

TRACK DATA CORP  
Form 10-K  
March 30, 2007

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
**For the fiscal year ended December 31, 2006**

☐ Transition Report Pursuant to 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**  
(Address of principal executive offices)

**11217**  
(Zip Code)

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

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

Securities registered pursuant to Section 12(g) of the Exchange Act: **Common Stock, \$.01 par value**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
☐ Yes ☒ No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  
☐ Yes ☒ No

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 ☒ No ☐

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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 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. (Check one):  
Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒ x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
☐ Yes ☒ No

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, 2006 of \$2.93 per share. \$10,598,000.

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

**8,392,000 shares of common stock, \$.01 par value, as of February 28, 2007.**

DOCUMENTS INCORPORATED BY REFERENCE  
[SEE INDEX TO EXHIBITS]

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## 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 Delaware corporation that was formed in 1981. 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 is a financial services company that 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 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 and myTrack Pro, for the individual trader. The Company also operates Track ECN, an electronic communications network that enables traders to display and match limit orders for stocks. The Company also engages in arbitrage trading.

#### **Background**

Since its inception in 1981, the Company has been providing real-time financial market data to institutional customers through the operation of its own proprietary ticker plant. In 1998, the Company began to offer financial market data to individuals through the Internet. Later, through its wholly owned broker-dealer subsidiary, TDSC, the Company combined an online trading application with its market data in its myTrack service. In 2002, trading for institutional customers was introduced with proTrack. Further, the Company commenced operations of its Track ECN. The Company now offers trading and market data services to all members of the financial trading community. The offerings include trading in stocks, options and e-mini futures.

#### **Segments**

The Company's operations are classified in three business segments: (1) Internet-based online trading, market data services and ECN services to the institutional professional investment community, (2) online trading and market data services to the non-professional individual investor community, and (3) arbitrage trading. See Notes C and E of Notes to Consolidated Financial Statements.



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

**MarkeTrack**

MarkeTrack 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. Service charges range between \$250 and \$600 per month per user. MarkeTrack currently serves approximately 950 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 proTrack as a direct access state-of-the-art trading system for the professional market. Among many trading features offered by proTrack are point and click equities and options trading, direct access to market makers and Electronic Communications Networks ("ECNs"), 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., and is also available for use by other broker dealers under a service bureau arrangement. Pricing is dependent on trading volume, market data services required and necessary clearing costs.

**Electronic Communications Network**

TDSC operates an ECN that enables traders to display and match limit orders for stocks. The ECN allows trading of Nasdaq Global Market, Nasdaq Capital Market, Bulletin Board and exchange-listed securities on its platform. In order to set the Track ECN apart from others, 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.

Track ECN generally pays subscribers who add liquidity \$.0025 per share on a monthly basis and charges \$.0026 per share to market participants who take liquidity. With a spread between rebate and charge of \$.0001 per share, the Company needs to handle a significant volume to achieve a material financial result. In addition, Track ECN had been dependent on Nasdaq's trading platform to display and execute most of its subscriber orders until October 23, 2006, when Nasdaq fully implemented its new trading platform and pricing that forced Track ECN to operate elsewhere. Track ECN initially moved all its business to the NASDs Alternative Display Facility (ADF). It currently displays orders on the ADF and on the National Stock Exchange (NSX). There has been a significant decline in volume since the move. Regulation NMS which will require best price for Nasdaq stocks has been a major help in Track ECN establishing direct connectivity to major market makers and takers of liquidity. Further, it is anticipated that Track ECN will be able to offer listed business to its subscribers. Until recent regulatory changes, Track ECN was unable to offer its subscribers any payment for adding liquidity in listed stocks. In an effort to keep costs at a minimum, Track ECN became a self-clearing ECN in August 2005. Although TDSC has approval from NASD-R for "clearing" of its Track ECN business, it is a limited approval for it to submit two sided trade data respecting trades which were executed by broker-dealers on the Track ECN. TDSC submits this data to the National Securities Clearing Corporation so that the actual trading counterparties can compare, clear and settle their trades and, except in the case of a rare error, TDSC "drops out" of the clearing process. This effort to "self-clear" was a step to reduce costs of having a third party handle this function.

### **NewsWatch Service**

The Company's NewsWatch 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. A typical installation is approximately \$300/month at the 5-user level and is scaled down with increased users at a location.

### **Marketing**

The Company markets MarkeTrack to the premium end of the trading markets. Typical customers are 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.

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 Reuters Group. To a lesser degree, these Company services compete with Thomson One, a Thomson Financial Services company, and various trading/quotation applications provided by market makers and clearing firms.

The Company's proTrack service competes primarily with the Redi System offered by Goldman Sachs, Real-Tick offered by Lehman Brothers, Inc. 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 ECNs that have substantially greater resources and have been operating for a longer period of time. The Company's competitors, among others, are Archipelago, Nasdaq, DirectEdge and BATS.

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, a subsidiary of Thomson Financial.

## **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**

The Company offers internet-based online trading and market data services through its myTrack and myTrack Pro products. myTrack and myTrack Pro offer 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 and myTrack Pro are well suited to satisfy their requirements. For those traders who are the most active and engage in day trading, the Company's myTrack Pro contains multi windows based features and enhancements that are designed to satisfy the needs of the hyperactive trader community. Equity trades on myTrack Pro are currently offered at 1/2 penny per share; options at \$1.00 per contract; and futures at \$2.30 per contract. Equity trades on myTrack are currently offered at prices starting at \$12.95 per trade, but volume trading rebates can result in trade costs as low as \$8.20 per trade. Futures are generally priced at \$7.00 per contract.

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. 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.

Customers can also subscribe for myTrack Pro market data. Real-time quotes, news, charting and technical analysis are currently available for \$99 (including Nasdaq Level II) plus exchange fees. Volume trading can result in rebates equivalent to the service plan charges.

### **Other Internet-Based Market Data Services**

#### **AIQ Systems**

AIQ Systems develops and markets 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. Prices for AIQ products vary from \$39 to \$79 per month.

#### **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. Customers who subscribe to Dial/Data pay a flat monthly rate that ranges from \$15 to \$85, depending on the type of data received.

### **Marketing**

The Company markets myTrack and myTrackPro 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 and myTrackPro's target market. The Company also promotes these services through Internet web site and banner advertisements, direct mailings and trade shows.

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.

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## **Competition**

The Company's myTrack and myTrack Pro 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., Trade Station Group, Inc., Charles Schwab & Co., Inc., Options Express and TD 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), 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.

## **MATTERS RELATED TO SEGMENTS, OTHER THAN ARBITRAGE TRADING**

### **Securities Regulation**

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. The operations of

TDSC are subject to reviews by regulators within its industry, which include the SEC and the NASD. In the past, certain reviews have resulted in the Company incurring fines and required the Company to change certain of its internal control and operating procedures. Ongoing and future reviews may result in the Company incurring additional fines and changes in its internal control and operating procedures. Management does not expect any ongoing reviews to have a material affect on the Company's financial position or statement of operations.

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## **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.

Although TDSC has approval by NASD-R for "clearing" of its Track ECN business, it is a unique and limited approval for it to submit two sided trade data respecting trades which were executed by broker-dealers on the Track ECN. TDSC submits this data to the National Securities Clearing Corporation so that the actual trading counterparties can and do compare, clear and settle their trades and, except in the case of a rare error, TDSC "drops out" of the clearing process. This effort to "self-clear" was a step to reduce costs of having a third party handle this function.

### ***Network Infrastructure***

The Company's external network consists of a series of routers and other Internet-networking equipment, 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.

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.

### **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, 2006, TDSC was required to maintain minimum net capital, in accordance with SEC rules, of approximately \$1 million and had total net capital of \$4,826,000, or approximately \$3,826,000 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, 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 approximately \$159,000, \$210,000 and \$238,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

### **Employees**

The Company employed approximately 135 persons on a full-time basis as of December 31, 2006. The Company believes that its relationship with its employees is satisfactory.

### C. ARBITRAGE TRADING

The Company engages in arbitrage trading activity. The Company's trading strategy consists principally of establishing hedged positions consisting of stocks and options. The Company is subject to market risk in attempting to establish a hedged position, as the market prices could change, precluding a profitable hedge. In these instances, any positions that were established for this hedge would be immediately sold, usually resulting in small losses. If the hedged positions are successfully established at the prices sought, the positions generally stay until the next option expiration date, resulting in small gains, regardless of market value changes in these securities. While virtually all positions are liquidated at option expiration date, certain stock positions remain. The liquidation of these positions generally results in small profits or losses. From time to time, losses may result from certain dividends that may have to be delivered on positions held, as well as from certain corporate restructurings and mergers that may not have been taken into account when the positions were originally established.

In connection with the arbitrage trading activity, the Company incurs margin loans. The Company is exposed to interest rate change market risk with respect to these margin loans. The level of trading in the arbitrage trading account is partially dependent on the margin value of Track Data common stock pledged by its Principal Stockholder and former CEO, and Innodata common stock, which is used as collateral. 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 1A. RISK FACTORS

##### Risks Relating to Owning Our Stock

##### *Market volatility may cause our stock price and the value of your investment to decline.*

From January 1, 2004 through December 31, 2006, the price per share of our common stock has ranged from a low of \$1.95 to a high of \$9.80. The market price of our common stock has been, and is likely to continue to be, highly volatile and subject to wide fluctuations. In the past, volatility in the market price of a company's securities has often led to securities class action litigation. Such litigation could result in substantial costs to us and divert our attention and resources, which could harm our business. Declines in the market price of our common stock or failure of the market price to increase could also harm our ability to retain key employees, reduce our access to capital and otherwise harm our business.

Broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuations in our stock price may include, among other things:

- actual or anticipated variations in quarterly operating results;
- conditions or trends in our industry, including trading volumes, regulatory changes or changes in the securities marketplace;
  - changes in the market valuations of other companies operating in our industry;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
  - additions or departures of key personnel; and
- sales of our common stock, including sales of our common stock by our directors and officers.

**We cannot assure you that we will be profitable.**

Our Professional Market segment revenues from market data services experienced significant declines since 2001 from a combination of staffing reductions in the securities industry, the use by customers of internally developed services, or lower priced services offered by us or other vendors. This trend has continued in 2007. One customer, with monthly revenues of approximately \$90,000, cancelled a customized market data service in March, 2007. Despite the addition of new subscribers to Track ECN, the Company has not been able to significantly increase revenues. Profit margins are very low in this business and significant volume is necessary to have an impact on the results of operations. In addition, Track ECN had been dependent on Nasdaq's trading platform to display and execute most of its subscriber orders until October 23, 2006, when Nasdaq fully implemented its new trading platform and pricing that forced Track ECN to operate elsewhere. Track ECN initially moved all its business to the NASDs ADF. It currently displays orders on the ADF and on the NSX. There has been a significant decline in volume since the move. Regulation NMS which will require best price for Nasdaq stocks has been a major help in Track ECN establishing direct connectivity to major market makers and takers of liquidity. Further, it is anticipated that Track ECN will be able to offer listed business to its subscribers. Until recent regulatory changes, Track ECN was unable to offer its subscribers any payment for adding liquidity in listed stocks.

Our Non-Professional Market segment revenues have been inconsistent month to month. The Company is attempting to grow revenues in this segment, principally through marketing alliances and limited advertising to attract new customers, and by offering additional services to existing customers. The Company presently offers trading of U.S. based stocks, options and e-mini futures. Although the Company has recently introduced a new low priced trading application, myTrack Pro, engineered for the hyperactive traders, with a particular focus on options traders, there is no assurance the Company will be successful in marketing such new services.

