (HMDP) and Open Collaborative Container (OCC) comprise a data platform and display application based on Telerate s Trading Room System (TRS) and Active8 technology licensed from Reuters in 2005.

Beginning with a comprehensive understanding of the diverse needs of the financial services industry, we apply advanced technologies to the processing, delivery, distribution of, and access to, financial market data. We believe that we offer one of the fastest, most complete and reliable management exchange platform services, which can be used with industry-leading application programming interfaces (APIs), third-party applications or proprietary solutions. HTPX, the High Performance Center, MarketStamp, HMDP, and OCC have flexible licensing models that can fulfill the needs of financial institutions, exchanges, buy and sell side analysts, content providers, redistributors, channel partners and value-added resellers. It is our twenty-plus years of experience, human capital, and established product offerings that differentiate us from our competition. With our commitment to our customers and our desire to succeed, we continue to change the marketplace with our leading technologies.

General Development Of Business

Background

HyperFeed was originally incorporated in Illinois on June 23, 1980 as On-Line Response, Inc. We changed our name to PCQuote, Inc. in 1983 and incorporated in Delaware on August 12, 1987. In an effort to focus on the Web site and consumer business, we incorporated a subsidiary, PCQuote.com, Inc. (PCQuote), in March 1999. In June 1999, we changed our name to HyperFeed Technologies, Inc. In May 2003, we divested our individual retail investor unit and changed the name of our subsidiary, PCQuote, to HYPRWare, Inc. In October 2003, we divested our institutional consolidated market data feed business. In February 2005, we purchased the business of Focus Technology Group LLC, a smart order routing technology company. In May 2005, we entered into an exclusive agreement with Reuters and Moneyline Telerate to license globally in perpetuity the source and object code for both TRS and Active8 technology (the Reuters Agreement). Under the terms of the Reuters Agreement, we are entitled to use and further develop the TRS technology and the Active8 technology to offer our own market data platform and associated data display workstation worldwide. We are now focused on providing enterprise-wide ticker plant and transaction technology, software and services enabling financial institutions to process and use high performance exchange data.

Current Market Conditions

For over twenty years, our proprietary ticker plant technologies were used behind-the-scenes to process our consolidated market data feed, HyperFeed Market Data, for our customers. In response to market trends demanding direct exchange connectivity, we divested our institutional consolidated market data feed business to focus on offering directly the same advanced and robust ticker plant technologies to our customers. With the sale of our institutional consolidated market data feed business, we believe that HyperFeed is no longer viewed as a competitor to certain participants in the financial services industry, which has enabled us to become a provider of technology to our traditional competitors in the consolidated market data feed business. We believe that this shift in focus has opened other new markets for us, including exchanges and content providers as well as financial institutions and redistributors. Additionally, we believe that the High Performance Center will open our market to include hedge funds.

HyperFeed s HTPX evolved as a result of changing trends in the financial services industry. Financial markets are undergoing fundamental changes as a result of excess capacity, growing data volumes, new market participants, and regulatory pressure. We believe these changes have resulted in fewer people, with tighter budgets, working harder and handling more information under the increasingly watchful eyes of regulators. The proliferation of program trading, the growth of electronic trading and electronic exchanges, the advent of new exchange depth products, and the effect of current economic conditions are collectively influencing financial institutions to seek to receive market data feeds directly from each source of market data, including traditional exchanges and newer electronic trading systems. We believe that financial institutions pursuing direct market data feeds are focused on issues of performance management and redundancy, bandwidth requirements and latency reduction. Despite the difficult market conditions, we believe this trend creates opportunities for us.

In addition to those noted above, there exist several other key factors that we believe have spurred the shift toward direct market data feeds. In particular, we believe that merger and acquisition activity among traditional consolidated market data feed vendors has caused financial institutions to reevaluate relying on third parties for consolidated market data feeds. In recent years, Reuters acquired Bridge, Multex, and Telerate, SunGard acquired Fame, and Interactive Data Corporation (IDC) / ComStock acquired our institutional consolidated market data feed business. As a result, financial institutions are now considering direct market data feeds for both primary and secondary data sources.

