TRACK DATA CORP
Form 10-K
March 26, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)
/x/ Annual report under section 13 or 15(d) of the securities exchange act of 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

/ / Transition report under section 13 or 15(d) of the securities exchange act of 1934

COMMISSION FILE NUMBER 0-24634

TRACK DATA CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	22-3181095 (I.R.S. Employer Identification No.)

95 ROCKWELL PLACE
BROOKLYN, NEW YORK 11217
(Address of principal executive offices) (Zip Code)

(718) 522-7373
(Registrant's telephone number)

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act: COMMON STOCK, $.01 PAR VALUE

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 twelve 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 /x/ No / /

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. /x/

Indicate by checkmark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes / / No /x/

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter. Based on the average bid and ask price of the Company's Common Stock on June 30, 2002 of $1.18 per share. $28,142,000.

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
50,637,057 SHARES OF COMMON STOCK, $.01 PAR VALUE, AS OF FEBRUARY 28, 2003.

DOCUMENTS INCORPORATED BY REFERENCE
[SEE INDEX TO EXHIBITS]

PART I

Disclosures in this Form 10-K contain certain forward-looking statements, including, without limitation, statements concerning the Company's operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believe," "expect," "anticipate" and other similar expressions generally identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based largely on the Company's current expectations and are subject to a number of risks and uncertainties, including, without limitation, changes in external market factors, changes in the Company's business or growth strategy or an inability to execute its strategy due to changes in its industry or the economy generally, the emergence of new or growing competitors, various other competitive factors and other risks and uncertainties indicated from time to time in the Company's filings with the Securities and Exchange Commission. Actual results could differ materially from the results referred to in the forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the results referred to in the forward-looking statements contained in this Form 10-K will in fact occur. The Company makes no commitment to revise or update any forward looking statements in order to reflect events or circumstances after the date any such statement is made.

ITEM 1. BUSINESS

Track Data Corporation (the "Company") is a financial services company that owns Track Data Securities Corp. ("TDSC"), a registered securities broker-dealer and member of the National Association of Securities Dealers, Inc. ("NASD"). The Company provides a proprietary, fully integrated Internet-based online trading and market data system, proTrack, for the institutional trader and myTrack, for the individual trader. The proTrack system is also licensed as a trading platform for other broker-dealers. The Company provides real-time financial market data, fundamental research, charting, and analytical services to institutional and individual investors through dedicated telecommunication lines and the Internet. The Company also disseminates news and third-party database information from more than 100 sources worldwide.

The Company also owns and operates the Track ECN, an electronic communications network that allows traders to display and match limit orders for

stocks. Track ECN offers subscribers a Rebate Model, which offers the highest published rebate in the industry, and a Free Model, which offers no access fees to market participants who access its liquidity through Nasdaq's SuperMontage. Track ECN offers subscribers anonymous executions and speed. Both the Rebate Model and the Free Model participate in Nasdaq's new trading platform, SuperMontage.

The Company has delivered mission-critical information to the most demanding customers in the investment community since 1981. Market data is delivered directly from original sources (such as the exchanges) to the Company's facilities, where the data is simultaneously redistributed to its customers. myTrack and proTrack operate through the use of proprietary application software. Once the user is attached to the Company's host server, the connection link is constant, like an open telephone connection. This allows the system to provide dynamically updating stock quotes and news and to immediately respond to all queries. Utilizing the built-in trading platform allows the user to enter a trade that is received by the Company's server instantaneously, as the connection is the same one that is already connected for market data. The Company also offers proTrack through a direct point-to-point T1 connection.

The Company maintains offices in the U.S. and Europe, with executive offices located at 95 Rockwell Place, Brooklyn, New York 11217. Its telephone number is 212-943-4555 or 718-522-7373.

The Company's operations are classified in two business segments: (1) Internet-based online trading, market data services and ECN services to the institutional professional investment community, and (2) online trading and market data services to the non-professional individual investor community. The Company also engages in arbitrage trading. See Notes C and H of Notes to Consolidated Financial Statements.

A. ONLINE TRADING, MARKET DATA SERVICES AND ECN SERVICES TO THE INSTITUTIONAL PROFESSIONAL INVESTMENT COMMUNITY

MARKETRACK

MarkeTrack offers significant real-time quote processing and analytical features, and has become distinguished over time for its ability to consistently deliver real-time, market sensitive information. The service provides domestic and international market information, dynamically updating quotelines, options and futures displays, real-time spreadsheets, tick-by-tick updating graphics, news services and third-party databases, user-defined screen layouts, access to back-office order and execution services, and over 20 years of graphical price history. It allows users to calculate theoretical values of options and determine the most beneficial investment strategy through calculating returns on alternative investments, including options and futures. In addition, users are able to download real-time data to both Microsoft Excel and Lotus 1-2-3 spreadsheet applications, which allows the users to create individually tailored financial applications to meet specific needs without additional programming.

The service provides investment professionals the ability to easily and rapidly analyze, on a single service terminal, large volumes of real-time prices, third-party databases, historical information and news services to support split second trading decisions. It runs under Windows NT, DOS and UNIX operating systems on a wide variety of personal computer and workstation platforms.

Pricing and Customers: Customers are charged a monthly service fee and

a communications or location charge that typically varies with the location and size of the customer's installation. Service charges vary with the number and types of functions to which an individual subscribes, and are typically between $250 and $600 per month per user.

Since August 2001, the Company has experienced a decline in revenues for its market data services to the Professional Market segment due principally to a reduction in customers' staffing. Management expects this trend to continue through the first half of 2003. MarkeTrack currently serves over 2,000 customers in trading and institutional investment management positions. Customers include floor traders, block traders, market makers, OTC traders, options specialists, head traders, arbitrageurs and hedge fund managers.

PROTRACK ONLINE TRADING

The Company offers a direct access state-of-the-art trading system for the professional market, proTrack. Many competing systems are connected with a particular market maker or ECN that requires all trades to first pass through that platform, even when the execution will not be done there. proTrack enables the trader to access the market directly. There is also smart order routing built into the system for times when a routing destination is not selected by the trader. proTrack is a Windows-based fully customizable system with flexibility to display the information the trader wants to see with dynamically updating linked windows.

Among many trading features offered by proTrack are: point and click equities and options trading, direct access to market makers and ECN's, hot keys, smart order routing, reserve book, quick modification of existing orders, multiple order types and a wide variety of market data and news.

proTrack offers trading through the Company's wholly-owned broker-dealer subsidiary, TDSC, clearing through Penson Financial Services, Inc. proTrack also offers its trading platform, with direct access to market makers and ECNs, to broker-dealers who wish to route orders utilizing the advanced features of proTrack.

proTrack is available on a private label basis and is customized, where required, to particular trading requirements. Pricing of the services is dependent on trading volume, market data services required and necessary clearing costs.

ELECTRONIC COMMUNICATIONS NETWORK

In February 2002, TDSC received authorization from the NASD and the Securities and Exchange Commission to operate an Electronic Communications Network ("ECN") that enables traders to display and match limit orders for stocks. This authorization allows trading of Nasdaq National Market, SmallCap, and exchange-listed securities on its ECN trading platform. In order to set the Track ECN apart from other ECNs, the Company has incorporated state-of-the-art trading functionality into the ECN. This functionality is normally available only on sophisticated front-end trading platforms. Through December 31, 2002, the Company encouraged broker-dealers and market makers to become subscribers to its ECN by paying a commission of up to $.005 per share for adding liquidity (limit orders added to the ECN order book) and charging $.007 per share for taking liquidity (those who execute against an existing bid or offer on the ECN).