We also engage in arbitrage trading activity. Our trading strategy consists principally of establishing hedged positions consisting of stocks and options. We are subject to market risk in attempting to establish a hedged position, as the market prices could change, precluding a profitable hedge. In these instances, any positions that were established for this hedge would be immediately sold, usually resulting in small losses. If the hedged positions are successfully established at the prices sought, the positions generally stay until the next option expiration date, resulting in small gains, regardless of market value changes in these securities. While virtually all positions are liquidated at option expiration date, certain stock positions remain. The liquidation of these positions generally results in small profits or losses. From time to time, losses may result from certain dividends that may have to be delivered on positions held, as well as from certain corporate restructurings and mergers that may not have been taken into account when the positions were originally established.

The Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (Revised 2004), Share-Based Payment ("SFAS123(R)"), which among other things requires public companies to expense employee stock options and other share-based payments at their fair value when issued commencing January 1, 2006. No options were issued in 2006. At December 31, 2005, all of our outstanding stock options were fully vested. As such, the adoption of SFAS 123(R) had no effect on net income for the year ended December 31, 2006. We expect that the adoption of this statement may have a material impact on our net income (loss) and earnings per share in future periods, upon the issuance of new awards. As a result of this impact on our financial results, we may be forced to decrease or eliminate employee stock option grants, which could, in turn, have a negative impact on our ability to attract and retain qualified employees.

**Our officers, directors and largest stockholder have the ability to control all matters submitted to stockholders for approval and control the issuance of preferred stock.**

Our Principal Stockholder may be able to control matters requiring a stockholder vote, such as unsolicited takeovers which may prevent investors from receiving a premium on their shares. As of February 28, 2007, Barry Hertz, who served as the Company's Chairman and CEO until his resignation on March 16, 2007, directly or indirectly controlled approximately 56% of our shares. He is in a position to control the outcome of matters requiring a stockholder vote,

including the election of directors. Such control could have the effect of discouraging, or making more difficult, an unsolicited acquisition of us by means of a tender offer, a proxy contest or otherwise, even though an unsolicited acquisition could have resulted in our stockholders receiving a premium for their shares or be otherwise economically beneficial to them.

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Our right to issue preferred stock could dilute or diminish the value of existing investors' common stock. Our governing documents authorize the issuance of up to five million shares of preferred stock without stockholder approval, with dividend, liquidation, conversion, voting or other rights which could adversely affect the voting power or other rights of the holders of our common stock. Depending on the designations, rights and preferences of a particular issuance of preferred stock, such issuance could adversely affect the market value of our common stock.

Our right to issue preferred stock could also make a third-party acquisition of us difficult. In the event of issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control. Although we have no present intention to issue any shares of preferred stock, there can be no assurance that we will not do so in the future.

Success of stockholder actions against directors is less likely as our directors' liability for their actions is limited and we may indemnify them if they are sued. Our governing documents limit the liability of our directors for breach of their fiduciary duty of care. The effect is to eliminate liability of directors for monetary damages arising out of negligent or grossly negligent conduct. Stockholder actions against our directors for monetary damages can only be maintained upon a showing of certain factors and not for director's negligence or gross negligence in satisfying their duty of care. The factors required to obtain monetary damages are a breach of the individual director's duty of loyalty, a failure to act in good faith, intentional misconduct, a knowing violation of the law, an improper personal benefit, or an illegal dividend or stock purchase. These documents also provide for indemnification as permitted by Delaware law. However, insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors, officers or controlling persons pursuant to the foregoing provisions, we have been informed that in the opinion of the Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

**We may not pay dividends on our common stock.**

We have paid dividends in the past but have not done so since March, 2004. There is currently no plan to pay dividends in the near future. Dividends in the future, if any, will be based on factors, among others, relating to future earnings and capital requirements and to the discretion of our board of directors.

**Risks Relating to the Nature of the Financial Services Business**

**Many of our competitors have greater financial, technical, marketing and other resources.**

Many of our competitors have greater resources than we do and offer a wider range of financial products and services. Many also have greater name recognition, greater market acceptance and larger customer bases. These competitors may conduct extensive promotional activities and offer better terms, lower prices and/or different products and services than we do. Moreover, some of our competitors have established relationships among themselves or with third parties to enhance their products and services. This means that our competitors may be able to respond more quickly to new or changing opportunities and demands and withstand changing market conditions better than we can.

This intense competition has resulted in several trends that may adversely affect our financial condition and results of operations, including the implementation of new pricing strategies, consolidation in the industry and increased emphasis on advertising and promotional efforts.

We face direct competition from numerous online and software-based brokerage firms, including Charles Schwab & Co., Inc., E\*TRADE Group, Inc., Options Express, TD Ameritrade, Inc. and TradeStation Group, Inc. We also encounter competition from the broker-dealer affiliates of established full commission brokerage firms, as well as from financial institutions, mutual fund sponsors and other organizations, some of which provide online brokerage services.

We believe that the general financial success of companies within the online securities industry will continue to attract new competitors to the industry, such as banks, software development companies, insurance companies, providers of online financial information and others. These companies may provide a more comprehensive suite of services than we do. We may not be able to compete effectively with our current or future competitors.

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**A decline in activity levels in the securities markets could lower demand for our services.**

Our business is dependent upon the health of the financial markets as well as the financial health of the participants in those markets. Some of the demand for financial data and information is dependent upon activity levels in the securities markets while other demand is static and is not dependent on activity levels. In the event that the U.S. or international financial markets suffer a prolonged downturn that results in a significant decline in investor activity, our revenue levels could be materially adversely affected. We have experienced higher than normal cancellations or downgrades as a result of the cost cutting pressures evident in the financial services sector in recent years and such cancellations or downgrades may continue.

**Consolidation of financial services within and across industries could lower demand for our services.**

As consolidation occurs and synergies are achieved, the number of potential customers for our services decreases. This consolidation has two forms: consolidations within an industry, such as banking, and across industries, such as consolidations of insurance, banking and brokerage companies. When two companies that separately subscribe to or use our services combine, they may terminate or reduce duplicative subscriptions for our services or if they are billed on a usage basis, usage may decline due to synergies created by the business combination. We experienced higher than normal cancellations in recent years as a result of this trend and these consolidations and cancellations may continue. A large number of cancellations, or lower utilization resulting from consolidations, could have a material adverse effect on our revenue.

**The continuing impact of cost-cutting pressures across the financial services industry could cause lower demand for our services.**

Many customers within the financial services industry are striving to reduce their operating costs. To achieve this goal, customers may seek to reduce their spending on market data services. If customers elect to reduce their spending with us, our results of operations could be materially adversely affected. Alternatively, customers may use other strategies to reduce their overall spending on market data services, either by consolidating their spending with a fewer number of vendors or by selecting vendors with lower-cost offerings. If customers elect to consolidate their spending on market data services with other vendors and not us, or if we cannot price our services as aggressively as the competition, our results of operations could be materially adversely affected.

**Servicing customers outside the United States involves special challenges that we may not be able to meet, which could negatively impact our financial results.**

To date, our operations are principally located in the United States, with Internet access to our products from outside the United States. Since our services are available over the Internet in foreign countries and we have customers residing in foreign countries, foreign jurisdictions may claim that we are required to qualify to do business in their country. We believe that the number of our customers residing outside of the United States will increase over time. We are required to comply with the laws and regulations of each country in which we conduct business, including laws and regulations currently in place or which may be enacted related to Internet services available to their citizens from service providers located elsewhere. Any failure to develop effective compliance and reporting systems could result in regulatory penalties in the applicable jurisdiction, which could have a material adverse effect on our business, financial condition and operating results.

In addition, in the future we may choose to offer foreign securities brokerage services. There are certain risks inherent in doing so. Among other risks, we may face less developed technological infrastructures, less developed automation in exchanges, depositories and national clearing systems, exchange rate fluctuations, increased credit risk and unexpected changes in regulatory requirements, tariffs and other trade barriers. If we choose to do business through an international entity, we may also face barriers to repatriation of foreign earnings. Any of these factors could have a

material adverse effect on our future international operations and consequently on our business, financial condition and operating results.

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**If we fail to attract customers in a cost-effective manner, our profitability and growth may be impaired.**

Our profitability and growth depends on increasing our customer base in a cost-effective manner. We expect to increase our advertising and related expenses. There are no assurances that these efforts will be cost-effective at attracting new customers. In particular, we believe that rates for desirable advertising and marketing placements are likely to increase in the foreseeable future, and we may be disadvantaged relative to our larger competitors in our ability to expand or maintain our advertising and marketing commitments. Additionally, filter software programs that limit or prevent our advertisements and other communications from being displayed on or delivered to our current and potential customers' computers are becoming increasingly available. If this type of software becomes widely accepted, it would negatively affect Internet advertising. Finally, our sales and marketing methods are subject to regulation by the NASD. Their rules and regulations impose specific limitations on our sales methods, including our advertising and payments to non-broker-dealers. If we do not achieve our advertising objectives, our profitability and growth may be impaired.

**We are subject to various forms of credit risk, and those risks could have a material adverse effect on our financial situation.**

Through an arrangement with our clearing firms, we extend margin credit and leverage to our customers, which is subject to various regulatory and clearing firm margin requirements. Margin credit is collateralized by cash and securities in the customers' accounts. Leverage involves securing a large potential future obligation with a proportional amount of cash or securities. The risks associated with margin credit and leverage increase during periods of fast market movements or in cases where leverage or collateral is concentrated and market movements occur. During such times, customers who utilize margin credit or leverage and who have collateralized their obligations with securities may find that the securities have a rapidly depreciating value and may not be sufficient to cover their obligations in the event of a liquidation. We are also exposed to credit risk when our customers execute transactions, such as short sales of options and equities that can expose them to risk beyond their invested capital.

We expect this kind of exposure to increase with growth in our overall business. Because we indemnify and hold harmless our clearing firms from certain liabilities or claims, the use of margin credit, leverage and short sales may expose us to significant off-balance-sheet risk in the event that collateral requirements are not sufficient to fully cover losses that customers may incur and those customers fail to satisfy their obligations. As of December 31, 2006, we had \$11.8 million in margin credit extended to our customers through our clearing firms. The amount of risk to which we are exposed from the leverage we extend to our customers and from short sale transactions by our customers is unlimited and not quantifiable as the risk is dependent upon analysis of a potential significant and undeterminable rise or fall in stock prices.

**Our risk management policies and procedures may not be effective and may leave us exposed to unidentified or unexpected risks.**

Our policies, procedures and practices used to identify, monitor and control a variety of risks may fail to be effective. As a result, we face the risk of losses, including losses resulting from firm errors, customer defaults, market movements, fraud and money-laundering. Our risk management methods rely on a combination of technical and human controls and supervision that are subject to error and failure. Some of our methods of managing risk are based on internally developed controls and observed historical market behavior, and also involve reliance on industry standard practices. These methods may not adequately prevent future losses, particularly as they relate to extreme market movements, which may be significantly greater than the historical measures indicate. These methods also may not adequately prevent losses due to technical errors if our testing and quality control practices are not effective in preventing technical software or hardware failures.

**We may suffer losses if our reputation is harmed.**

Our ability to attract and retain customers and employees may be adversely affected to the extent our reputation is damaged. If we fail, or appear to fail, to deal with various issues that may give rise to reputational risk, we could harm our business prospects. These issues include, but are not limited to, appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money-laundering, privacy, record-keeping, sales and trading practices, and the proper identification of the legal, reputational, credit, liquidity, and market risks inherent in our business. Failure to appropriately address these issues could also give rise to additional legal risk to us, which could, in turn, increase the size and number of claims and damages asserted against us or subject us to regulatory enforcement actions, fines, and penalties.

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**Systems failures and delays could harm our business.**

We receive and process trade orders through a variety of electronic channels. Our online trading services are heavily dependent on the integrity of the systems supporting them. Our systems and operations, including our Web servers, and those of our third-party service providers are vulnerable to damage or interruption from human error, sabotage, encryption failures, break-ins, intentional acts of vandalism, earthquakes, terrorist attacks, floods, fires, power loss, telecommunications failures, computer viruses, computer denial of service attacks or other attempts to harm our systems and operations, and similar events. Our disaster recovery planning cannot account for all eventualities. In addition, extraordinary trading volumes could cause our computer systems to operate at an unacceptably low speed or even fail. While we have invested significant amounts to upgrade the reliability and scalability of our systems, there can be no assurance that our systems will be sufficient to handle such extraordinary trading volumes.