We believe that the increasing presence of program trading has influenced financial institutions and their desire to implement direct market data feeds. As more active and complex program trading proliferates, faster access to market data is necessary to maintain a competitive edge. Direct market data feeds minimize latency while providing the large volume of data required to support the trading applications.

We also believe that the proliferation of electronic exchanges entering new marketplaces and the introduction by existing exchanges of new products have influenced financial institutions and their increased desire to implement direct market data feeds. This expansion in the breadth and diversity of market data sources and the increase in the number of products traded have produced unsurpassed volumes of data that must be processed. For example, the arrival of NASDAQ s SuperMontage, NYSE s OpenBook, ECNs, exchange auto-execution systems, and Boston Options Exchange to the trading community has increased already high data volumes. These new products and exchanges magnify the number of updates requiring even greater amounts of bandwidth. High update rates also require more ticker plant processing power, which in turn can result in data processing latency. We believe that in order to ensure performance and reliability, financial institutions must seriously investigate eliminating the consolidated market data feed vendor and obtaining their market data directly from each data source.

We believe that REG-NMS will also shape market conditions. REG-NMS could have dramatic ramifications for market data bandwidth, order routing technology, and real-time compliance and monitoring systems. We believe that our MarketStamp product will allow us to offer

customers compliance with the proposed regulations while permitting greater efficiency and lower costs with a highly customizable routing system.

Current Market Opportunity

Implementing direct market data feeds is not a simple solution. Market data sources broadcast market data in different formats that continually require modification, and have very granular and detailed user reporting and permissioning requirements. Many traders rely on special ratios and calculations like Volume Weighted Average Price (VWAP), time/sales, best bid, or money flow to make split second trading decisions. These are complex algorithms only handled by robust and flexible ticker plant technologies. The algorithms need to be calculated in real-time, simultaneously, as the data is received or they have little value. In addition, true latency reduction requires more than just a direct connection and a source server. Each market data feed must be developed to and supported for systems and data management. We believe that these problems can be solved by utilizing HyperFeed s HTPX, which allows users to pick and choose any configuration of a direct market data feed with consolidated market data feed in a managed services platform.

Capturing direct data feeds from many different market data sources requires financial institutions to write code and develop separate Front End Processors (FEPs) for each market data source. They must also keep up with the multitude of changes and new products from market data sources. The FEPs must be able to process trade corrections, perform data integrity checks, and read complex symbology. Once the FEPs receive the data, it must be consolidated and normalized into a single format for output so it can be processed by applications or viewed on a desktop by an end-user. HyperFeed has FEPs that currently process market data from Canadian/Toronto Stock Exchange, Chicago Board of Trade, Chicago Mercantile Exchange, Montreal Stock Exchange, NASDAQ, New York Board of Trade, New York Mercantile Exchange/Commodity Exchange, New York Stock Exchange, American Stock Exchange, Options Price Reporting Authority, BRUT, ARCA, INET, and historical and fundamental data providers. In addition, we plan to offer international feed handlers for the largest European exchanges beginning in the third quarter of 2006.

In addition, each exchange has specific detailed reporting and user-management requirements. A robust back-end database is necessary to administer this function. Our entitlements system is an extensible system built to manage exchange vendor of record functions and is offered for use as part of HTPX.

Large financial institutions often create proprietary calculations and data feeds that give them a competitive edge in trading and analysis. HyperFeed s Software Development Kits (SDKs) allow companies to seamlessly integrate the proprietary information market data from other market data sources.

Currently, there are approximately 25,000 users of Telerate s Active8 technology being fed by Telerate s TRS platform. We believe these users can be transferred to HyperFeed s HMDP and OCC products with little additional infrastructure costs. With our partners, we have a program to contract the existing 25,000 users onto HMDP and OCC. We believe this approach offers data agnostic software whereby customers and content providers have the same access to high-level support, promoting an equal integration platform.