Soon after its official launch in April, 2002, Track ECN built its volumes very quickly by offering access to its ECN through Nasdaq's

SuperSoes system. However, the ECN market has experienced significant changes during the last half of 2002, including the introduction of Nasdaq's trading platform, SuperMontage. Track ECN experienced a significant decline in trading volume under SuperMontage. Track ECN continues to modify its services and pricing to compete effectively as described below.

Nasdaq's SuperMontage became fully operational in December, 2002. Prior to SuperMontage, Track ECN provided liquidity through SuperSoes, Nasdaq's automated execution system, where market makers were not preferenced over ECN's by Nasdaq when filling orders. Accordingly, liquidity providers to Track ECN received immediate executions in SuperSoes. Under SuperMontage, market makers and ECN's who charge no access fee are preferenced by Nasdaq (orders are filled) before ECN's charging access fees are filled. Liquidity providers to the Track ECN were experiencing difficulty in receiving executions of their orders due to broker-dealers and market makers routing their Nasdaq orders to lower cost ECN's and no fee market makers. As a result, volume on Track ECN was reduced from a high of more than 400 million shares in October, 2002 to less than 100 million shares in December, 2002. Track ECN changed its pricing effective January 1, 2003 to pay subscribers who add liquidity $.0023 per share in full on a monthly basis and to charge $.0029 per share to market participants who take liquidity. By charging the lowest rate of any major ECN and offering the highest published rebate in the industry, the Company is attempting to recover its lost volume and, ultimately, to increase its volume from past levels. With the lower spread between rebate and charge of $.0006 per share from $.002 per share, the Company will need to handle significantly more volume to achieve similar financial results. In connection with this change, and to keep costs at a minimum, Track ECN has applied to become a self-clearing ECN. If its application is approved, it is estimated that the Company will save more than 50% of its current clearing costs through third parties.

In addition to the Rebate Model described above, Track ECN introduced a second pricing model offering free access to market participants. Using the Free Model, subscribers can display bids and offers in the first tier with the market makers (as opposed to the second tier, with those who charge an access fee). Track ECN receives a rebate of $.002 per share from Nasdaq and pays its subscribers $.001 per share for adding liquidity. Subscribers who take liquidity directly (without accessing through Nasdaq) are charged a fee of $.0019 per share. Both the Rebate Model and the Free Model of Track ECN offer subscribers anonymous executions, speed, and participation in Nasdaq's SuperMontage.

NEWSWATCH SERVICE

The market focus of NewsWatch is the business professional who "must know first." This group includes traders, bankers, research analysts, investor relations professionals, corporate executives, or any "knowledge worker" who needs real-time information for making day-to-day business decisions. The service provides enterprise wide solutions to corporations needing to deliver external/internal real-time information to their "knowledge workers," leveraging internal networks and/or intranets. The service includes a high-speed consolidated news ticker, an NT-resident database with full-text indexing, access to a variety of third-party databases, and multiple domestic/international exchanges, all via a state-of-the-art user-friendly presentation environment.

NewsWatch also provides a browser-based interface, bringing all the advantages of the Company's news collection and delivery service to the web environment. It is appropriate for corporations that are comfortable with

browser technology and need access to real-time business news for their end-user population via an internal intranet or the World Wide Web.

Pricing and Customers: Customers are charged a monthly service fee and a communications or location charge, which typically varies with the location and size of the customer installation. Service charges vary with the number and types of functions/news sources to which the user subscribes. A typical installation is approximately $300/month at the 5-user level and is scaled down with increased users at a location.

MARKETING

MarkeTrack competes in several highly competitive segments of the on-line real-time financial information marketplace: equity, options and futures trading; and the investment management segments of the professional investment community. The Company's focus is on the premium end of the trading markets, appealing to institutional sales people, arbitrageurs, market makers and traders.

MarkeTrack, proTrack, Track ECN, as well as the NewsWatch service, are marketed primarily through a dedicated sales force, including 10 full-time sales persons. All services are sold directly, often as a result of on-site presentations and service demonstrations.

In addition to its dedicated sales force, the Company maintains relationships with a number of brokerage firms that actively sell the Company's services to the money management side of the industry for "soft dollars." In a soft dollar arrangement, the brokerage firm pays the Company for services delivered to the money managers. These brokerage firms are typically also customers of the Company.

The Company has ongoing advertising, direct mail, and public relations programs to promote product recognition and educate potential new customers in its targeted markets. In addition, the services are exhibited at major industry trade shows each year.

COMPETITION

The Company competes with many other providers of electronically transmitted financial information. The Company competes in its service offerings to varying extents through price and quality of service.

The Company offers its MarkeTrack service in a highly competitive market in which it competes with other distributors of financial and business information, many of which have substantially greater financial resources. The Company competes, among other things, on the basis of the quality and reliability of its data, the speed of delivery and on the flexibility of its services. In the equity, options and futures trading segments, and the investment management segment, the Company's competitors include Bloomberg Financial and Bridge Information Systems. To a lesser degree, these Company services compete with ILX, a Thomson Financial Services company, and Quotron, a Reuters company, who dominate the retail brokerage market segment. There can be no assurance that the Company will not encounter increased competition in the future, which could limit the Company's ability to maintain or increase its market share or maintain its margins, and which could have a material adverse effect on the Company's business, financial condition or operating results.

The Company's newly introduced proTrack service competes primarily with the Redi System offered by Goldman Sachs, Real-Tick offered by AT

Financial and a proprietary system offered by Lava, Inc. There are also many proprietary systems that offer one-stop trading and limited access to other destinations, as well as many other direct access trading systems.

The Track ECN competes with other ECN's that have substantially greater resources and have been operating for a longer period of time. The Company's competitors, among others, are Archipelago, Instinet, Island and Nasdaq.

The Company offers its NewsWatch service in a highly competitive market in which it competes with other distributors of news information, many of which have substantially greater financial resources. NewsWatch competes, among other things, on the basis of the quality and reliability of its data, the speed of delivery and on the flexibility of its services. NewsWatch's principal competitor is NewsEdge.

B. INTERNET-BASED ONLINE TRADING, MARKET DATA SERVICES, AND OTHER SERVICES TO THE NON-PROFESSIONAL INDIVIDUAL INVESTMENT COMMUNITY

Internet-Based Online Trading and Market Data Services to the Non-Professional Individual Investment Community

GENERAL

The decline in the stock market over the past two years has caused a significant contraction in the individual investor market as follows: the opening of new accounts has slowed; trading activity has declined significantly; and the asset values held in individual accounts has declined.

The Company has offered its myTrack software-based online trading system since June, 1999. Since myTrack is a client-server application, it is not restricted by the limitations of HTML, the primary programming language of the worldwide web. With trading systems that use HTML, displayed data remains static until a query is repeated. In contrast, myTrack delivers and automatically updates a continuous, dynamic stream of live market data to the client's screen.

Another advantage of myTrack is that it is a direct access broker. Direct access means that myTrack clients can have their trades routed directly to the exchange, market maker, or electronic communication network ("ECN") of their choice. A smart order routing system selects routing for those traders who do not wish to select on their own. As a result, the Company believes trades can be executed more quickly than if the trade is routed through a third market firm or an online brokerage firm's trading desk, as is the case with a number of other trading systems. Order entry can be preset for size and type of order. The client can use a mouse to click the bid or ask price of a security and either close out an open position or add to an existing one. If the user clicks the bid or ask price of the security, the order screen will appear pre-configured to buy or sell.

myTrack clients may place bids or offers onto an ECN that will also appear in the Nasdaq Market Maker Level 2 screen with the corresponding price and size of the order. We believe that this gives myTrack clients an advantage in attempting to execute orders between the bid and asked prices of Nasdaq securities.

myTrack offers trading of U.S.-based stocks, options and mutual funds, as well as stock index-based futures.