Systems failures or delays may occur in the future and could cause, among other things, unanticipated disruptions in service to our customers, slower system response time resulting in transactions not being processed as quickly as our customers desire, decreased levels of customer service and customer satisfaction and harm to our reputation. If any of these events were to occur, we could suffer: a loss of customers or a reduction in the growth of our customer base; increased operating expenses; financial losses; litigation or other customer claims; and regulatory sanctions or additional regulatory burdens.

Our business also depends on the continued reliability of the Internet infrastructure. This includes maintenance of a reliable network backbone with the necessary speed, data capacity and security for providing reliable Internet services. Internet infrastructure may be unable to support the demands placed on it if the number of Internet users continues to increase, or if existing or future Internet users access the Internet more often or increase their bandwidth requirements. In addition, viruses, worms and similar programs may harm the performance of the Internet. The Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure, and it could face outages and delays in the future. These outages and delays could reduce the level of Internet usage and our business could be materially adversely affected.

**Our networks and those of our third-party service providers may be vulnerable to security risks.**

The secure transmission of confidential information over public networks is a critical element of our operations. Our networks and those of our third-party service providers may be vulnerable to unauthorized access, computer viruses and other security problems. Persons who circumvent security measures could wrongfully use our confidential information or our customers' confidential information or cause interruptions or malfunctions in our operations. We or our service providers may be required to expend significant additional resources to protect against the threat of security breaches or to alleviate problems caused by any breaches. We or our service providers may not be able to implement security measures that will protect against all security risks.

**Our inability to protect our intellectual property rights or our infringement of the intellectual property rights of others could adversely affect our business.**

Our success and ability to compete in the online securities industry depends in part upon our technology. Laws and our contractual terms may not be sufficient to protect our technology from use or theft by third parties. For instance, a third party might try to reverse engineer or otherwise obtain and use our technology without our permission and without our knowledge, allowing competitors to duplicate our products. We may have legal or contractual rights that we could assert against such illegal use, but lawsuits claiming infringement or misappropriation are complex and expensive, and the outcome would not be certain. We may choose not to enforce or protect our intellectual property rights, depending on our strategic evaluation and judgment regarding the best use of our intellectual property portfolio and the recourse available to us.

Patents of third parties may have an important bearing on our ability to offer certain of our products and services. Our major competitors as well as other companies and individuals may obtain and may have obtained patents related to the technologies for trading the types of products and providing the services we offer or plan to offer. We cannot assure you that we are or will be aware of all patents containing claims that may pose a risk of infringement by our products and services. In addition, some patent applications in the United States are confidential until a patent is issued and, therefore, we cannot evaluate the extent to which technology concerning our products and services may be covered or asserted to be covered by claims contained in pending patent applications. In general, if one or more of our products or services were found by a court to infringe on patents held by others, we may be required to stop developing or marketing the products or services, to obtain licenses to develop and market the services from the holders of the patents or to redesign the products or services in such a way as to avoid infringing those patents. An adverse ruling arising out of any intellectual property dispute could also subject us to significant liability for damages.

We cannot assess the extent to which we may be required in the future to obtain licenses with respect to patents held by others, whether such licenses would be available or, if available, whether we would be able to obtain such licenses on commercially reasonable terms. If we are unable to obtain licenses with respect to patents held by others, and are unable to redesign our products or services to avoid infringement of any such patents, this could materially adversely affect our business, financial condition and operating results.

Also, protection may not be available for our other intellectual property. Although we have registered trademarks in the United States, there can be no assurance that we will be able to secure significant protection for these marks. It is possible that our competitors will adopt product or service names similar to ours, thereby impeding our ability to build brand identity and possibly leading to customer confusion. Our inability to adequately protect our trademarks could have a material adverse effect on our business, financial condition and operating results.

**We will need to introduce new products and services to remain competitive.**

Our future success depends in part on our ability to develop and enhance our products and services. The financial services industry is characterized by rapid technological change and the emergence of new industry standards and practices that could render our existing technology and systems obsolete. There are significant technical and financial risks in the development of new or enhanced products and services, including the risk that we will be unable to effectively use new technologies or adapt our services to emerging industry standards, or develop, introduce and market enhanced or new products and services. In addition, the adoption of new Internet, networking or telecommunications technologies or other technological changes could require us to incur substantial expenditures to modify or adapt our services or infrastructure.

**We may make acquisitions, and we may be unable to successfully integrate those acquisitions with our business, impairing our financial performance.**

If appropriate opportunities present themselves, we may acquire businesses, products or technologies that we believe are strategic. If we do succeed in acquiring a business, product or technology, we have limited experience in integrating an acquisition into our business. The process of integration may produce unforeseen operating difficulties and expenditures and may absorb significant attention of our management that would otherwise be available for the ongoing development of our business, which may harm our business, financial condition or results of operations.

**We are dependent on our clearing agent, Penson Financial Services, Inc., and any failure by them or difficulties in our relationship could materially harm our business.**

We are dependent on Penson Financial Services, Inc. and certain other clearing agents for the orderly processing of transactions. Our principal relationship is with Penson.

Our clearing agreement with Pension may be terminated by either party upon 45 days prior written notice. Breaches or termination of these agreements or the clearing firms' agreements with their third-party suppliers could harm our business. Termination of our relationship with Pension could expose us to certain capital reserve requirements and other complex regulatory requirements imposed by federal and state securities laws, which could have a material adverse effect on our business. Moreover, we have agreed to indemnify and hold harmless our clearing firms from certain liabilities or claims, including claims arising from the transactions of our customers, and may incur significant costs as a result.

**The loss of or change in our third-party vendors may adversely affect our business.**

We rely on a number of third parties for various services. These include the services of market makers and exchanges to execute customer orders and other third parties for back-office services and other information necessary to run our business, including transaction summaries, data feeds for compliance and risk management, execution reports and trade confirmations. The stock and option exchange and other third-party content providers provide us with all of the financial information, market news, charts, option and stock quotes, research reports and other fundamental data that we offer to customers. In addition, Track ECN had been dependent on Nasdaq's trading platform to display and execute most of its subscriber orders until October 23, 2006, when Nasdaq fully implemented its new trading platform and pricing that forced Track ECN to operate elsewhere. Track ECN initially moved all its business to the NASDs ADF. It currently displays orders on the ADF and on the NSX. There has been a significant decline in volume since the move.

We cannot assure you that any of these providers will be able to continue to provide these services in an efficient, cost-effective manner or that they will be able to adequately expand their services to meet our needs. An interruption in or the cessation of service by any third-party service provider as a result of systems failures, capacity constraints, unanticipated trading market closures or for any other reason, and our inability to make alternative arrangements in a smooth and timely manner, if at all, may have a material adverse effect on our business, financial condition and operating results.

**Our exposure to possible litigation could adversely affect our business.**

Because of the extent and complexity of our regulatory environment and the products we offer, many aspects of our business involve substantial risks of liability. In recent years, there has been an increasing incidence of litigation involving the securities brokerage industry, including class action and other suits that generally seek substantial damages, including in some cases punitive damages. Any such litigation brought in the future could have a material adverse effect on our business, financial condition and operating results.

We also face potential indirect liability for claims of defamation, negligence, copyright, patent or trademark infringement, violation of the securities laws and other claims based upon the third-party content that we distribute online. Computer failures may also result in our widely publishing and distributing incorrect data. Our insurance may not necessarily cover any of these claims or may not be adequate to protect us against all liability that may be imposed. Any such litigation brought in the future could have a material adverse effect on our business, financial condition and operating results.

**Losses due to employee or customer fraud could have an adverse effect on our business.**

We are exposed to potential losses resulting from fraud and other misconduct by employees and customers. Employees may bind us to transactions that exceed authorized limits or present unacceptable risks, hide from us unauthorized or unsuccessful activities or improperly use confidential information. Customers may engage in fraudulent activities, including fraudulent access to legitimate customer accounts or the use of a false identity to open an account, or the use of forged or counterfeit checks for payment. Such types of fraud may be difficult to prevent or detect, and we may not be able to recover the losses caused by such activities. Any such losses could have a material

adverse effect on our business, financial condition and operating results.

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**Risks Relating to Regulation of Our Business**

***We operate in a highly regulated industry and compliance failures could adversely affect our business.***

We operate under extensive regulation, which increases our cost of doing business and is a limiting factor on the operations and development of our business. The Securities and Exchange Commission, or SEC, the NASD, the NFA and other self-regulatory organizations, commonly called SROs, and state securities commissions regulate us. Outside the United States, we also may be subject to regulation by securities regulatory authorities in the countries where our customers are located. The securities industry in the United States is subject to extensive regulation covering all aspects of the securities business, including: sales methods; trade practices; use and safekeeping of customer funds and securities; capital structure; record-keeping; financing of customers' purchases; and conduct of directors, officers and employees.

Failure to comply with any of the laws, rules or regulations applicable to us, even inadvertently, could lead to adverse consequences including censure, fine, the issuance of cease-and-desist orders or the suspension or disqualification of directors, officers or employees. In the past, certain reviews have resulted in the Company incurring fines and required the Company to change certain of its internal control and operating procedures. Any of these adverse consequences could affect our business. It is also possible that any noncompliance could subject us to criminal penalties and civil lawsuits. An adverse ruling against us or our officers or other employees could cause our subsidiaries or our officers and other employees to pay a substantial fine or settlement, and could result in their suspension or expulsion. Any of these events could have a material adverse effect on our business.

***Compliance with the Sarbanes-Oxley Act of 2002 will require substantial financial and management resources and may increase the time and costs.***

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we evaluate and report on our system of internal controls for the year ended December 31, 2007 and requires that we have such system of internal controls audited beginning with our Annual Report on Form 10-K for the year ending December 31, 2008. If we fail to maintain the adequacy of our internal controls, we could be subject to regulatory scrutiny, civil or criminal penalties and/or stockholder litigation. Any inability to provide reliable financial reports could harm our business. Section 404 of the Sarbanes-Oxley Act also requires that our independent registered public accounting firm report on management's evaluation of our system on internal controls. Furthermore, any failure to implement required new or improved controls, or difficulties encountered in the implementation of adequate controls over our financial processes and reporting in the future, could harm our operating results or cause us to fail to meet our reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our stock.

***Changes in legislation or regulations may affect our ability to conduct our business or reduce our profitability.***

The regulatory environment in which we operate may change. These changes may affect our ability to conduct our business or reduce our profitability. Our activities may be affected not only by legislation or regulations of general applicability, but also by industry-specific legislation or regulations. The SEC, other U.S. or foreign governmental authorities, the NASD or other SROs may adopt new or revised regulations which affect our business. Changes in the interpretation or enforcement of existing laws and rules by those entities may also affect our business.

Until October, 2006, Track ECN displayed orders submitted by its subscribers on Nasdaq's trading platform. Broker-dealers could access this liquidity through Nasdaq. Nasdaq was authorized to operate as an exchange and Track ECN was no longer able to operate its business on Nasdaq's platform. Track ECN currently operates on NASD's ADF and NSX Blade platforms. This change has resulted in significantly lower revenues in the short term.

In addition, we use the Internet as the distribution channel to provide services to our customers. A number of regulatory agencies have recently adopted regulations regarding customer privacy and the use of customer information by service providers. Additional laws and regulations relating to the Internet may be adopted in the future, including regulations regarding the pricing, taxation, content and quality of products and services delivered over the Internet. Complying with these laws and regulations is expensive and time consuming and could limit our ability to use the Internet as a distribution channel.