We believe that our twenty-plus years of experience as a provider of consolidated market data feeds will create additional opportunities within our marketplace. In particular, in connection with our market data feed products, we have historically provided ticker plant technologies to Bridge, PCQuote, Charles Schwab & Co., Inc., Townsend Analytics, Ltd. (Townsend), and IDC/Comstock. We further believe that our knowledge and experience designing, building and operating ticker plants provide us with the insight to understand complexities such as data integrity, real-time performance, data exchange entitlements and multicast transmission and position us well to take advantage of opportunities within our marketplace.

Products and Services

HyperFeed s core products and services are currently built around our HTPX technology. HyperFeed offers and licenses its HTPX platform in a variety of manners to meet our customers needs. Examples of the flexibility of HyperFeed and its solutions include: complete ticker plant outsourcing and management; prepackaged HBOX solutions; and licensing and proprietary custom development around HTPX. HyperFeed also offers flexible IP licensing scenarios. In 2005, HyperFeed began to offer our HMDP technology, which is based upon Telerate s TRS technology.

HTPX

HTPX is offered as a complete turnkey solution for the normalization, databasing, integration and transmission of high performance, real-time data sources from market data sources, content providers, and proprietary in-house sources. It provides direct access to market data from Canadian/Toronto Stock Exchange; Chicago Board of Trade; Chicago Mercantile Exchange; Montreal Stock Exchange; NASDAQ; New York Board of Trade; New York Mercantile Exchange/Commodity Exchange; New York Stock Exchange; American Stock Exchange; Options Price Reporting Authority; BRUT; ARCA; INET; and ComStock, and offers a complete set of data cleansing and management tools for remote or on-site use. It provides adaptors to a number of widely used middleware platforms, and can be used collectively as a complete solution or individually to augment the functionality of other vendor system products. In addition, we plan to offer international feed handlers for the largest European exchanges beginning in the third quarter of 2006.

There are five components to HyperFeed s HTPX: HSOURCE (Front End Processoring), Data Switch, Caching and Analytics, Management, and Toolkits and Adaptors. In addition, the High Performance Center allows distributed and managed access to HTPX technology.

HSOURCE

Designed for performance, HSOURCE is HyperFeed s exchange normalization engine tuned to offer full multicast streams or interest based access with sub-millisecond performance. Faster than a ticker plant, HSOURCE is an ideal solution for customers who require specific data sets with minimal latency.

In addition to ultra-low latency, the multicast capabilities of HSOURCE allow firms to efficiently monitor the entire data stream or filter using point to point mechanisms to select only the specific data sets and the individual securities they need. With filtering capabilities, HSOURCE minimizes networking overhead and the hardware footprint. These advantages result in the best cost to performance ratios available.

HSOURCE normalizes and consolidates raw exchange data and presents it to applications via our published API. Optional configurations allow for API access to the full breath of the exchange or filtering based specific interest based criteria, depending on the application requirements. The HSOURCE is available as a stand alone component or as part of our HTPX ticker plant solution and is currently providing customers a cost effective competitive advantage with low cost yet high performance components.

Data Switch

HTPX has a scaleable distribution architecture, known as Data Switch, that uses both multicast and uni-cast forms of network traffic, according to the demands of our customers network design. We believe that data fan-out rates are limitless due to Data Switch s unique cascadable capability. Data Switch s modular design enables the HTPX platform to scale to handle the dramatically increasing message rates of market data and reduces the demand for high end processors. A single Data Switch will scale to handle over 100,000 inbound messages per second we believe sufficient capacity to handle predicted growth for the foreseeable future.

Assisting in handling increasing message rates is HyperFeed s Zero Loss Compaction (ZLC) technology, another component of our HTPX. ZLC can alleviate the latency problems and reduce the bandwidth costs financial institutions face with direct market data feeds. It compacts data up to a 10:1 ratio, allowing customers to receive complete data sets over less bandwidth.