The Company has targeted active traders and believes that myTrack is well-suited to satisfy their requirements. For those traders who are the most active and engage in daytrading, the Company offers trading software, "dayTrader by myTrack." dayTrader contains features and enhancements designed to satisfy the needs of the hyperactive trader community.

MYTRACK SERVICES

Trading Access: In addition to the myTrack software, users can access myTrack trading through the myTrack web site, a Palm or other PDA, a web-enabled cellular phone, or two-way pager. myTrack delivers to customers with trading accounts free streaming delayed quotes, as well as breaking company news, a trade by trade log, charting for technical analysis and a proprietary library of intra-day market statistics.

Commission Rates: Equity trades on myTrack are currently offered at prices starting at $12.95 per trade. Volume trading rebates can result in trade costs as low as $8.20 per trade. dayTrader by myTrack offers commissions from $.015 to $.02 per share, based on volume. Futures are generally priced at $7.00 per contract.

myTrack Market Data: myTrack provides access to comprehensive information on stocks, options, indices, and news, including bid and ask prices, charts, research and other information for any listed or Nasdaq-traded stock and many OTC-BB stocks, as well as the ability to establish and track securities, cash, margin and buying power positions on a real-time basis. myTrack's clients can arrange the display and configuration of data on their computer screens using a menu and tool bar, which are generally utilized in the Windows operating system.

Market Data Pricing: Real-time quotes, news, charting and technical analysis are currently available in various pay packages from $19.95 per month plus exchange fees to $95.00 per month (including Nasdaq Level II) plus exchange fees. Volume trading can result in rebates equivalent to the service plan charges.

Customer Service: Client services for all levels of online service, including trading, administrative, and technical support, are among the Company's highest priorities. The Company's Client Service department helps clients get online, handles product and service inquiries and addresses all brokerage and technical questions. Live client support is available from 7:00 AM to 6:00 PM Eastern Time, Monday through Friday. Brokerage support extends until 8:00PM.

OPERATIONS

CLEARING AND ORDER PROCESSING

The Company does not hold any funds or securities owned by its clients nor execute securities transactions. The Company clears all transactions for its clients, on a fully disclosed basis, with Penson Financial Services, Inc. ("Penson").

The Company's agreement with Penson provides that the clearing broker process all securities transactions for the Company's clients for a fee. Services of the clearing broker include billing and credit control and receipt, custody and delivery of securities. The Company has agreed to indemnify and hold the clearing broker harmless from certain liabilities or claims, including claims arising from the transactions of its clients, which could be material in amount. The Company's clearing agreement may be terminated by either party, upon

45 days' written notice. The Company relies on the operational capacity and the ability of the clearing broker for the orderly processing of transactions.

Clients' securities transactions are effected on either a cash or margin basis. In connection with margin transactions, credit is extended to a client, collateralized by securities and cash in the client's account, for a portion of the purchase price. The client is charged for margin financing at interest rates based on the broker call rate plus an additional amount of up to 2.50%. The broker call rate, also known as the "Call Money Rate," is the prevailing interest rate charged by banks on secured loans to broker-dealers.

Margin lending is subject to the margin rules of the Board of Governors of the Federal Reserve System. Margin lending subjects the Company to the risk of a market decline that would reduce the value of collateral below the client's indebtedness before the collateral could be sold. Under applicable rules, in the event of a decline in the market value of the securities in a margin account, the client is required to deposit additional securities or cash in the account. The margin agreement allows the Company or Penson to sell securities owned by the client under certain circumstances.

NETWORK INFRASTRUCTURE

The Company's external network consists of a series of routers and other Internet-networking equipment, myTrack, mail, web and File Transfer Protocol (ftp) servers; these servers are connected to the Company's internal (i.e. protected) network. This permits a moderated connection to the Company's intranet, so that any computer that can connect to the Internet can access authorized services.

Any individual with a personal computer who has a connection to the Internet and has Windows-compatible software can subscribe to myTrack. Once an account is opened, the client downloads myTrack software and is given a unique user name and password. The client then logs onto the Company's myTrack servers. The myTrack servers connect to market data and order servers.

myTrack employs a proprietary protocol to communicate between the client and the server. Conventional mail, web and ftp servers are used to download software, provide a public access to a chat function and to exchange mail with internal mail servers and prevents virus-infected files or messages from reaching the internal network. Logins to myTrack servers are validated by a permission server. Once the permission server allows the client to establish a connection to a myTrack server, the connection between the client and server is maintained until the client requests it be terminated or until the system determines that the connection is no longer efficient or is inoperable.

The Company's technology is supported by an internal staff of programmers, developers, and operators 24 hours a day, seven days a week. The programming staff is supplemented by a team of quality control analysts, web page developers, technical writers, and design specialists who ensure the final product is user-friendly and dependable. In addition to supporting the systems, the staff continually enhances software and hardware and develops new services. Software is designed to be versatile and easily adaptable to new and emerging technologies.

The order servers accept buy/sell or sell short/buy to cover messages from the client application and qualify orders according to a number of business rules. Once an order is qualified, it is sent to the exchange of choice and messages are sent to update the database. This update offers the client real-time account positions, buying power and profit and loss calculations.

ACCOUNT SECURITY

The Company uses a combination of proprietary and industry standard security measures to protect clients' assets. Clients are assigned unique account numbers, user identifications and passwords. In accordance with standard industry practices, telephone orders require authentication via personal identification number/password and/or other personal information. In addition, the Company's trade processing system is designed to compare the accounts database with the clearing firm's account information on a daily basis to detect any discrepancies.

Firewalls and other software limit not only system access to the authorized users, but also limit the authorized users to specifically approved applications. This filter-software prevents unauthorized access to critical areas of the system such as account information. Furthermore, public access servers, such as e-mail, chat services and the file transfer protocol, are in a network entirely separate from the rest of the Company's systems.

The Company has implemented special policies relating to the transfer or withdrawal of funds by clients to prevent unauthorized withdrawals. Checks will only be made out in the account holder's name and wire transfers will only be sent to a bank account in the account holder's name.

OTHER INTERNET-BASED MARKET DATA SERVICES TO THE INDIVIDUAL NON-PROFESSIONAL MARKET

AIQ SYSTEMS

AIQ Systems is an industry leader in developing artificial intelligence (AI) based stock market analysis and charting software for personal computers. By simulating the reasoning of top market technicians, AIQ's "Expert Systems" delivers trading signals and valuable market insight, as well as state-of-the-art technical charting and screening capabilities. AIQ's customer list consists of thousands of individual and professional investors worldwide who rely on AIQ's accurate and unique timing information for their daily trading decisions.

AIQ currently publishes three primary expert systems for market trading. AIQ MarketExpert or Prochart is an introductory level charting and analysis package used in conjunction with a professional data feed used by individual investors, brokers, and institutions worldwide.

AIQ's most popular product is AIQ TradingExpert for Windows. This advanced analysis package includes market timing, stock timing, and industry group analysis capabilities. TradingExpert retails for $995. AIQ offers investors the design and testing tools required to uncover profitable trading systems when combined with myTrack's delayed and real-time quotes and news and Dial/Data's historical and end-of-day data. In addition, the 32-bit TradingExpert Pro contains state-of-the-art charting, industry group analysis, market timing, reports and screening,

and portfolio management. AIQ offers this package for monthly fees starting at $59 for delayed quotes and $79 plus exchange fees for real-time quotes. AIQ waives the purchase price for users who sign up for one of these monthly packages.