**Failure to comply with net capital requirements could adversely affect our business.**

The SEC, the NASD and other SROs have stringent rules with respect to the maintenance of specific levels of net capital by securities broker-dealers. Our broker-dealer subsidiary is required to comply with the net capital requirements. If we fail to maintain the required net capital, the SEC could fine us or even suspend or revoke our registration, or the NASD could sanction us, including by limiting our growth or expelling us from membership. Any of these actions could have a material adverse effect on our business.

The net capital requirements also provide that the SEC may restrict for up to 20 business days any withdrawal of equity capital, or unsecured loans or advances to stockholders, employees or affiliates, commonly called capital withdrawal, if the capital withdrawal, together with all other net capital withdrawals during a 30-day period, exceeds 30% of excess net capital and the SEC concludes that the capital withdrawal may be detrimental to the financial integrity of the broker-dealer.

**Procedures and requirements of the Patriot Act may expose us to significant costs or penalties.**

As participants in the financial services industry, our subsidiary is subject to laws and regulations, including the Patriot Act of 2001, that require that it know its customers and monitor transactions for suspicious financial activities. The cost of complying with the Patriot Act and related laws and regulations is significant. We face the risk that our policies, procedures, technology and personnel directed toward complying with the Patriot Act are insufficient and that we could be subject to significant criminal and civil penalties due to noncompliance. Such penalties could have a material adverse effect on our business, financial condition and operating results. As an online broker with customers worldwide, we may face particular difficulties in identifying our customers and monitoring their activities.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**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 Principal Stockholder. The annual rental of approximately 36,000 square feet is approximately \$630,000. The lease expired in April, 2006 and rent has since been paid on a month to month basis at the same rate. 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 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 \$1,021,000 in 2006. The Company also maintains a full service office in London, England under a lease with annual rental of \$38,000 in 2006. These leases expire at various dates through 2010.

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.

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On June 14, 2005, the SEC filed a civil complaint against Barry Hertz, the Company's Chairman and CEO at that time, in the U.S. District Court for the Eastern District of New York in Brooklyn alleging violations of various provisions of the federal securities laws in connection with certain transactions in Track Data stock owned by others. On March 16, 2007, Mr. Hertz reached a settlement with the SEC regarding these charges. Mr. Hertz consented, without admitting or denying the allegations in the SEC's complaint, to a permanent injunction from violations of Section 10(b) and 10b-5 of the Exchange Act and Section 17(a) of the Securities Act of 1933, a two-year bar from serving as an officer or director of a publicly traded company, a two-year bar from association with a broker or dealer, and also agreed to pay approximately \$136,000 in disgorgement, interest and civil penalties. On March 16, 2007, Mr. Hertz resigned as Chairman and CEO of the Company.

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

The Company held its Annual Meeting on November 9, 2006. The results of matters voted at that Meeting are presented below:

##### Election of Directors:

| <u>Nominee</u>      | <u>For</u> | <u>Against</u> | <u>Abstain</u> |
|---------------------|------------|----------------|----------------|
| Abraham Biderman    | 6,799,873  | 70,865         |                |
| Albert Drillick     | 6,781,013  | 89,645         |                |
| E. Bruce Fredrikson | 6,699,793  | 70,865         |                |
| Barry Hertz         | 6,759,995  | 110,663        |                |
| Martin Kaye         | 6,780,153  | 90,505         |                |
| Philip Ort          | 6,799,123  | 71,535         |                |
| Shaya Sofer         | 6,800,193  | 70,465         |                |
| Stanley Stern       | 6,776,533  | 94,105         |                |

|                                                    |                  |               |               |
|----------------------------------------------------|------------------|---------------|---------------|
| <b>Appointment of Marcum &amp; Kliegman LLP as</b> | <b>6,813,855</b> | <b>38,568</b> | <b>18,235</b> |
|----------------------------------------------------|------------------|---------------|---------------|

##### Auditors:

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**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS  
AND ISSUER PURCHASES OF EQUITY SECURITIES**

The Company's Common Stock is quoted on the Nasdaq Global Market under the symbol "TRAC." On February 28, 2007, there were 263 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 8,000.

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

|                | <b>Common<br/>Stock<br/>Sale Price</b> |            |
|----------------|----------------------------------------|------------|
|                | <b>High</b>                            | <b>Low</b> |
| <b>2005</b>    |                                        |            |
| First Quarter  | \$5.00                                 | \$2.50     |
| Second Quarter | 3.21                                   | 1.95       |
| Third Quarter  | 3.41                                   | 2.30       |
| Fourth Quarter | 3.55                                   | 2.70       |
| <b>2006</b>    |                                        |            |
| First Quarter  | \$3.48                                 | \$2.78     |
| Second Quarter | 3.18                                   | 2.81       |
| Third Quarter  | 5.00                                   | 2.96       |
| Fourth Quarter | 4.12                                   | 3.44       |

*Dividends*

The Company paid its first cash dividend of \$.05 per share on its Common Stock on September 22, 2003. The Company declared a second dividend on February 19, 2004 of \$.05 per share. 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.

*Issuer Purchases of Equity Securities*

| Period<br>Purchased | Number of<br>Shares of<br>Common<br>Stock<br>Purchased | Average<br>Price Paid<br>Per Share | Total Number of<br>Shares Purchased<br>as<br>Part of Publicly<br>Announced Plans | Maximum<br>Number<br>of Shares That<br>May<br>Yet be<br>Purchased<br>Under the Plans |
|---------------------|--------------------------------------------------------|------------------------------------|----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| October, 2006       |                                                        |                                    |                                                                                  |                                                                                      |
| November, 2006      |                                                        |                                    |                                                                                  |                                                                                      |
| December, 2006      |                                                        |                                    |                                                                                  | 993,501                                                                              |
| Total               | None                                                   |                                    | None                                                                             |                                                                                      |

On November 1, 2005, the Board of Directors approved a buy back of up to 1,000,000 shares of the Company's Common Stock in market or private negotiated transactions from time to time.

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**ITEM 6. SELECTED FINANCIAL DATA**

| Year Ended December 31,                                                 | 2006                                                    | 2005              | 2004              | 2003              | 2002              |
|-------------------------------------------------------------------------|---------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                                         | (in thousands, except earnings and dividends per share) |                   |                   |                   |                   |
| <b>SERVICE FEES AND REVENUE</b>                                         |                                                         |                   |                   |                   |                   |
| Market Data Services                                                    | \$ 21,474                                               | \$ 23,175         | \$ 26,308         | \$ 29,988         | \$ 38,434         |
| ECN Services                                                            | 13,375                                                  | 6,911             | 5,050             | 2,003             | 9,087             |
| Broker-Dealer Commissions (includes<br>\$89 in 2006 from related party) | 7,137                                                   | 6,008             | 8,735             | 8,890             | 9,667             |
|                                                                         | <u>41,986</u>                                           | <u>36,094</u>     | <u>40,093</u>     | <u>40,881</u>     | <u>57,188</u>     |
| <b>COSTS, EXPENSES AND OTHER:</b>                                       |                                                         |                   |                   |                   |                   |
| Direct operating costs                                                  | 30,465                                                  | 25,002            | 23,544            | 23,201            | 31,309            |
| Selling and administrative expenses                                     | 10,986                                                  | 12,485            | 13,815            | 14,515            | 18,767            |
| Rent expense - related party                                            | 630                                                     | 623               | 600               | 583               | 540               |
| Marketing and advertising                                               | 200                                                     | 274               | 414               | 394               | 659               |
| (Gain) write off of investments in private<br>companies                 | -                                                       | (412)             | -                 | -                 | 716               |
| Gain on arbitrage trading                                               | (1,013)                                                 | (819)             | (1,512)           | (1,891)           | (445)             |
| Gain on marketable securities-Innodata and<br>Edgar Online              | (1,777)                                                 | (1,067)           | (5,887)           | (624)             | (124)             |
| Interest (income) expense - net                                         | (84)                                                    | 223               | 305               | 107               | 657               |
|                                                                         | <u>39,407</u>                                           | <u>36,309</u>     | <u>31,279</u>     | <u>36,285</u>     | <u>52,079</u>     |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>                                | 2,579                                                   | (215)             | 8,814             | 4,596             | 5,109             |
| <b>INCOME TAX EXPENSE (BENEFIT)</b>                                     | 1,030                                                   | (178)             | 3,614             | 1,750             | 2,118             |
|                                                                         | <u>\$ 1,549</u>                                         | <u>\$ (37)</u>    | <u>\$ 5,200</u>   | <u>\$ 2,846</u>   | <u>\$ 2,991</u>   |
| <b>BASIC AND DILUTED NET INCOME (LOSS)<br/>PER SHARE</b>                | \$ .18                                                  | \$ (.00)          | \$ .53            | \$ .29            | \$ .28            |
|                                                                         | <u>          </u>                                       | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>DIVIDENDS PER SHARE</b>                                              | \$ .00                                                  | \$ .00            | \$ .05            | \$ .05            | \$ .00            |
|                                                                         | <u>          </u>                                       | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>WEIGHTED AVERAGE SHARES<br/>OUTSTANDING</b>                          | 8,382                                                   | 9,221             | 9,732             | 9,942             | 10,525            |
|                                                                         | <u>          </u>                                       | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>ADJUSTED DILUTIVE SHARES<br/>OUTSTANDING</b>                         | 8,401                                                   | 9,221             | 9,740             | 9,960             | 10,580            |
|                                                                         | <u>          </u>                                       | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| December 31,                                                            | 2006                                                    | 2005              | 2004              | 2003              | 2002              |
|                                                                         | (in thousands)                                          |                   |                   |                   |                   |
| TOTAL ASSETS                                                            | \$ 34,848                                               | \$ 36,207         | \$ 69,438         | \$ 73,498         | \$ 46,416         |
| TOTAL LIABILITIES                                                       | 12,415                                                  | 14,658            | 42,570            | 49,693            | 26,809            |
| STOCKHOLDERS' EQUITY                                                    | 22,433                                                  | 21,549            | 26,868            | 23,805            | 19,607            |



## **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 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 owns 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 and myTrack Pro, for the individual trader. The Company also operates Track ECN, an electronic communications network that enables traders to display and match limit orders for stocks. The Company's operations are classified in three business segments: (1) Professional Market -- Market data services and trading, including ECN services, to the institutional professional investment community, (2) Non-Professional Market -- Internet-based online trading and market data services to the non-professional individual investor community, and (3) Arbitrage trading.

### ***Relevant Factors***

The Company's Professional Market segment revenues experienced significant declines since 2001 from a combination of staffing reductions in the securities industry, the use by customers of internally developed services, or lower priced services offered by the Company or other vendors. This trend has continued into 2007. One customer, with monthly revenues of approximately \$90,000, cancelled a customized market data service in March, 2007. Despite the addition of new subscribers to Track ECN, the Company has not been able to significantly increase revenues. Profit margins are very low in this business and significant volume is necessary to have an impact on the results of operations. Until October, 2006, Track ECN displayed orders submitted by its subscribers on Nasdaq's trading platform. Broker-dealers could access this liquidity through Nasdaq. Nasdaq was authorized to operate as an exchange and Track ECN was no longer able to operate its business on Nasdaq's platform. Track ECN currently operates on NASD's ADF and NSX Blade platforms. This change has resulted in significantly lower revenues. The Company commenced self-clearing of its ECN business at the end of the third quarter of 2006 in an effort to decrease costs associated with ECN revenues. Although TDSC has approval from NASD-R for "clearing" of its Track ECN business, it is a limited approval for it to submit two sided trade data respecting trades which were executed by broker-dealers on the Track ECN. TDSC submits this data to the National Securities Clearing Corporation so that the actual trading counterparties can compare, clear and settle their trades and, except in the case of a rare error, TDSC "drops out" of the clearing process. This effort to "self-clear" was a step to reduce costs of having a third party handle this function.