Caching and Analytics

HTPX is fully compatible with the latest Blade Server technology. A large number of pre-programmed data calculations are included with the HTPX Analytics Engine, which performs complex calculations based on data that the system is receiving (for example, calculating VWAP) and injecting the newly calculated data fields into the real-time data stream. The Analytics Engine on HTPX facilitates the creation of custom market indices, in addition to a wide range of pre-programmed indices. Time and sales and historical data can be collected and stored in the newly designed HTPX Data Cache.

In addition, the HTPX Data Cache stores many types of data - records, page, news, reference, self-describing, time and sales and historical data. The system s data model can store equities, futures, options, treasuries and FX data. Access to the data is simplified by the use of symbol translations and abstraction layers that ensure receiving data in a form that can be easily integrated into systems. Additional flexibility is built into the HTPX Data Cache with its ability to store self-describing data.

Management

Compliance with exchange requirements, tracking and auditing data feeds, handling corrections, splits, symbology, and options chaining, and data line tracking and switching are handled by HyperFeed s Management products. These products include:

Entitlements System

Each market data source has specific detailed reporting and user-management requirements. A robust back-end database is necessary to administer this function. HyperFeed s entitlements system is an extensible system built to manage administrative exchange vendor of record functions. It is designed to be a complete back-office entitlement system to monitor and manage enterprise data set permissions and automatically record and accurately report this information to the market data sources. The entitlements system is Vendor Reporting XML (VRXML) compliant and approved by Canadian/Toronto Stock Exchange, Chicago Board of Trade, Chicago Mercantile Exchange, Montreal Stock Exchange, NASDAQ, New York Board of Trade, New York Mercantile Exchange/Commodity Exchange, New York Stock Exchange, American Stock Exchange, Options Price Reporting Authority, BRUT, ARCA, and INET.

Control Room

HyperFeed s Control Room is a set of over 200 monitoring tools that manage and audit incoming lines and alerts for problems. In addition to allowing the viewing of incoming lines, it also provides statistics such as sequence number, baud rate, and sensitivity status. It has completely customizable alarms, task management capabilities, and remote accessibility along with supplying data management capabilities. Our Control Room also handles all data manipulation, restores, and corrective actions.

Data Maintenance Line

The data cleansing layer of HyperFeed s HTPX is designed to manage corrections, splits, symbology, and options chaining. Line arbitration is a feature that simultaneously monitors pairs of lines and selects the most timely data on a packet by packet basis,

ensuring that customers receive the most complete data sets possible with minimal latency. HyperFeed also offers a proprietary maintenance line to process corrective actions contained by a remote operational and data integrity staff. The line is designed to also handle the processing of the master options file, corporate actions, and splits and dividends.

Tools and Adaptors

HyperFeed s tools and adaptors are designed to allow customers to supply data to any required environment or application. These products include:

SDKs

HyperFeed s SDKs are designed to allow customers to quickly and easily integrate all of HyperFeed s database content into their own financial applications without enduring long development cycles or incurring high development costs. Available development tools currently include: .Net, COM, JAVA, C/C++ (for UNIX/LINUX and Windows), Visual Basic, and CGI. HyperFeed develops SDKs to support the latest technology standards, including Microsoft.NET.

RMDS Adaptor (Reuters Market Data System)

RMDS Adaptor is an adaptor that allows financial institutions with the RMDS infrastructure to access, publish, manipulate, and display HyperFeed processed data within RMDS applications.

High Performance Center

The High Performance Center is a global, highly-distributed, fully-managed financial content distribution utility with extremely low latency and an end-to-end Service Level Agreement. It combines HyperFeed s HTPX ticker plant technology with Radianz s global communications network to provide high-performance access to financial content in a utility model. The High Performance Center is designed to allow customers to plug into a high-performance, yet turnkey, utility service for the normalization, caching, integration, entitlement control, and transmission of high performance, real-time direct data sources. It provides managed access, managed content, standardization, and managed interfaces that redefine financial content distribution. The network becomes the ticker plant there are no central caching or data processing facilities.