AIQ's OptionExpert is an option data and evaluation system that uses the Internet to deliver real-time option chains, data and analysis. OptionExpert is offered in conjunction with myTrack's Internet-based online trading and market data system. OptionExpert delivers the tools necessary to identify, analyze, and track potentially profitable options strategies. OptionExpert can be used as a stand-alone program, or combined with AIQ's award winning TradingExpert. AIQ is offering OptionExpert bundled with myTrack for monthly fees starting at $59 plus exchange fees for real-time data. Separately, OptionExpert is $39 per month. All packages include unlimited historical data and news.

AIQ also develops a full line of add-on modules for fundamental analysis, news retrieval, and data correlation. In addition, AIQ offers educational services including: the Opening Bell Monthly educational newsletter, educational seminars and workshops, and a full line of educational videotapes.

DIAL/DATA SERVICE

Dial/Data is an Internet-based service that provides historical and end-of-day pricing data for U.S., Canadian and European exchange-traded equities and related instruments, futures, equity options, futures options, mutual funds, bonds, government issues, money markets and indexes. In addition, fundamental data is provided for equity issues such as splits, dividends, and earnings per share. News headlines and full text stories from some of the Company's news vendors can also be delivered to Dial/Data customers. Dial/Data is primarily marketed through independent software vendors who provide analytical and charting programs for analyzing financial information. The Company's AIQ division and other independent software vendors include Dial/Data access as an integral part of the software that they market. The Company encourages these vendors of charting software, through the payment of royalties, to make their software compatible with the Company's Dial/Data market information, and to advise customers by inserts and other means that they may select Dial/Data as their source of market information by contacting Dial/Data and entering into a month to month subscription agreement. A customer who has subscribed to Dial/Data accesses the service directly using the vendor's software program through modems on their PC's and is billed for the Dial/Data service directly by the Company. Access to the Company's database is provided by using the Internet. Although the software can operate on real-time information, customers primarily apply their charting techniques to historical information and there is substantially less emphasis on up-to-the-minute information for this service than there is for other services provided by the Company.

Pricing: Customers who subscribe to Dial/Data pay a flat monthly rate that ranges from $15 to $85, depending on the type of data received. Customers pay for their services primarily by permitting the Company to charge their credit cards. Customers may terminate Dial/Data services at any time.

MARKETING

The Company markets myTrack by targeting active traders through advertisements. The Company's marketing efforts have included advertisements in financial and various other publications that have a

demographic similar to myTrack's target market. The Company also promotes myTrack through Internet web site and banner advertisements. The Company significantly curtailed its expenditures for advertising in 2002 and expects that it will not spend any significant amounts on advertising in 2003.

AIQ Systems markets its software products through direct mail, the Internet, print advertising and seminars.

The marketing effort for the Dial/Data service is directed towards the software vendors who offer analytic programs for the individual investor. By agreeing to provide royalties to these vendors, the Company seeks to encourage these vendors to make their programs compatible with the Company's databases, and to encourage customers to select the Company's databases in preference to databases made available by others.

COMPETITION

The Company's myTrack online trading service competes with services offered by online brokers, many of which have substantially greater resources. The Company faces direct competition from other discount brokerage firms, many of which provide touch-tone telephone and online brokerage services but do not maintain significant branch networks. The Company also encounters competition from established full commission brokerage firms. In addition, the Company competes with financial institutions, mutual fund sponsors and other organizations, some of which provide (or may in the future provide) electronic and other discount brokerage services.

The Company believes its competition consists of large and small brokerage firms, utilizing the Internet to transact retail brokerage business. Among these competitors are E*Trade Group, Inc., Charles Schwab & Co., Inc., TD Waterhouse, Inc. and Ameritrade, Inc. The Company also faces competition for customers from full-commission brokerage firms, including Morgan Stanley Dean Witter & Co., Merrill Lynch and Salomon Smith Barney, as well as financial institutions and mutual funds.

myTrack's market data service competes with many providers of financial information over the Internet. It competes on quality and reliability, as well as speed and price. Principal competitors to myTrack are e-Signal, DTN, PC Quote, AT Financial, as well as many other Internet providers of financial information.

Competitors to the Dial/Data service include Interactive Data Corp., The Dow Jones Retrieval Service, Compuserve, Telescan and Commodity Systems, Inc. The Company competes in this market based on price, the quality and reliability of its data, the extent and breadth of historical information, ease of access and the negotiation of agreements with vendors that provide royalty arrangements they find attractive. Some of the Company's competitors provide both software and data services. The Company competes with such full service providers by attempting to enter into agreements with vendors of superior software.

Competitors of AIQ include Equis International (MetaStock), Omega Research (SuperCharts), Windows on Wall Street, and many others. Generally, these competitors' products can be classified as "charting" packages. They concentrate their resources on general charting (graphical) and stock market back-testing capabilities, rather than the pre-programmed market analysis offered by the AIQ products. AIQ's TradingExpert Pro competes with Omega's TradeStation and MetaStock Professional.

C. MATTERS RELATED TO BOTH SEGMENTS

SECURITIES REGULATION

Track Data Securities Corp. ("TDSC") is a broker-dealer registered with the SEC and NASD and is licensed as a broker-dealer in 50 states.

The securities industry in the United States is subject to extensive regulation under federal and state laws. In addition, the SEC, NASD, other self regulatory organizations, such as the various stock exchanges, and other regulatory bodies, such as state securities commissions, require strict compliance with their rules and regulations. As a matter of public policy, regulatory bodies are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of clients participating in those markets, and not with protecting the interests of the Company's stockholders.

Broker-dealers are subject to regulations covering all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of clients' funds and securities, capital structure, record keeping and the conduct of directors, officers and employees. Because of the number of complaints by online traders, the SEC, NASD and other regulatory organizations may adopt more stringent regulations for online firms and their practices. If the Company fails to comply with any laws, rules or regulations, the Company could be censured, fined, or issued a cease-and-desist order, or TDSC and/or its officers and employees could be suspended or expelled.

NET CAPITAL REQUIREMENTS

The SEC, NASD, and various other regulatory agencies have stringent rules requiring the maintenance of specific levels of net capital by securities brokers. These include the SEC's uniform net capital rule, which governs TDSC. Net capital is defined as assets minus liabilities, plus other allowable credits and qualifying subordinated borrowings less mandatory deductions that result from excluding assets that are not readily convertible into cash and from valuing other assets, such as a firm's positions in securities, conservatively. Among these deductions are adjustments in the market value of securities to reflect the possibility of a market decline prior to disposition.

As of December 31, 2002, TDSC was required to maintain minimum net capital, in accordance with SEC rules, of approximately $1 million and had total net capital of $1,904,000, or approximately $904,000 in excess of minimum net capital requirements.

If TDSC fails to maintain the required net capital, TDSC may be subject to suspension or revocation of registration by the SEC and suspension or expulsion by the NASD and other regulatory bodies, which ultimately could require TDSC's liquidation. In addition, a change in the net capital rules, the imposition of new rules, a specific operating loss, or any unusually large charge against net capital could limit those operations of TDSC that require the intensive use of capital and could limit its ability to expand its business.