The Non-Professional Market segment revenues have been inconsistent month to month but have been down overall when compared to the same periods in the prior year. The Company recently introduced myTrack Pro, a trading software for the active trader, with a focus on options trading. The Company is attempting to grow revenues in this segment, principally through marketing alliances and limited advertising to attract new customers, and by offering additional services to existing customers. The Company presently offers trading of U.S. based stocks, options and e-mini futures.

The trading and market data services for both segments require the Company to maintain a market data ticker plant on a 24/7 basis, as well as all back office trading functions. The Company's focus is to increase revenues in both segments, as the underlying costs of maintaining the operations and back office will not increase commensurate with any revenue increase, allowing greater operating margins on incremental revenues.

The Company engages in arbitrage trading activity. The Company's trading strategy consists principally of establishing hedged positions consisting of stocks and options. The Company is subject to market risk in attempting to establish a hedged position, as the market prices could change, precluding a profitable hedge. In these instances, any

positions that were established for this hedge would be immediately sold, usually resulting in small losses. If the hedged positions are successfully established at the prices sought, the positions generally stay until the next option expiration date, resulting in small gains, regardless of market value changes in these securities. While virtually all positions are liquidated at option expiration date, certain stock positions remain. The liquidation of these positions generally results in small profits or losses. From time to time, losses may result from certain dividends that may have to be delivered on positions held, as well as from certain corporate restructurings and mergers that may not have been taken into account when the positions were originally established.

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In connection with the arbitrage trading activity, the Company incurs margin loans. The Company is exposed to interest rate change market risk with respect to these margin loans. The level of trading in the arbitrage trading account is partially dependent on the margin value of Track Data common stock pledged by its Principal Stockholder and Innodata common stock, which is used as collateral. The market value of such securities is dependent on future market conditions for these companies over which the Company has little or no control.

## Results of Operations

### Years ended December 31, 2006 and 2005

Revenues for the years ended December 31, 2006 and 2005 were \$41,986,000 and \$36,094,000, respectively, an increase of 16%. The Company's Professional Market segment had revenues for the years ended December 31, 2006 and 2005 of \$29,642,000 and \$24,419,000, respectively, an increase of 21% for this segment. The Company's Non-Professional Market segment had revenues of \$12,344,000 and \$11,675,000, respectively, for the years ended December 31, 2006 and 2005, an increase of 6% for this segment. The increase in revenues was attributable to the Company's Track ECN which increased from \$6,911,000 to \$13,375,000; however, ECN revenues have low margins compared to higher margins lost from reduced market data services. Track ECN has recently been successful in attracting new subscribers. Until October, 2006, Track ECN displayed orders submitted by its subscribers on Nasdaq's trading platform. Broker-dealers could access this liquidity through Nasdaq. Nasdaq was authorized to operate as an exchange and Track ECN was no longer able to operate its business on Nasdaq's platform. Track ECN currently operates on NASD's ADF and NSX Blade platforms. This change has resulted in significantly lower ECN revenues since November, 2006. Management believes that ECN revenues will grow again in the future on the new platforms. Since 2001, the Company has experienced a decline in revenues from its market data services to the Professional Market segment due principally to staffing reductions in the securities industry, the use by customers of internally developed services, or lower priced services that are offered by the Company or other vendors. This trend has continued in 2007, negatively impacting revenues and profits. One customer, with monthly revenues of approximately \$90,000, cancelled a customized market data service in March, 2007.

Direct operating costs were \$30,465,000 for the year ended December 31, 2006 and \$25,002,000 for the similar period in 2005, an increase of 22%. Direct operating costs as a percentage of revenues were 73% in 2006 and 69% in 2005. Without giving effect to unallocated depreciation, amortization expense and costs directly allocated to the Arbitrage segment, the Company's Professional Market segment had \$23,153,000 and \$18,161,000 of direct costs for the years ended December 31, 2006 and 2005, respectively, an increase of 27%. Direct operating costs as a percentage of revenues for the Professional segment were 78% in 2006 and 74% in 2005. The significant dollar and percentage increase was principally due to costs from ECN customer commissions associated with the increased ECN revenues, which have minimal gross margins replacing the higher gross margins, lost to the reduced market data revenues. The Company commenced self-clearing of its ECN operations at the end of the third quarter of 2005 which has since reduced clearing costs. The Professional Market segment includes a credit in 2005 of \$370,000 for telecommunication costs recognized in prior periods. The Company's Non-Professional Market segment had \$6,542,000 and \$6,026,000 in direct costs for the years ended December 31, 2006 and 2005, respectively, an increase of 9%. Direct operating costs as a percentage of revenues for the Non-Professional segment were 53% in 2006 and 52% in 2005. Certain direct operating costs are allocated to each segment based on revenues. 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 ECN customer commissions and clearing.

## Edgar Filing: TRACK DATA CORP - Form 10-K

Selling and administrative expenses were \$10,986,000 and \$12,485,000 in the 2006 and 2005 periods, respectively, a decrease of 12%. Selling and administrative expenses as a percentage of revenues were 26% in 2006 and 35% in 2005. The decrease in dollars and percentages is due to reduced payroll and professional fees. Without giving effect to unallocated depreciation, amortization expense and costs directly allocated to the Arbitrage segment, selling and administrative expenses for the Professional Market segment were \$7,788,000 and \$8,353,000 in the 2006 and 2005 periods, respectively, a decrease of 7%. For the Professional Market segment selling and administrative expenses as a percentage of revenues were 26% in 2006 and 34% in 2005. The decline in dollars and percentage includes a reversal of a judgment on sales taxes assessed of \$245,000. Selling and administrative expenses for the Non-Professional segment were \$3,098,000 and \$3,991,000 in the 2006 and 2005 periods, respectively, a decrease of 22%. For the Non-Professional segment selling and administrative expense as a percentage of revenue was 25% in 2006 and 34% in 2005. The decrease in selling and administrative expenses was due principally to reduced allocations of shared expenses due to reduced revenues. Certain selling and administrative expenses are allocated to each segment based on revenues.

Rent costs to related parties was \$630,000 in 2006 and \$623,000 in 2005. The Professional Market segment incurred rent costs of \$454,000 in 2006 and \$421,000 in 2005. The Non-Professional segment incurred rent costs of \$176,000 in 2006 and \$202,000 in 2005.

Marketing and advertising costs were \$200,000 in 2006 and \$274,000 in 2005. The Professional Market segment incurred costs of \$86,000 in 2006 and \$226,000 in 2005. The Non-Professional segment incurred marketing costs of \$114,000 in 2006 and \$48,000 in 2005.

The Professional Market segment realized a loss of \$1,829,000 in 2006 compared to a loss of \$2,742,000 before unallocated amounts and income taxes in 2005. The Non-Professional Market segment realized income of \$2,404,000 in 2006 and \$1,409,000 in 2005 before unallocated amounts and income taxes. The Arbitrage segment realized income of \$843,000 in 2006 compared to \$406,000 in 2005 before unallocated amounts and income taxes.

In 2006 and 2005, the Company recognized gains of \$1,777,000 and \$1,067,000, respectively, from the sale of shares of Innodata and Edgar Online common stock.

In 2005, the Company realized a gain of \$512,000 from the sale of an investment in a private company, offset by a \$100,000 impairment charge on an investment in another private company.

Net interest income in 2006 was \$84,000 compared to net interest expense of \$223,000 in 2005. The decrease in interest expense in 2006 is due principally to reduced levels of margin debt in connection with the Company's arbitrage trading program.

As a result of the above-mentioned factors, the Company realized income before income taxes of \$2,579,000 in the 2006 period compared to a loss before income taxes of \$215,000 in the 2005 period.

The Company's effective tax rate was 40% in 2006 and (83)% in 2005. The unusually high rate in 2005 was due to a reversal of an over estimate of state income taxes in 2004 related to state apportionments.

The Company realized net income of \$1,549,000 in 2006 compared to a net loss of \$37,000 in 2005.

### **Years ended December 31, 2005 and 2004**

Revenues for the years ended December 31, 2005 and 2004 were \$36,094,000 and \$40,093,000, respectively, a decrease of 10%. The Company's Professional Market segment had revenues for the years ended December 31, 2005 and 2004 of \$24,419,000 and \$25,124,000, respectively, a decrease of 3% for this segment. The Company's Non-Professional Market segment had revenues of \$11,675,000 and \$14,969,000, respectively, for the years ended

December 31, 2005 and 2004, a decrease of 22% for this segment. Since 2001, the Company has experienced a decline in revenues from its market data services to the Professional Market segment due principally to staffing reductions in the securities industry, the use by customers of internally developed services, or lower priced services that are offered by the Company or other vendors. Increased revenues from the Company's Track ECN and its Newswire division mostly offset the decline in market data revenues; however, these increased revenues did not offset the reduction in profits due to the low margins realized on increased ECN revenues compared to higher margins lost from reduced market data services. In the Non-Professional Market segment, the Company experienced a decline in the number of customers actively trading and, accordingly, reduced revenues due to significantly lower trading volumes and market data revenues.

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## Edgar Filing: TRACK DATA CORP - Form 10-K

Direct operating costs were \$25,002,000 for the year ended December 31, 2005 and \$23,544,000 for the similar period in 2004, an increase of 6%. Direct operating costs as a percentage of revenues were 69% in 2005 and 59% in 2004. Without giving effect to unallocated depreciation, amortization expense and costs directly allocated to the Arbitrage segment, the Company's Professional Market segment had \$18,161,000 and \$15,081,000 of direct costs for the years ended December 31, 2005 and 2004, respectively, an increase of 20%. Direct operating costs as a percentage of revenues for the Professional segment were 74% in 2005 and 60% in 2004. The significant dollar and percentage increase was principally due to costs associated with the increased ECN revenues which have minimal gross margins replacing the higher gross margins lost to the reduced market data revenues. The Professional Market segment includes a credit in 2005 of \$370,000 for telecommunication costs recognized in prior periods. The Company's Non-Professional Market segment had \$6,026,000 and \$7,491,000 in direct costs for the years ended December 31, 2005 and 2004, respectively, a decrease of 20%. Direct operating costs as a percentage of revenues for the Non-Professional segment were 52% in 2005 and 50% in 2004. The dollar decline was principally due to the decreased revenues. Certain direct operating costs are allocated to each segment based on revenues.

Selling and administrative expenses were \$12,485,000 and \$13,815,000 in the 2005 and 2004 periods, respectively, a decrease of 10%. Selling and administrative expenses as a percentage of revenues was 35% in 2005 and 2004. Without giving effect to unallocated depreciation, amortization expense and costs directly allocated to the Arbitrage segment, selling and administrative expenses for the Professional Market segment were \$8,353,000 and \$8,843,000 in the 2005 and 2004 periods, respectively, a decrease of 6%. For the Professional Market segment selling and administrative expenses as a percentage of revenues was 34% in 2005 and 35% in 2004. The decline in dollars and percentage includes a reversal of a judgment on sales taxes assessed of \$245,000. Selling and administrative expenses for the Non-Professional segment were \$3,991,000 and \$4,622,000 in the 2005 and 2004 periods, respectively, a decrease of 14%. For the Non-Professional segment selling and administrative expense as a percentage of revenue was 34% in 2005 and 31% in 2004. The decrease in selling and administrative expenses was due principally to reduced allocations of shared expenses due to reduced revenues. Certain selling and administrative expenses are allocated to each segment based on revenues.

Rent costs to related parties was \$623,000 in 2005 and \$600,000 in 2004. The Professional Market segment spent \$421,000 in 2005 and \$376,000 in 2004. The Non-Professional segment incurred rent costs of \$202,000 in 2005 and \$224,000 in 2004.

Marketing and advertising costs were \$274,000 in 2005 and \$414,000 in 2004. The Professional Market segment spent \$226,000 in 2005 and \$369,000 in 2004. The Non-Professional segment incurred marketing costs of \$48,000 in 2005 and \$45,000 in 2004.