HBOX

HBOX is an offering developed based on HyperFeed s HTPX that allows customers to have a complete on-site financial ticker plant solution. While HTPX is designed to be a high-level solution offering the utmost in flexibility and customization, HBOX is an off-the-shelf solution for customers who want the benefits associated with direct exchange access, but who don t require the development and breadth of customization HTPX offers.

HMDP

HMDP is HyperFeed s market data platform based on Telerate s TRS technology, which is widely considered the most architecturally open platform available. As a proven market data distribution platform that interfaces many different data feeds, HMDP makes it easy to integrate market data from any source into any type of display or application software: transactional, web distribution, risk management, or other mid and back-office systems.

OCC

OCC is a professional financial desktop application that is fully customizable for various classes of end users and is based on Telerate s Active8 technology. OCC seamlessly integrates multiple data sources including real-time data, chains, charts, analysis, news, and other published data. It supports various operating systems and displays all the data available on HMDP.

MarketStamp

MarketStamp is a derivative of our smart order routing system that stamps all executions with timestamps and market snapshots for compliance with the SEC s Rules 11ac-5 and 11ac-7. It is designed to take advantage of hidden liquidity and fast markets by using its proprietary analysis and hundreds of customizable customer preferences to segment and route stock orders in a highly efficient and profitable way. By looking at depth-of-book data, MarketStamp can interact with both depth-of-book and top-of-book data to offer the opportunity to achieve best execution.

Consulting Services

HyperFeed s experienced employees can manage a ticker plant entirely or consult with customers to help them manage their own ticker plant. The two basic categories of consulting services include:

Managed Services

HyperFeed offers complete management of a customer s onsite or remote ticker plant.

Software Customization

HyperFeed offers consulting services to customers for customized integration into their existing applications and infrastructure.

The key advantages of HyperFeed s products and services include:

Cost Effective: HyperFeed s HTPX is designed to provide optimal performance and cost efficiency, which is intended to reduce direct costs of capital, indirect infrastructure, and support costs of our customers.

Experience: HyperFeed has experience working with some of the largest financial firms and exchanges, assembling innovative low latency high performance solutions.

Expertise: HyperFeed has been developing ticker plants for over twenty years and now brings that expertise directly to the customer.

Products and Services: HyperFeed s solutions are designed to solve many of the hurdles and costly operational issues associated with implementing direct exchange solutions. In addition, we generally offer flexible licensing solutions to meet the needs of our customers.

Excellence in Execution: We are committed to both the highest levels of quality and continuous improvement in our business processes, our products, our services, and our support.

Strategy: With input from our customers, we continue to build ticker plant products derived from our HTPX technologies that meet required performance standards at the cost points the market demands.

Industry Participation: HyperFeed is a member of and participates in several industry associations that keep us up to date with current and proposed changes and standards.

Widely Deployed: HyperFeed has over 1,500 active HBOX installations, and our HTPX technology is currently deployed at three U.S. exchanges and numerous flagship financial institutions.

Because of these key advantages, we believe that we are unique with respect to the completeness of our technologies and service offerings. HyperFeed is a leader in providing managed ticker plant solutions and the technology for direct exchange connectivity. With our commitment to our customers and our desire to succeed, we believe that we continue to change the marketplace with our leading edge technologies.

Major Customers

Our major customers fall into four categories: exchanges, financial institutions, hedge funds, and channel partners. We sell directly to our customers and have entered into partnership agreements with several channel partners that have the ability to resell or refer HyperFeed products to the marketplace. In addition, HyperFeed s HTPX allows for the aggregation and delivery of exchange based data and services via alliance partners that utilize our technology to enhance the direct delivery of data from exchanges to financial institutions.

Patents, Trademarks, and Licenses

Our proprietary software is protected from unauthorized use by the U.S. Copyright Act and trade secret laws and all distributed copies of the software and supporting materials bear a copyright notice. We also attempt to protect our rights in proprietary software by entering into license agreements with customers and suppliers and confidentiality and non-disclosure agreements with our employees and other third parties. We use security measures to restrict access to our services to only those with proper password identification. As an additional safeguard, we generally retain source code and provide only object code bearing a copyright notice to third party users of our proprietary software.