LIMITED PROPRIETARY INFORMATION

The Company relies on a combination of copyright, trademark and trade secret laws and non-disclosure agreements to protect its proprietary

technologies, ideas, know-how and other proprietary information. The Company holds a United States trademark registration for the myTrack name. The Company has no patents or registered copyrights. Third parties may copy or otherwise obtain and use the Company's proprietary technologies, ideas, know-how and other proprietary information without authorization or independently develop technologies similar or superior to its technologies. Policing unauthorized use of its technologies and other intellectual property is difficult, particularly because the global nature of the Internet makes it difficult to control the ultimate destination or security of software or other data transmitted.

The financial information provided by the Company for its MarkeTrack, myTrack, proTrack, myTrack Pro, Dial/Data and NewsWatch services can be purchased from third-party sources and is not proprietary. The Company maintains proprietary economic and historical financial databases. The Company protects its proprietary information with standard secrecy agreements.

MarkeTrack, NewsWatch, MarkeTrack Web, myTrack, myTrack Pro, proTrack and Dial/Data are registered service marks owned by the Company. AIQ has registered trademarks for StockExpert, MarketExpert, OptionExpert and TradingExpert, as well as Opening Bell for its newsletter.

RESEARCH AND DEVELOPMENT

Expenditures for research and development incurred primarily to establish technological feasibility of a product or for product enhancement were $315,000, $307,000 and $324,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

EMPLOYEES

The Company employed approximately 200 persons on a full-time basis as of December 31, 2002. The Company believes that its relationship with its employees is satisfactory.

ITEM 2. PROPERTIES

The Company's executive offices are located at 95 Rockwell Place, Brooklyn, NY. These offices are leased from a family partnership controlled by the Company's Chairman. The annual rental of approximately 36,000 square feet is approximately $540,000. The lease expires in April, 2003. The Company believes that the terms of this lease are at least as favorable to it as terms which it would have obtained in a comparable transaction with unaffiliated persons.

The Company leased its New York, NY property comprising 16,800 square feet from an unaffiliated third party through March 2003 with base rent of $260,000 per annum. In April, 2003 this office will be moved to the Company's Brooklyn, NY facility.

The Company maintains sales and/or service offices in Brooklyn, NY, Chicago, IL, Los Angeles, CA, San Francisco, CA, Boston, MA, Incline Village, NV, Philadelphia, PA, Boca Raton, FL, and Dallas, TX with aggregate annual rentals of $595,000. These leases expire at various dates through 2007. The Company also maintains a full service office in London, England under a lease for annual rentals of $161,000 expiring in 2004.

The Company's facilities are fully utilized and are suitable and adequate for their purpose.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the Company's financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting on August 13, 2002. The results of matters voted at that Meeting were reported in Part II, Item 4 of the Company's Form 10-Q for the period ended September 30, 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is quoted on the Nasdaq National Market System under the symbol "TRAC." On February 28, 2003, there were 268 stockholders of record of the Company's Common Stock based on information provided by the Company's transfer agent. Virtually all of the Company's publicly held shares are held in "street name" and the Company believes the actual number of beneficial holders of its Common Stock to be approximately 14,000.

Listing

The Company's common stock is listed on Nasdaq's National Market System. The Company has received a delisting notice from Nasdaq because it has not maintained a closing bid price of at least $1.00 that is required for continued listing. The continued listing of the Company's shares on the National Market System depends on a possible deferral of the minimum bid price requirement that is now being considered by the SEC and Nasdaq. Any deferral that is adopted by the SEC and Nasdaq is expected not to extend beyond September 8, 2003, and may terminate before then. Should the Company's shares be delisted from the National Market System, the Company expects that, subject to certain conditions, its shares may be listed on the Nasdaq SmallCap Market until September 8, 2004 whether or not the Company's shares meet the minimum bid price requirement.

The following table sets forth the high and low sales prices for the Company's Common Stock as reported on Nasdaq NMS.

	COMMON STOCK SALE PRICE	
	HIGH	LOW
2001		
First Quarter	$1.25	$ .69
Second Quarter	1.97	.76
Third Quarter	1.93	1.01
Fourth Quarter	1.60	1.07

2002		
First Quarter	$2.90	$1.42
Second Quarter	1.50	1.01
Third Quarter	1.15	.26
Fourth Quarter	.82	.26

Dividends

The Company has never paid cash dividends on its Common Stock and does not anticipate that it will do so in the foreseeable future. The future payment of dividends, if any, on the Common Stock is within the discretion of the Board of Directors and will depend on the Company's earnings, its capital requirements, financial condition, and other relevant factors.

ITEM 6. SELECTED FINANCIAL DATA

YEAR ENDED DECEMBER 31,	2002	2001	2000	1999	1998
	(in thousands, except per share data)				
SERVICE FEES AND REVENUE	$57,188	$62,217	$58,767	$46,620	$46,4
COSTS AND EXPENSES:					
Direct operating costs	31,309	29,539	31,484	26,989	26,4
Selling and administrative expenses	19,307	19,560	21,564	19,290	18,1
Marketing and advertising	659	1,243	5,472	5,684	1,3
Write off of investment in private companies	716	-	254	-	-
Gain on sale of Internet domain name	-	(1,000)	-	-	-
Gain on marketable securities	(569)	(1,800)	(783)	-	-
Gain on sale of investment in affiliate	-	(949)	(900)	-	-
Other income	-	-	-	(350)	-
Interest expense (income) - net	657	(58)	288	270	5
Total	52,079	46,535	57,379	51,883	46,4
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF AFFILIATE AND INCOME TAXES	5,109	15,682	1,388	(5,263)	
EQUITY IN NET INCOME OF AFFILIATE	-	276	718	275	3
INCOME (LOSS) BEFORE INCOME TAXES	5,109	15,958	2,106	(4,988)	37
INCOME TAXES	2,118	4,880	47	60	1
NET INCOME (LOSS)	$ 2,991	$11,078	$ 2,059	$(5,048)	$ 2
BASIC AND DILUTED NET					

INCOME (LOSS) PER SHARE	$.06	$.19	$.03	$(.08)	$.
WEIGHTED AVERAGE SHARES OUTSTANDING	52,627	59,593	63,660	61,229	58,2
ADJUSTED DILUTIVE SHARES OUTSTANDING	52,900	59,874	64,056	61,229	58,2
DECEMBER 31,	2002	2001	2000	1999	19
			(In thousands)		
TOTAL ASSETS	$46,416	$76,920	$24,479	$25,056	$18,5
TOTAL LIABILITIES	26,809	53,759	7,747	10,060	9,9
STOCKHOLDERS' EQUITY	19,607	23,161	16,732	14,996	8,6

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS

Track Data Corporation (the "Company") is a financial services company that owns Track Data Securities Corp. ("TDSC"), a registered securities broker-dealer and member of the National Association of Securities Dealers, Inc. The Company provides a proprietary, fully integrated Internet-based online trading and market data system, proTrack, for the professional institutional traders, and myTrack, for the individual trader. The Company also operates Track ECN, an electronic communication network that enables traders to display and match limit orders for stocks. The Company provides real-time financial market data, fundamental research, charting and analytical services to institutional and individual investors through dedicated telecommunication lines and the Internet. The Company also disseminates news and third-party database information from more than 100 sources worldwide. The Company's operations are classified in two business segments: (1) Market data services and trading, including ECN services, to the institutional professional investment community, and (2) Internet-based online trading and market data services to the non-professional individual investor community. The Company also engages in arbitrage trading.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2002 AND 2001

Revenues for the years ended December 31, 2002 and 2001 were $57,188,000 and $62,217,000, respectively, a decrease of 8%. The Company's Professional Market segment had revenues for the years ended December 31, 2002 and 2001 of $37,675,000 and $35,074,000, respectively, an increase of 7% for this segment. The Company's Non-Professional Market segment had revenues of $19,513,000 and $27,143,000, respectively, for the years ended December 31, 2002 and 2001, a decrease of 28% for this segment. Since August 2001, the Company has experienced a decline in revenues from its market data services to the Professional Market segment due principally to a reduction in customers' staffing. Management expects this trend to continue at least through the first half of 2003, negatively impacting revenues and profits. The decline in revenues was offset by an increase in revenues of $9,152,000 from the Company's new Track ECN. The ECN market has experienced significant changes during the last half of 2002, including the introduction of Nasdaq's trading platform, SuperMontage. The Company experienced significantly lower trading volumes because of the preferencing of trades in SuperMontage to market makers and others that do not charge access fees, compared to no such preference in Nasdaq's SuperSoes that

was available prior to SuperMontage. To compete more effectively, the Company reduced its access fee and increased its payments for adding liquidity in January, 2003. Based on lower pricing and reduced volumes, the Company presently expects significantly lower revenues and profits from Track ECN in 2003. In addition, the Company experienced a significant decline in revenues and profits from its retail trading and market data businesses as individual investors left the market, curtailed trading or are trading with competitors.