The Professional Market segment realized a loss of \$2,742,000 in 2005 compared to income of \$455,000 before unallocated amounts and income taxes in 2004. The Non-Professional Market segment realized income of \$1,409,000 in 2005 and \$2,588,000 in 2004 before unallocated amounts and income taxes. The Arbitrage segment realized income of \$406,000 in 2005 compared to \$933,000 in 2004 before unallocated amounts and income taxes.

In 2005 and 2004, the Company recognized gains of \$1,067,000 and \$5,887,000, respectively, from the sale of shares of Innodata and Edgar Online common stock.

In 2005, the Company realized a gain of \$512,000 from the sale of an investment in a private company, offset by a \$100,000 impairment charge on an investment in another private company.

Net interest expense in 2005 was \$223,000 compared to \$305,000 in 2004. The decrease in interest expense in 2005 is due principally to reduced levels of margin debt in connection with the Company's arbitrage trading program.

As a result of the above-mentioned factors, the Company realized a loss before income taxes of \$215,000 in the 2005 period compared to income before income taxes of \$8,814,000 in the 2004 period.

The Company's effective tax rate was (83)% in 2005 and 41% in 2004. The unusually high rate in 2005 was due to a reversal of an over estimate of state income taxes in 2004 related to state apportionments.

The Company realized a net loss of \$37,000 in 2005 compared to net income of \$5,200,000 in 2004.

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### ***Liquidity and Capital Resources***

During the year ended December 31, 2006, cash provided by operating activities was \$1,308,000 compared to cash used in operating activities of \$656,000 in 2005. The increase in 2006 was principally due to increased income from operations. Cash flows provided by investing activities in 2006 was \$606,000 compared to \$789,000 in 2005. Cash flows provided by financing activities was \$130,000 in 2006, and cash flows used in financing activities was \$2,473,000 in 2005. The decrease was due to significantly reduced purchases of treasury stock in 2006.

The Company has a line of credit with a bank up to a maximum of \$3 million. The line is collateralized by the assets of the Company and is guaranteed by its Principal Stockholder. 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 as defined, and is required to maintain a compensating balance of 10% of the outstanding loans. At December 31, 2006, the Company had borrowings of \$987,000 under the line. Borrowings available on the line of credit at December 31, 2006 were \$6,000 based on these formulas.

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, 2006 positions will be closed during the first quarter of 2007 and that other positions with the same strategy will be established. The level of trading activity is partially dependent on the value of the shares of Track Data pledged by its Principal Stockholder and Innodata common stock that is held as collateral.

The Company purchased 1,247,000 shares of its common stock in 2005 at a cost of \$3,676,000. The purchases were paid with cash that was part of the total capital used in Arbitrage trading. In November, 2005, the Board authorized the purchase of up to 1 million shares from time to time in market purchases or in negotiated transactions. Since that authorization, the Company purchased 6,000 shares of its common stock in 2006 at a cost of \$20,000. No major capital expenditures are anticipated beyond the normal replacement of equipment and additional equipment to meet customer requirements. The Company believes that borrowings available under the Company's line of credit, its present cash position, including cash available in its Arbitrage trading, and any cash that may be generated from operations are sufficient for the Company's cash requirements for the next 12 months.

The Company's broker-dealer subsidiary, TDSC, is subject to a minimum net capital requirement of \$1 million by the NASD. TDSC operations are subject to reviews by regulators within its industry, which include the SEC and the NASD. In the past, certain reviews have resulted in the Company incurring fines and required the Company to change certain of its internal control and operating procedures. Ongoing and future reviews may result in the Company incurring additional fines and changes in its internal control and operating procedures. Management does not expect any ongoing reviews to have a material affect on the Company's financial position or statement of operations.

In connection with an acquisition of a 15% interest in SFB Market Systems, Inc, the Company may be required to pay up to an additional \$80,000 in the event SFB achieves certain sales projections.

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.

### ***Off Balance Sheet Risk***

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 and its clearing broker seek to control the risks associated with 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. At December 31, 2006, the Company had \$11.8 million in margin credit extended to its customers. The Company believes it is unlikely it will have to make material payments under the indemnification agreement and has not recorded any contingent liability in the Consolidated Financial Statements.

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**Contractual Obligations and Commitments**

December 31, 2006

| Contractual Obligations      | Total       | Payment due by Period |           |           |
|------------------------------|-------------|-----------------------|-----------|-----------|
|                              |             | Less than<br>1 year   | 1-3 Years | 3-5 Years |
| Operating Lease Obligation   | \$ 818,000  | \$ 346,000            | \$396,000 | \$76,000  |
| Demand Credit Line Financing | 987,000     | 987,000               | -         | -         |
| Total                        | \$1,805,000 | \$1,333,000           | \$396,000 | \$76,000  |

In connection with the Company's broker-dealer operations, certain customer securities activities are transacted on a margin basis. 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.

**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**

The Company recognizes revenue from market data and ECN services as services are performed. Billings in advance of services provided are recorded as unearned revenues. All other revenues collected in advance of services are deferred until services are rendered. The Company earns commissions as an introducing broker and for licensing its trading system for the transactions of its customers. Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

For ECN services, transaction fees are earned on a per trade basis, based on shares transacted, and are recognized as transactions occur. For each transaction executed, there is an associated liquidity payment or routing charge paid. Pursuant to Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" ("EITF 99-19"), the Company records such expenses as liquidity payments or routing charges in the consolidated statements of operations.

**Marketable Securities**

Arbitrage marketable securities transactions are recorded on trade date. Gains and losses are recognized based on closed transactions and the difference between market value and cost at balance sheet date.

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.

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## **Long-lived Assets**

In assessing the recoverability of the Company's goodwill and other intangibles, the Company must make assumptions regarding estimated undiscounted expected future 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.

## **New Pronouncements**

In June 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and Statement No. 3, Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, SFAS 154 does not change the transition provisions of any existing accounting pronouncements. The adoption of SFAS 154 did not have an impact on the Company's financial statements.

In November 2005, the FASB issued FASB Staff Position FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP 115-1"), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 is required to be applied to reporting periods beginning after December 15, 2005. The adoption of FSP 115-1 did not have an impact on the Company's consolidated financial condition or results of operations.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes- an Interpretation of FASB Statement No. 109" (the "Interpretation"). The Interpretation establishes for all entities a minimum threshold for financial statement recognition of the benefit or tax positions, and requires certain expanded disclosures. The Interpretation is effective for fiscal years beginning after December 31, 2006, and is to be applied to all open tax years as of the date of effectiveness. The Company is in the process of evaluating the impact of the application of the Interpretation on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It codifies the definitions of fair value included in other authoritative literature; clarifies and, in some cases, expands on the guidance for implementing fair value measurements; and increases the level of disclosure required for fair value measurements. Although SFAS 157 applies to (and amends) the provisions of existing authoritative literature, it does not, of itself, require any new fair value measurements, nor does it establish valuation standards. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This statement will be effective for the Company's fiscal year beginning January 2008. We will evaluate the impact of adopting SFAS 157 but do not expect that it will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In September 2006, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108") which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 became effective in 2006 and did not have a material impact on the Company's consolidated financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115 ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method, is irrevocable (unless a new election date occurs), and is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The Company has not completed its review of the new guidance.

### ***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.

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**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, 2006, there was \$987,000 outstanding under the credit facility. Changes in the prime interest rate during fiscal 2007 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 2007. Assuming debt remains constant, a 1% change in interest rates would not be material to the Company's interest expense.

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. In connection with the arbitrage trading activity, 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. The level of trading in the arbitrage trading account is partially dependent on the value of the Company's common stock pledged by its Principal Stockholder and Innodata common stock, which is used as collateral. The market value of such securities is dependent on future market conditions for these companies over which the Company has little or no control. If the stock collateral is not available, the Company will decrease its trading or seek additional collateral.

The Company conducts business through a clearing broker, which 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 obligation at a loss. At December 31, 2006, the Company had \$11.8 million in margin credit extended to its customers.

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**ITEM 8. FINANCIAL STATEMENTS**

**INDEX TO FINANCIAL STATEMENTS**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Audit Committee of the Board of Directors  
and Stockholders of Track Data Corporation

We have audited the accompanying consolidated balance sheets of Track Data Corporation and Subsidiaries (the “Company”) as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in stockholders’ equity and comprehensive income (loss) and cash flows for the years then ended. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated 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, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with United States generally accepted accounting principles.

/S/ Marcum & Kliegman LLP

Melville, New York  
March 21, 2007

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

Track Data Corporation

We have audited the accompanying consolidated statements of income, stockholders' equity and comprehensive income, and cash flows of Track Data Corporation and subsidiaries (the "Company") for the year ended December 31, 2004. 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 audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements of income, stockholders' equity and comprehensive income, and cash flows are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements of income, stockholders' equity and comprehensive income, and cash flow assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of operations and cash flow presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated statements of income, stockholders' equity and comprehensive income, and cash flows referred to above present fairly, in all material respects, the results of their operations and their cash flows for the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

/S/ Grant Thornton LLP

New York, New York  
March 16, 2005

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**Track Data Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
**December 31, 2006 and 2005**  
(in thousands, except share data)

|                                                                                                           | 2006      | 2005      |
|-----------------------------------------------------------------------------------------------------------|-----------|-----------|
| <b>ASSETS</b>                                                                                             |           |           |
| <b>CASH AND EQUIVALENTS</b>                                                                               | \$ 6,508  | \$ 4,469  |
| <b>ACCOUNTS RECEIVABLE</b> - net of allowance for doubtful<br>accounts of \$326 in 2006 and \$302 in 2005 | 1,277     | 1,950     |
| <b>DUE FROM CLEARING BROKER</b>                                                                           | 495       | 154       |
| <b>DUE FROM BROKER</b>                                                                                    | 12,962    | 15,591    |
| <b>MARKETABLE SECURITIES</b>                                                                              | 8,757     | 9,492     |
| <b>FIXED ASSETS</b> - at cost (net of accumulated depreciation)                                           | 1,998     | 1,701     |
| <b>EXCESS OF COST OVER NET ASSETS ACQUIRED</b> - net                                                      | 1,900     | 1,900     |
| <b>OTHER ASSETS</b>                                                                                       | 951       | 950       |
|                                                                                                           | <hr/>     | <hr/>     |
| <b>TOTAL</b>                                                                                              | \$ 34,848 | \$ 36,207 |
|                                                                                                           | <hr/>     | <hr/>     |

**LIABILITIES AND STOCKHOLDERS' EQUITY****LIABILITIES**

|                                                |          |          |
|------------------------------------------------|----------|----------|
| Accounts payable and accrued expenses          | \$ 3,928 | \$ 3,707 |
| Note payable - bank                            | 987      | 1,137    |
| Trading securities sold, but not yet purchased | 6,102    | 8,223    |
| Net deferred income tax liabilities            | 528      | 959      |
| Other liabilities                              | 870      | 632      |
|                                                | <hr/>    | <hr/>    |
| Total liabilities                              | 12,415   | 14,658   |
|                                                | <hr/>    | <hr/>    |

**COMMITMENTS AND CONTINGENCIES****STOCKHOLDERS' EQUITY**

|                                                                                                                                                   |        |        |
|---------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------|
| Common stock - \$.01 par value; 60,000,000 shares<br>authorized; issued and outstanding -8,392,000 shares<br>in 2006 and 8,380,000 shares in 2005 | 84     | 84     |
| Additional paid-in capital                                                                                                                        | 10,183 | 10,136 |

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|                                        |                   |                   |
|----------------------------------------|-------------------|-------------------|
| Retained earnings                      | 11,923            | 10,374            |
| Accumulated other comprehensive income | 243               | 955               |
|                                        | <u>          </u> | <u>          </u> |
| Total stockholders' equity             | 22,433            | 21,549            |
|                                        | <u>          </u> | <u>          </u> |
| <b>TOTAL</b>                           | <b>\$ 34,848</b>  | <b>\$ 36,207</b>  |
|                                        | <u>          </u> | <u>          </u> |