The following are trademarks we use in our business:

HyperFeed® and the HyperFeed® logos are registered trademarks.

HyperServer is a trademark of HyperFeed Technologies, Inc.

HyperFeed SmarTicker is a trademark of HyperFeed Technologies, Inc.

Neosphere is a trademark of HyperFeed Technologies, Inc.

Neosphere DB is a trademark of HyperFeed Technologies, Inc.

Competition

We believe the market for ticker plant technologies used to facilitate and manage direct market data feeds in an HTPX model is significant and has expanded due to key trends in the financial services industry. Direct competitors include small consulting firms that sell market data feed servers and in-house development teams, but we believe that these firms only compete with HyperFeed on the first level of service (source servers) involving FEPs. Examples of these types of firms are InfoDyne and Wombat Consulting. We do not believe that these firms currently offer ticker plant services such as time/sales, money flow and bid/ask, data management tools, ZLC technologies, SDKs and adaptors or smart order routing. We believe that there are a multitude of consultancy and software providers that can offer one-time solutions that compare with our offerings but, to our knowledge, these consultancy and software providers do not offer the highly configurable software and customized development offered by HyperFeed.

We believe the market for our HMDP technology includes the estimated 25,000 current customers of Telerate s Active8 technology being fed by Telerate s TRS platform. These customers are concentrated within a handful of large financial services institutions. The major competitor in this space is Reuters, owner of Telerate s TRS. We believe that our experience in ticker plant technology and established presence plus the lower infrastructure costs and our willingness to create open communities make HMDP a more attractive prospect than Reuters offerings.

We have recently notified Reuters that we believe that Reuters has failed to provide us certain technology that Reuters is required to provide us under the Reuters Agreement and has taken certain other actions that we believe may conflict with Reuters obligations under the Reuters Agreement. As a result, we did not pay to Reuters the scheduled license fee payment due under the Reuters Agreement in January 2006. If we are unable to obtain the completion of Reuters obligations under the Reuters Agreement, or if the Reuters Agreement is terminated, our ability to develop and commercialize our HMDP and OCC product offerings could be adversely affected. While Reuters has not acknowledged any non-compliance with its obligations under the Reuters Agreement, it has offered to provide certain additional items to us and has requested payment of the license fee upon our receipt of these items. Our discussion with Reuters about these topics is continuing.

Additionally, we face competition from a large range of participants in the financial industry, including market data vendors, large global system integrators, network service providers, software companies, exchanges, and new technology firms.

Seasonality

We have not experienced any material seasonal fluctuations in our business.

Research and Development

Our research and development personnel expend their time and effort developing and enhancing HyperFeed s HTPX technology. Recent key development projects related to HTPX include enhancements to the core components to reduce latency, increase capacity to cope with ever increasing market message rates, and enhance auditing features to enable applications to monitor latency dynamically per message. An enhanced system monitoring capability was also developed along with the ability to automate routine data maintenance operations.

Additionally, our research and development personnel expend their time and effort developing, enhancing, and extending HyperFeed s HMDP technology. Recent key development projects related to HMDP include rebuilding Telerate s TRS software in HyperFeed s environment and adding a Bloomberg PhatPipe feed handler. Further development projects related to HMDP will include branding Telerate s TRS software to reflect HyperFeed s HMDP name, and (i) add the ability to store and retrieve many months of news headlines and stories, (ii) enhance user data publishing configurability and resilience, (iii) add a Java version of the HMDP producer applications programming interface, (iv) add support for the latest versions of Microsoft and Sun Operating Systems, and (v) add additional data feed and contribution feed handlers.

During the fiscal years ended December 31, 2005, 2004 and 2003, we expensed $1,779,386, $1,441,472, and $1,827,975, respectively, for research and development.

Environment

Compliance with federal, state, and local provisions with respect to the environment has not had a material adverse effect on our capital expenditures, earnings, or competitive position.