Direct operating costs were $31,309,000 for the year ended December 31, 2002 and $29,539,000 for the similar period in 2001, an increase of 6%. Direct operating costs as a percentage of revenues were 55% in 2002 and 47% in 2001. Without giving effect to unallocated depreciation and amortization expense, the Company's Professional Market segment had $20,197,000 and $14,102,000 of direct costs for the years ended December 31, 2002 and 2001, respectively. Direct operating costs as a percentage of revenues for the Professional segment were 54% in 2002 and 40% in 2001. The increased dollars and percentage in 2002 in the Professional segment is due to costs associated with the Company's new Track ECN, including commissions to its subscribers and clearing costs, as well as certain fixed costs that were not reduced commensurate with the reduced revenues from its market data business. The Company's Non-Professional Market segment had $9,734,000 and $13,666,000 in direct costs for the years ended December 31, 2002 and 2001, respectively. Direct operating costs as a percentage of revenues for the Non-Professional segment were 50% in 2002 and 2001. Direct operating costs include direct payroll, direct telecommunication costs, computer supplies, depreciation, equipment lease expense and the amortization of software development costs, costs of clearing, back office payroll and other direct broker-dealer expenses and, in 2002, ECN customer commissions and clearing.

Selling and administrative expenses were $19,307,000 and $19,560,000 in the 2002 and 2001 periods, respectively, a decrease of 1%. Selling and administrative expenses as a percentage of revenues was 34% in 2002 and 31% in 2001. Without giving effect to unallocated depreciation and amortization expense, selling and administrative expenses for the Professional Market segment were $12,823,000 and $11,204,000 in the 2002 and 2001 periods, respectively, an increase of 14%. For the Professional Market segment selling and administrative expenses as a percentage of revenues was 34% in 2002 and 32% in 2001. The dollar and percentage increase was due to selling and administrative expenses associated with the increased revenues from the new Track ECN. Selling and administrative expenses for the Non-Professional segment were $5,722,000 and $7,995,000 in the 2002 and 2001 periods, respectively, a decrease of 28%. For the Non-Professional segment selling and administrative expense as a percentage of revenue was 29% in 2002 and 2001.

Marketing and advertising costs were $659,000 in 2002 and $1,243,000 in 2001. The Professional Market segment spent $324,000 in 2002 and $152,000 in 2001. The increase in 2002 was attributable to marketing related to the Company's proTrack online trading for professionals. The Non-Professional segment of the Company incurred marketing costs of $335,000 in 2002 and $1,091,000 in 2001. Due to a downturn in the market and lower levels of trading activity by the retail trading sector, the Company decided to spend significantly less on marketing in 2002 and continues to spend at these significantly reduced levels in 2003.

The Professional Market segment realized $4,332,000 in income before unallocated amounts, equity in net income of affiliate and income taxes in 2002 compared to income of $9,616,000 in 2001. The Non-Professional Market segment realized $3,722,000 in income in 2002 and $4,390,000 in 2001 before unallocated amounts, equity in net income of affiliate and income taxes.

In 2002, the Company wrote off its investments in two privately held companies in the aggregate amount of $716,000.

In July, 2001, the Company sold an Internet domain name to a European entity for $1 million.

In 2002 and 2001, the Company recognized gains of approximately $569,000 and $2,749,000, respectively, on the sale of certain shares of Edgar Online, Inc. and Innodata Corporation, and from other marketable securities due to its arbitrage trading strategy. In the fourth quarter of 2001, the Company expanded its arbitrage trading program to include a greater risk profile trading program. The greater risk trading program resulted in pre-tax losses of $400,000 in the fourth quarter of 2001 and $1,400,000 in the first quarter of 2002. The Company continued its arbitrage trading program but discontinued the greater risk trading program.

Net interest expense in 2002 was $657,000 compared to net interest income of $58,000 in 2001. The increase in interest expense in 2002 is due principally to interest on margin debt in connection with the Company's arbitrage trading program.

As a result of the above-mentioned factors, the Company realized income before equity in net income from an affiliate and income taxes of $5,109,000 in the 2002 period compared to $15,682,000 in 2001.

The equity in net income from an affiliate, Innodata Corporation, was $276,000 in 2001. The Company no longer accounts for its investment in Innodata using the equity method.

The Company's effective tax rate was 42% in 2002 and, in 2001, was approximately 31% due to the utilization of tax loss carryforwards in that year and the effect of the reversal of a valuation allowance.

The Company realized net income of $2,991,000 in 2002 compared to $11,078,000 in 2001.

YEARS ENDED DECEMBER 31, 2001 AND 2000

Revenues for the years ended December 31, 2001 and 2000 were $62,217,000 and $58,767,000, respectively, an increase of 6%. The Company's Professional Market segment had revenues for the years ended December 31, 2001 and 2000 of $35,074,000 and $32,261,000, respectively, an increase of 9% for this segment. The increase was due to additional desktop market data services, increased Newsware news services and a price increase. The Company's Non-Professional Market segment had revenues of $27,143,000 and $26,506,000, respectively, for the years ended December 31, 2001 and 2000, an increase of 2% for this segment. The revenue increase in 2001 is due principally to myTrack's online trading and market data services. The Company obtained its own broker-dealer license and its registration in all of the states by August 2000. Prior thereto, trading revenues include only revenues from the licensing of its trading system, rather than a full amount of commissions paid by customers.

Direct operating costs were $29,539,000 for the year ended December 31, 2001 and $31,484,000 for the similar period in 2000, a decrease of 6%. Direct operating costs as a percentage of revenues were 47% in 2001 and 54% in 2000. Without giving effect to unallocated depreciation and amortization expense, the Company's Professional Market segment had $14,102,000 and $14,863,000 of direct costs for the years ended December 31, 2001 and 2000, respectively. Direct operating costs as a percentage of revenues for the Professional segment were 40% in 2001 and 46% in 2000. The decline in dollars and percent in 2001 is due to reduced costs of telecommunications and greater sharing of the overhead by the Non-Professional segment. The Company's Non-Professional Market segment had $13,666,000 and $14,475,000 in direct costs for the years ended December 31, 2001 and 2000, respectively. Direct operating costs as a percentage of revenues for the Non-Professional segment were 50% in 2001 and 55% in 2000.