See notes to consolidated financial statements

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**Track Data Corporation and Subsidiaries**  
**Consolidated Statements of Operations**  
**Years Ended December 31, 2006, 2005 and 2004**  
(in thousands, except earnings and dividends per share)

|                                                                                                                                             | <b>2006</b>     | <b>2005</b>     | <b>2004</b>     |
|---------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|
| <b>SERVICE FEES AND REVENUE</b>                                                                                                             |                 |                 |                 |
| Market Data Services                                                                                                                        | \$ 21,474       | \$ 23,175       | \$ 26,308       |
| ECN Services                                                                                                                                | 13,375          | 6,911           | 5,050           |
| Broker Dealer Commissions (includes \$89 in 2006 from related party)                                                                        | 7,137           | 6,008           | 8,735           |
|                                                                                                                                             | <u>41,986</u>   | <u>36,094</u>   | <u>40,093</u>   |
| <b>COSTS, EXPENSES AND OTHER:</b>                                                                                                           |                 |                 |                 |
| Direct operating costs (includes depreciation and amortization of \$559, \$614 and \$766 in 2006, 2005 and 2004, respectively)              | 30,465          | 25,002          | 23,544          |
| Selling and administrative expenses (includes depreciation and amortization of \$100, \$141 and \$287 in 2006, 2005 and 2004, respectively) | 10,986          | 12,485          | 13,815          |
| Rent expense - related party                                                                                                                | 630             | 623             | 600             |
| Marketing and advertising                                                                                                                   | 200             | 274             | 414             |
| Gain on arbitrage trading                                                                                                                   | (1,013)         | (819)           | (1,512)         |
| Gain on sale of marketable securities - Innodata and Edgar Online                                                                           | (1,777)         | (1,067)         | (5,887)         |
| Net gain on sale of investment in private companies                                                                                         | -               | (412)           | -               |
| Interest income                                                                                                                             | (430)           | (241)           | -               |
| Interest expense                                                                                                                            | 346             | 464             | 305             |
|                                                                                                                                             | <u>39,407</u>   | <u>36,309</u>   | <u>31,279</u>   |
| <b>INCOME (LOSS) BEFORE INCOME TAXES</b>                                                                                                    | 2,579           | (215)           | 8,814           |
| <b>INCOME TAX EXPENSE (BENEFIT)</b>                                                                                                         | 1,030           | (178)           | 3,614           |
|                                                                                                                                             | <u>\$ 1,549</u> | <u>\$ (37)</u>  | <u>\$ 5,200</u> |
| <b>NET INCOME (LOSS)</b>                                                                                                                    |                 |                 |                 |
| <b>BASIC AND DILUTED NET INCOME (LOSS) PER SHARE</b>                                                                                        | <u>\$ .18</u>   | <u>\$ (.00)</u> | <u>\$ .53</u>   |
| <b>DIVIDENDS PER SHARE</b>                                                                                                                  | <u>\$ .00</u>   | <u>\$ .00</u>   | <u>\$ .05</u>   |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>                                                                                        | <u>8,382</u>    | <u>9,221</u>    | <u>9,732</u>    |
| <b>ADJUSTED DILUTIVE SHARES OUTSTANDING</b>                                                                                                 | <u>8,401</u>    | <u>9,221</u>    | <u>9,740</u>    |

See notes to consolidated financial statements

**Track Data Corporation and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)**  
**Years Ended December 31, 2006, 2005 and 2004**  
*(in thousands)*

|                                                                                       | <b>Number<br/>of<br/>Shares</b> | <b>Common<br/>Stock</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Stock-<br/>holders'<br/>Equity</b> | <b>Compre-<br/>hensive<br/>Income<br/>(Loss)</b> |
|---------------------------------------------------------------------------------------|---------------------------------|-------------------------|-------------------------------------------|------------------------------|-----------------------------------------------------------|---------------------------------------|--------------------------------------------------|
| <b>BALANCE,<br/>JANUARY 1, 2004</b>                                                   | <b>9,800</b>                    | <b>\$ 98</b>            | <b>\$14,544</b>                           | <b>\$ 5,701</b>              | <b>\$ 3,462</b>                                           | <b>\$ 23,805</b>                      |                                                  |
| Net income                                                                            |                                 |                         |                                           | 5,200                        |                                                           | 5,200                                 | \$ 5,200                                         |
| Stock options exercised                                                               |                                 |                         | 11                                        |                              |                                                           | 11                                    |                                                  |
| Dividends paid                                                                        |                                 |                         |                                           | (490)                        |                                                           | (490)                                 |                                                  |
| Purchase and retirement<br>of treasury stock                                          | (173)                           | (2)                     | (804)                                     |                              |                                                           | (806)                                 |                                                  |
| Tax effect of stock<br>options exercised                                              |                                 |                         | 35                                        |                              |                                                           | 35                                    |                                                  |
| Reclassification<br>adjustment for gain<br>on marketable<br>securities - net of taxes |                                 |                         |                                           |                              | (2,176)                                                   | (2,176)                               | (2,176)                                          |
| Unrealized gain on<br>marketable securities -<br>net of taxes                         |                                 |                         |                                           |                              | 1,289                                                     | 1,289                                 | 1,289                                            |
| Comprehensive income                                                                  |                                 |                         |                                           |                              |                                                           |                                       | <b>\$ 4,313</b>                                  |
| <b>BALANCE,<br/>DECEMBER 31, 2004</b>                                                 | <b>9,627</b>                    | <b>96</b>               | <b>13,786</b>                             | <b>10,411</b>                | <b>2,575</b>                                              | <b>26,868</b>                         |                                                  |
| Net loss                                                                              |                                 |                         |                                           | (37)                         |                                                           | (37)                                  | \$ (37)                                          |
| Purchase and retirement<br>of treasury stock                                          | (1,247)                         | (12)                    | (3,664)                                   |                              |                                                           | (3,676)                               |                                                  |
| Tax effect on<br>distribution of<br>phantom shares                                    |                                 |                         | 14                                        |                              |                                                           | 14                                    |                                                  |
| Reclassification<br>adjustment for gain                                               |                                 |                         |                                           |                              |                                                           |                                       |                                                  |

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|                                                                              |              |              |                 |                  |               |                  |                   |
|------------------------------------------------------------------------------|--------------|--------------|-----------------|------------------|---------------|------------------|-------------------|
| on marketable securities - net of taxes                                      |              |              |                 |                  | (472)         | (472)            | (472)             |
| Unrealized loss on marketable securities - net of taxes                      |              |              |                 |                  | (1,148)       | (1,148)          | (1,148)           |
| Comprehensive loss                                                           |              |              |                 |                  |               |                  | <u>\$ (1,657)</u> |
| <b>BALANCE, DECEMBER 31, 2005</b>                                            | <u>8,380</u> | <u>84</u>    | <u>10,136</u>   | <u>10,374</u>    | <u>955</u>    | <u>21,549</u>    |                   |
| Net income                                                                   |              |              |                 | 1,549            |               | 1,549            | \$ 1,549          |
| Exercise of stock options                                                    | 18           |              | 56              |                  |               | 56               |                   |
| Purchase and retirement of treasury stock                                    | (6)          |              | (20)            |                  |               | (20)             |                   |
| Tax effect of stock options exercised                                        |              |              | 11              |                  |               | 11               |                   |
| Reclassification adjustment for gain on marketable securities - net of taxes |              |              |                 |                  | (946)         | (946)            | (946)             |
| Unrealized gain on marketable securities - net of taxes                      |              |              |                 |                  | 234           | 234              | 234               |
| Comprehensive income                                                         |              |              |                 |                  |               |                  | <u>\$ 837</u>     |
| <b>BALANCE, DECEMBER 31, 2006</b>                                            | <u>8,392</u> | <u>\$ 84</u> | <u>\$10,183</u> | <u>\$ 11,923</u> | <u>\$ 243</u> | <u>\$ 22,433</u> |                   |

See notes to consolidated financial statements

**Track Data Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2006, 2005 and 2004**  
(in thousands)

|                                                                                                    | <u>2006</u>  | <u>2005</u>    | <u>2004</u>    |
|----------------------------------------------------------------------------------------------------|--------------|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                       |              |                |                |
| Net income (loss)                                                                                  | \$ 1,549     | \$ (37)        | \$ 5,200       |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |              |                |                |
| Depreciation and amortization                                                                      | 659          | 755            | 1,053          |
| Deferred taxes                                                                                     | 43           | (13)           | 168            |
| Provision for doubtful accounts                                                                    | 33           | -              | -              |
| Tax effect of phantom shares and stock options exercised                                           | (11)         | 14             | 35             |
| Net gain on sale of investment in private companies                                                | -            | (412)          | -              |
| Loss on sale of fixed assets                                                                       | -            | 51             | -              |
| Gain on sale of Innodata and Edgar Online common stock                                             | (1,777)      | (1,067)        | (5,887)        |
| Changes in operating assets and liabilities:                                                       |              |                |                |
| Accounts receivable and due from clearing broker                                                   | 299          | 325            | (783)          |
| Due from broker                                                                                    | 2,629        | 20,160         | 1,390          |
| Marketable securities                                                                              | (462)        | 7,916          | (1,295)        |
| Other assets                                                                                       | 306          | 137            | 296            |
| Accounts payable and accrued expenses                                                              | 221          | (1,006)        | 712            |
| Trading securities sold, but not yet purchased                                                     | (2,121)      | (25,392)       | (7,381)        |
| Other liabilities                                                                                  | (60)         | (2,087)        | 343            |
|                                                                                                    | <u>1,308</u> | <u>(656)</u>   | <u>(6,149)</u> |
| Net cash provided by (used in) operating activities                                                |              |                |                |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                       |              |                |                |
| Purchase of fixed assets                                                                           | (1,031)      | (726)          | (683)          |
| Investment in private companies                                                                    | (150)        | (100)          | -              |
| Proceeds from sale of fixed assets                                                                 | -            | 8              | -              |
| Proceeds from sale of investment in private company                                                | -            | 522            | -              |
| Proceeds from sale of Innodata and Edgar Online common stock                                       | 1,787        | 1,085          | 6,978          |
|                                                                                                    | <u>606</u>   | <u>789</u>     | <u>6,295</u>   |
| Net cash provided by investing activities                                                          |              |                |                |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                       |              |                |                |
| Net (payments) proceeds on note payable - bank                                                     | (150)        | 1,137          | -              |
| Net payments on notes payable - other                                                              | -            | -              | (494)          |
| Net proceeds on loans from employees                                                               | 233          | 66             | 154            |
| Dividends paid                                                                                     | -            | -              | (490)          |
| Proceeds from exercise of stock options and warrants                                               | 56           | -              | 11             |
| Excess tax benefit from exercise of stock options                                                  | 11           | -              | -              |
| Purchase of treasury stock                                                                         | (20)         | (3,676)        | (806)          |
|                                                                                                    | <u>130</u>   | <u>(2,473)</u> | <u>(1,625)</u> |
| Net cash provided by (used in) financing activities                                                |              |                |                |
| <b>EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH</b>                                                 | <u>(5)</u>   | <u>(9)</u>     | <u>(18)</u>    |

|                                                           |                   |                   |                   |
|-----------------------------------------------------------|-------------------|-------------------|-------------------|
| <b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>    | 2,039             | (2,349)           | (1,497)           |
| <b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>            | 4,469             | 6,818             | 8,315             |
|                                                           | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>CASH AND EQUIVALENTS, END OF YEAR</b>                  | <u>\$ 6,508</u>   | <u>\$ 4,469</u>   | <u>\$ 6,818</u>   |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b> |                   |                   |                   |
| Cash paid for: Interest                                   | \$ 346            | \$ 465            | \$ 535            |
| Income taxes                                              | 708               | 1,943             | 3,135             |

See notes to consolidated financial statements

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**Track Data Corporation and Subsidiaries**  
**Notes To Consolidated Financial Statements**  
**Years Ended December 31, 2006, 2005 and 2004**

**A. The Company and Summary of Significant Accounting Policies**

**Description of Business and Basis of Presentation**--Track Data Corporation (the "Company") is a financial services company that 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 wholly-owned subsidiary, Track Data Securities Corp. ("TDSC"), is 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 professional institutional traders, and myTrack and myTrack Pro, for the individual trader. The Company also operates Track ECN, an electronic communications network that enables traders to display and match limit orders for stocks. The Company operates in a highly competitive environment, and competes based on its service, reliability and price. Many of the Company's competitors have significantly greater resources than the Company. The Company's operations are classified in three business segments: (1) Professional Market -- Market data services and trading, including ECN services, to the institutional professional investment community, (2) Non-Professional Market -- Internet-based online trading and market data services to the non-professional individual investor community, and (3) Arbitrage trading.