Selling and administrative expenses were $19,560,000 and $21,564,000 in the 2001 and 2000 periods, respectively, a decrease of 9%. Selling and administrative expenses as a percentage of revenues was 31% in 2001 and 37% in 2000. Without giving effect to unallocated depreciation and amortization expense, selling and administrative expenses for the Professional Market segment were $11,204,000 and $12,893,000 in the 2001 and 2000 periods, respectively, a decrease of 13%. For the Professional Market segment selling and administrative expenses as a percentage of revenues was 32% in 2001 and 40% in 2000. The dollar and percentage decrease was due to a reduction in payroll and telecommunications costs combined with increased revenues. In addition, prior to August 2000, when the Company received its broker-dealer license, certain costs were included in selling and administrative expenses and such costs allocated to each segment were accordingly greater. Certain of these costs are presently classified as direct operating costs. Selling and administrative expenses for the Non-Professional segment were $7,995,000 and $8,311,000 in the 2001 and 2000 periods, respectively, a decrease of 4%. For the Non-Professional segment selling and administrative expense as a percentage of revenue was 29% in 2001 and 31% in 2000. The dollar and percentage decrease in 2001 compared to 2000 was principally due to decreased payroll and related expenses for myTrack's online trading and market data services combined with increased revenues.

Marketing and advertising costs were $1,243,000 in 2001 and $5,472,000 in 2000. The substantial majority of these costs were incurred by the Non-Professional segment of the Company which incurred $1,091,000 in 2001 and $5,361,000 in 2000. Marketing costs in 2000 are net of $666,000 received from Track Securities under a licensing agreement. These costs were principally incurred in connection with the Company's myTrack online trading and market data systems. Due to a downturn in the market and lower levels of trading activity by the retail trading sector, the Company decided to spend significantly less on marketing in 2001. The Professional Market segment spent $152,000 in 2001 and $111,000 in 2000.

The Professional Market segment realized $9,616,000 in income before unallocated amounts, equity in net income of affiliate and income taxes in 2001 compared to income of $4,395,000 in 2000. The Non-Professional Market segment realized $4,390,000 in income in 2001 and incurred a loss of $1,642,000 in 2000 before unallocated amounts, equity in net income of affiliate and income taxes.

In July, 2001, the Company sold an Internet domain name to a European entity for $1 million.

In 2001 and 2000, the Company recognized gains of approximately $2,749,000 and $1,683,000, respectively, on the sale of certain shares of Edgar Online, Inc. and Innodata Corporation, and from other marketable securities due to its arbitrage trading strategy. In the fourth quarter of 2001, the Company expanded its arbitrage trading program to include a greater risk profile trading program. The greater risk trading program resulted in pre-tax losses of $400,000 in the fourth quarter of 2001 and $1,400,000 in the first quarter of 2002. The Company is continuing its arbitrage trading program but has discontinued the greater risk trading program.

As a result of the above-mentioned factors, the Company realized income before equity in net income from an affiliate of $15,682,000 in the 2001 period compared to $1,388,000 in 2000.

The equity in net income from an affiliate, Innodata Corporation, was $276,000 and $718,000 in 2001 and 2000, respectively. The Company had accounted for its investment in Innodata using the equity method until May 7, 2001 when the Company's Chairman and its CFO resigned as officers and directors of Innodata. The Company's investment in Innodata has been accounted for as available for sale securities since that date.

The Company's effective tax rate in 2001 was approximately 31% due to the utilization of tax loss carryforwards in that year and the effect of the reversal of a valuation allowance. Taxes provided in 2000 were minimal as net operating loss carry forwards were utilized in that year.

The Company realized net income of $11,078,000 in 2001 principally from increased revenues from online trading and market data services, arbitrage trading activities, gains on sale of marketable securities and an Internet domain name, and a significant reduction in expenses, including marketing and advertising, compared to $2,059,000 in 2000, principally due to significant expenditures for marketing and advertising of the Company's myTrack service.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2002, cash provided by operating activities was $5,151,000 compared to $9,778,000 in 2001. The decrease in 2002 was principally due to reduced operating income. Cash flows used in investing activities in 2002 was $170,000 compared to $1,865,000 provided by investing activities in 2001 due to proceeds from sales of Innodata and Edgar Online common stock and the sale of an Internet domain name. Cash flows used in financing activities, principally for the purchase of treasury stock, was $5,158,000 in 2002 compared to $12,461,000 in 2001.

The Company has a line of credit with a bank. The line is collateralized by the assets of the Company and is guaranteed by its Chairman. Interest is charged at 1.75% above the bank's prime rate and is due on demand. The Company may borrow up to 80% of eligible market data service receivables and is required to maintain a compensating balance of 10% of the outstanding loans. At December 31, 2002, the Company had outstanding borrowings under the line of $1,030,000. The Company believes that its line of credit is sufficient for the Company's present cash requirements for the next 12 months.

The Company has significant positions in stocks and options and receives significant proceeds from the sale of trading securities sold but not yet purchased under the arbitrage trading strategy described in Note C of Notes to Consolidated Financial Statements. The Company expects that its December 31, 2002 positions will be closed during the first quarter of 2003 and that other positions with the same strategy will be established. The level of trading activity is substantially dependent on the value of the shares of Track Data pledged by its CEO, and Innodata and Edgar Online common stock that is held as collateral. During the third quarter of 2002, trading was limited due to a reduction in the market price of each of the securities held as collateral. In the fourth quarter of 2001, the Company expanded its arbitrage trading program to include a greater risk profile trading program. The greater risk portion of the trading program resulted in pre-tax losses of $400,000 in the fourth quarter of 2001 and $1,400,000 in the first quarter of 2002. The Company continued its arbitrage trading program but discontinued the greater risk trading program.

Since August 2001, the Company has experienced a decline in revenues and profits from its Professional Market segment due principally to a reduction in customers' staffing. This downtrend is continuing in 2003. The decline was offset by an increase in ECN revenues and profits. See below. In addition, the Company experienced a significant decline in revenues from its retail trading business since the fourth quarter of 2001. Retail investors have left the market, curtailed trading or are trading with competitors.

During the second quarter of 2002, the Company commenced operations of its Track ECN that enables traders to display and match limit orders for stocks. Under Nasdaq's new SuperMontage trading system, many liquidity takers were avoiding the Track ECN due to its high fee of $.007 per share. This resulted in

a significant decline in ECN daily volume. Effective January 1, 2003, new pricing was instituted that pays subscribers $.0023 per share for adding liquidity and charges $.0029 for taking liquidity in an effort to regain market share. This reduces profit margin potential. Based on lower pricing and reduced volumes, the Company presently expects significantly lower revenues and profits from Track ECN in 2003.

The Company significantly reduced its advertising costs in 2002 and does not expect to increase advertising in 2003. During the year ended December 31, 2002, the Company repurchased under its buy back program approximately 3.4 million shares of its common stock for $4 million. The Company authorized an additional buy back of up to 2 million shares. No major capital expenditures are anticipated beyond the normal replacement of equipment and additional equipment to meet customer requirements.

The Company is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the Company's financial position.

The Company conducts business through a clearing broker that settles all trades for the Company, on a fully disclosed basis, on behalf of its customers. The Company earns commissions as an introducing broker for the transactions of its customers. In the normal course of business, the Company's customer activities involve the execution of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the clearing broker extends credit to the Company's customers, subject to various regulatory margin requirements, collateralized by cash and securities in the customers' accounts. In the event of a decline in the market value of the securities in a margin account, the Company is required to either obtain additional collateral from the customer or to sell the customer's position if such collateral is not forthcoming. The Company is responsible for any losses on such margin loans, and has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the customer accounts introduced by the Company. The Company's Chairman and CEO has a margin loan of approximately $3.5 million as a customer of the Company's broker-dealer that is collateralized by 14 million of the Company's shares owned by him and which is also subject to such indemnity in the event the clearing broker were to sustain losses.

The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

At December 31, 2002, the Company has operating lease obligations aggregating $2,318,000 pursuant to which payments are due as follows: $1,153,000 in 2003; $615,000 in 2004; $311,000 in 2005; $188,000 in 2006 and $51,000 in 2007.

In connection with the Company's broker-dealer operations, certain customer securities activities are transacted on a margin basis. The Company's clearing broker extends credit to the Company's customers, subject to various regulatory margin requirements, collateralized by cash and securities in the customers'

accounts. In the event of a decline in the market value of the securities in a margin account, the Company is required to either obtain additional collateral from the customer or to sell the customer's position if such collateral is not forthcoming. The Company is responsible for any losses on such margin loans, and has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the customer accounts introduced by the Company. The Company's Chairman and CEO has a margin loan of approximately $3.5 million as a customer of the Company's broker-dealer that is collateralized by 14 million of the Company's shares owned by him and which is also subject to such indemnity in the event the clearing broker were to sustain losses. The Company seeks to control the risks associated with its customer activities by monitoring required margin levels daily and, pursuant to such guidelines, requiring the customer to deposit additional collateral or to reduce positions when necessary.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results when different assumptions are utilized. We believe that our principal critical accounting policies are described below. For a detailed discussion on the application of these and other accounting policies, see Note A of Notes to Consolidated Financial Statements.

REVENUE RECOGNITION

During the second quarter of 2002, the Company commenced operations of its Track ECN that enables traders to display and match limit orders for stocks. Until December 31, 2002, the Company encouraged broker-dealers and market makers to become subscribers to its ECN by paying a commission of up to $5.00 per thousand shares for adding liquidity (limit orders added to the ECN order book) and charged $7.00 per thousand shares for taking liquidity (those who execute against an existing bid or offer on the ECN). The Company met resistance in the payment of its fees by certain non-subscribers who accessed the Track ECN through Nasdaq's SuperSoes automated execution system. All methods of collecting its charges are being pursued, including the filing of arbitration cases against those parties who refuse to pay for the services. The Company has recognized as revenues only that portion of its billing that has not been contested by users. The accounting policy used for revenue recognition for the ECN can and has resulted in revenues recognized after the period of service. Because we cannot predict which market participants will ultimately pay our fees, we do not recognize revenues until there is a reasonable certainty of both collection and amount. As a result, if a collection is made in a later period from a market participant from which the Company expected no collection, the revenue would be recognized in that later period. This occurred in the fourth quarter of 2002, when revenues of $2,168,000 were recognized in that quarter for services provided in the second and third quarters.

Commencing January 1, 2003, the Company changed its pricing model to charge a significantly lower fee of $2.90 per thousand shares from the previous fee of $7.00 per thousand shares. This has allowed collection from many market participants who previously refused to pay. Further, the Company operates within Nasdaq's SuperMontage system on a basis that allows it to reject orders received from market participants that do not pay for services. Accordingly, the revenue recognition with respect to transactions after January 1, 2003 is changed to recognizing revenue as services are performed.

MARKETABLE SECURITIES

The Company classifies its investments in Innodata and Edgar Online as

available for sale securities. The Company carries these investments at fair value, based on quoted market prices, and unrealized gains and losses, net of taxes, are included in accumulated other comprehensive income, which is reflected as a separate component of stockholders' equity. Realized gains and losses are recognized in the consolidated statement of income when realized. The Company reviews these holdings on a regular basis to evaluate whether or not each security has experienced an other-than-temporary decline in fair value. If the Company believes that an other-than-temporary decline exists in the marketable securities, the equity investments are written down to market value and an investment loss is recorded in the consolidated statement of income.

LONG-LIVED ASSETS

In assessing the recoverability of the Company's goodwill and other intangibles, the Company must make assumptions regarding estimated future discounted cash flows to be generated by the assets to determine the fair value of the respective assets. If these estimated cash flows and related assumptions change in the future, the Company may be required to record an impairment charge in the consolidated statement of income.

INFLATION AND SEASONALITY

To date, inflation has not had a significant impact on the Company's operations. The Company's revenues are not affected by seasonality.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to interest rate change market risk with respect to its credit facility with a financial institution, which is priced based on the prime rate of interest. At December 31, 2002, $1,030,000 was outstanding under the credit facility. Changes in the prime interest rate during fiscal 2003 will have a positive or negative effect on the Company's interest expense. Such exposure will increase should the Company maintain higher levels of borrowing during 2003.

The Company has significant positions in stocks and options and receives significant proceeds from the sale of trading securities sold but not yet purchased under the arbitrage trading strategy described in Note C of Notes to Consolidated Financial Statements. The Company's arbitrage trading strategy is to fully cover its open positions during each month with covering option positions that expire in succeeding months. The Company expects that its December 31, 2002 positions will be closed during the first quarter of 2003 and that other positions with the same strategy will be established. In the fourth quarter of 2001, the Company expanded its arbitrage trading program to include a greater risk profile trading program. The greater risk portion of the trading program incurred pre-tax losses of $400,000 in the fourth quarter of 2001 and $1,400,000 in the first quarter of 2002. The Company continued its arbitrage trading program but discontinued the greater risk trading program. In connection with the arbitrage trading program, the Company incurs margin loans. The Company is exposed to interest rate change market risk with respect to these margin loans. Such exposure will increase should the Company maintain higher levels of borrowing during 2003. The level of trading in the arbitrage trading account is dependent on the value of Track Data common stock pledged by its CEO, and Innodata and Edgar Online common stock which is used as collateral. The price of these stocks declined during 2002.

The Company has investments in Innodata and Edgar Online, both publicly traded companies listed on Nasdaq. The market value of such securities is dependent on future market conditions for these companies over which the Company has little or no control.

ITEM 8. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Track Data Corporation

We have audited the accompanying consolidated balance sheets of Track Data Corporation and subsidiaries (the "Company") as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Track Data

Corporation and subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

/S/ Grant Thornton LLP
New York, New York
February 28, 2003

TRACK DATA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2002 AND 2001
(in thousands, except number of common shares)

	2002	2001
ASSETS		
CASH AND EQUIVALENTS	$ 5,491	$ 5,687
ACCOUNTS RECEIVABLE - net of allowance for doubtful accounts of $159 in 2002 and 2001	3,861	1,813
DUE FROM CLEARING BROKER	324	735
DUE FROM BROKER	20,111	14,813
MARKETABLE SECURITIES	11,021	45,623
FIXED ASSETS - at cost (net of accumulated depreciation)	2,846	4,583
EXCESS OF COST OVER NET ASSETS ACQUIRED	1,900	1,920
OTHER ASSETS	862	1,746
TOTAL	$46,416	$76,920
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	$ 4,338	$ 3,099
Note payable - bank	1,030	1,865
Notes payable - other	870	918
Trading securities sold but not yet purchased	19,725	46,409
Capital lease obligations	83	480
Net deferred income tax liabilities	295	805
Other liabilities, including income taxes	468	183
Total liabilities	26,809	53,759
COMMITMENTS AND CONTINGENCIES		

STOCKHOLDERS' EQUITY		
Common stock - $.01 par value; 300,000,000 shares authorized; issued and outstanding - 50,912,475 shares in 2002 and 54,739,695 shares in 2001	509	547
Additional paid-in capital	15,019	18,585
Accumulated other comprehensive income	735	3,676
Retained earnings	3,344	353
Total stockholders' equity	19,607	23,161
TOTAL	$46,416	$76,920