Certain reclassifications of prior year amounts were made to conform to the 2006 presentation. There was no effect on reported income.

**Principles of Consolidation**--The consolidated financial statements of the Company include its subsidiaries, all of which are wholly owned. All significant intercompany transactions and accounts have been eliminated in consolidation.

**Cash and Cash Equivalents**--For financial statement purposes (including cash flows), the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less and money market funds to be cash equivalents. The Company has cash balances in banks in excess of the maximum amount insured by the FDIC as of December 31, 2006.

**Accounts Receivable**--Accounts receivable, principally trade, are generally due within 30 days and are stated at amounts due from customers net of an allowance for doubtful accounts. The Company continuously monitors agings, collections and payments from customers and a provision for estimated credit losses is maintained based upon its historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within the Company's expectation and the provisions established, the Company cannot guarantee that the same credit loss rates will be experienced in the future. The Company writes off accounts receivable when they become uncollectible. The Company's allowance for doubtful accounts was \$326,000 and \$302,000 at December 31, 2006 and 2005, respectively. There have been no significant write offs during the three years ended December 31, 2006.

**Marketable Securities**--The Company accounts for securities owned in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS 115 requires investments in debt and equity securities to be classified as either "held to maturity," "trading," or "available for sale." The accounting treatment for unrealized gains and losses on those securities is then determined by the classification chosen. Arbitrage trading securities transactions, consisting of stocks and options, are recorded on a trade-date basis. Securities are valued at quoted market value. The resulting difference between cost and market (or fair value) is included in "gain on arbitrage trading." Securities sold, but not yet purchased, consist of trading securities at market values. The difference between the proceeds received from securities sold short and the current market value

is included in gain on arbitrage trading. Securities available for sale are carried at fair value, with unrealized gains and losses, net of deferred taxes, reported as comprehensive income (loss), a separate component of stockholders' equity, and realized gains and losses, determined on a specific identification basis, are included in earnings. 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 operations.

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**Due From Broker**--All cash, securities owned and securities sold, but not yet purchased reflected in the balance sheet are positions carried by and amounts due from broker.

**Fixed Assets**--Fixed assets are depreciated on a straight-line basis over their estimated useful lives which are as follows: equipment - 3-10 years; furniture and fixtures - 10 years; and transportation equipment - 4 years. Leasehold improvements are amortized on a straight-line basis over the respective lease term or estimated useful life, whichever is less.

**Software and Database Costs**--Certain costs of internally developed software are capitalized and are amortized at the greater of the ratio that current gross revenues bear to the total of current and anticipated future gross revenues or the straight-line method, generally five years. Other software costs are amortized on a straight-line basis over their estimated useful lives, generally five years. Costs incurred for internal use software in the preliminary project stage and for application maintenance are expensed. Costs incurred for application development are capitalized. Most costs are incurred for upgrades and enhancements that are constantly upgraded and changed with useful lives of less than one year. Accordingly, these costs are expensed as incurred. No development costs have been capitalized during the three years ended December 31, 2006. Software and database costs, net of accumulated amortization, at December 31, 2006 and 2005 of \$15,000 and \$7,000, respectively, was included in other assets. Database costs are amortized on a straight-line basis over their estimated useful lives of ten years. Amortization expense for the years ended December 31, 2006, 2005 and 2004 was approximately \$4,000, \$4,000 and \$18,000, respectively. At each balance sheet date, the unamortized capitalized costs of a computer software product is compared to the net realizable value of that product. The amount by which the unamortized capitalized costs of a computer software product exceed the net realizable value of that asset is written off. The net realizable value is the estimated future gross revenues from that product reduced by the estimated future costs of completing and disposing of that product, including the costs of performing maintenance and customer support required to satisfy the enterprise's responsibility set forth at the time of sale. The reduced amount of capitalized computer software costs that have been written down to net realizable value at the close of an annual fiscal period shall be considered to be the costs for subsequent accounting purposes, and the amount of the write-down shall not be subsequently restored.

**Long-lived Assets**--In accordance with SFAS 142, "Goodwill and Other Intangible Assets," all intangible assets acquired that are obtained through contractual or legal right, or are capable of being separately sold, transferred, licensed, rented or exchanged shall be recognized as an asset apart from goodwill. Goodwill and intangibles with indefinite lives are not subject to amortization, but are subject to at least an annual assessment for impairment by applying a fair value based test. The excess of the purchase price of acquired businesses over the fair value of net assets ("goodwill") on the dates of acquisition amounts to \$1,900,000, net of accumulated amortization of \$2,494,000 as of December 31, 2006 and 2005.

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," management assesses the recoverability of the remaining unamortized costs of long-lived assets other than goodwill based principally upon a comparison of the carrying value of the asset to the undiscounted expected future cash flows to be generated by the asset. To date, the Company has not provided an impairment charge.

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**Foreign Currency Translation**--The Company has a division which operates in a foreign country for which the functional currency is not U.S. dollars. Balance sheet accounts are translated at the exchange rates in effect at December 31, 2006 and 2005, and the income statement accounts are translated at the weighted average rates prevailing during the years ended December 31, 2006, 2005 and 2004. Unrealized foreign exchange gains and losses resulting from this translation are insignificant.

**Revenue Recognition**--The Company recognizes revenue from market data and ECN services as services are performed. Billings in advance of services provided are recorded as unearned revenues. All other revenues collected in advance of services are deferred until services are rendered. The Company earns commissions as an introducing broker and for licensing its trading system for the transactions of its customers. Commissions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

For ECN services, transaction fees are earned on a per trade basis, based on shares transacted, and are recognized as transactions occur. For each transaction executed, there is an associated liquidity payment or routing charge paid. Pursuant to Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," the Company records such expenses as liquidity payments or routing charges in the consolidated statements of operations.

**Income Taxes**--Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized and are adjusted when conditions indicate that deferred assets will be realized. Income tax expense (benefit) is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

**Research and Development**--The Company charges all costs incurred to establish the technological feasibility of a product or product enhancement to research and development expense. Research and development expenses, included in direct operating costs, were approximately \$159,000, \$210,000 and \$238,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

**Marketing and Advertising**--Marketing and advertising costs are charged to expense when incurred. Marketing and advertising costs were approximately \$200,000, \$274,000 and \$414,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

**Segment Reporting**--The Company uses the "management approach" as defined by SFAS 131, "Disclosures about Segments of an Enterprise and Related Information" for its segment reporting. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the disclosures about products and services, geographic areas, and major customers.

**Fair Value of Financial Instruments**--The Company has estimated the fair value of financial instruments using available market information and other valuation methodologies in accordance with SFAS 107, "Disclosures About Fair Value of Financial Instruments." Management of the Company believes that the fair values of financial instruments, consisting of accounts receivable and payable and note payable, approximate carrying value due to the short payment terms associated with its accounts receivable and payable and the floating interest rate associated with its note payable.

**Use of Estimates**--In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant

estimates relate to: useful lives and recoverability of long-lived assets, including goodwill; fair values of marketable securities; and, allowances for doubtful accounts.

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**Comprehensive Income (Loss)**--The Company reports comprehensive income (loss) in accordance with SFAS 130, "Reporting Comprehensive Income." SFAS 130 requires foreign currency translation adjustments and unrealized gains and losses on available for sale securities to be included in accumulated other comprehensive income.

**Earnings Per Share**--Basic earnings per share is based on the weighted average number of common shares outstanding without consideration of potential common stock. Diluted earnings per share are based on the weighted average number of common and potential dilutive common shares outstanding. There was no effect on earnings per share as a result of potential dilution. The calculation takes into account the shares that may be issued upon exercise of stock options (Note J), reduced by the shares that may be repurchased with the funds received from the exercise, based on the average price during the year.

**Accounting for Stock Options**--SFAS 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," requires disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income (loss) and per share amounts in annual and interim financial statements. At December 31, 2006, the Company has seven stock-based employee compensation plans, which are described more fully in Note J. Until December 31, 2005, the Company accounted for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. No stock-based employee compensation cost is reflected in the statement of operations, as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant.

Commencing January 1, 2006, the Company was required to adopt SFAS 123(R), "Share-Based Payment," using the modified prospective transition method. The adoption of the new requirements result in compensation charges to the Company's statement of operations for the fair value of options granted to employees after December 31, 2005, as well as the compensation cost for the portion of outstanding awards for which the requisite service had not yet been rendered as of December 31, 2005. At December 31, 2005, all of the Company's outstanding stock options were fully vested and the Company made no option grants during the year ended December 31, 2006. As such, the adoption of SFAS 123(R) had no impact on net income for the year ended December 31, 2006. The Company expects that the adoption of this statement may have a material impact on net income (loss) and earnings (loss) per share in future periods upon issuance of new awards.

The following table illustrates the effect on net (loss) income and net (loss) income per share as if the Company had applied the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation prior to January 1, 2006:

|                                                                                                                                                   | <b>Year Ended<br/>December 31,</b>        |                 |
|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-----------------|
|                                                                                                                                                   | <b>2005</b>                               | <b>2004</b>     |
|                                                                                                                                                   | (in thousands, except earnings per share) |                 |
| Net (loss) income, as reported                                                                                                                    | \$ (37)                                   | \$ 5,200        |
| Deduct: Total stock-based employee compensation<br>expense determined under fair value based method for<br>all awards, net of related tax effects | (476)                                     | (943)           |
| Net (loss) income, as adjusted                                                                                                                    | <u>\$ (513)</u>                           | <u>\$ 4,257</u> |
| Net (loss) income per share:<br>Basic and diluted --as reported                                                                                   | <u>\$(.00)</u>                            | <u>\$.53</u>    |

|                                          |         |       |
|------------------------------------------|---------|-------|
| Basic and diluted --as adjusted<br>II-22 | \$(.05) | \$.44 |
|------------------------------------------|---------|-------|

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The fair value of options at date of grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: an expected life of four years; risk free interest rate of 4.4% in 2005 and 2.7% in 2004; expected volatility of 86% in 2005 and 112% in 2004; and a zero dividend yield. The effects of applying SFAS 123 in this proforma disclosure are not indicative of future results.

**New Pronouncements**--In September 2005, the Financial Accounting Standards Board ("FASB") issued SFAS 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and Statement No. 3, Reporting Accounting Changes in Interim Financial Statements." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income of the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, SFAS 154 does not change the transition provisions of any existing accounting pronouncements. The adoption of SFAS 154 did not have an impact on the Company's financial statements.

In November 2005, the FASB issued FASB Staff Position FAS 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FSP 115-1"), which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 is required to be applied to reporting periods beginning after December 15, 2005. The adoption of FSP 115-1 did not have an impact on the Company's consolidated financial condition or results of operations.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" (the "Interpretation"). The Interpretation establishes for all entities a minimum threshold for financial statement recognition of the benefit of tax positions, and requires certain expanded disclosures. The Interpretation is effective for fiscal years beginning after December 31, 2006, and is to be applied to all open tax years of the date of effectiveness. The Company is in the process of evaluating the impact of the application of the Interpretation on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It codifies the definitions of fair value included in other authoritative literature; clarifies and, in some cases, expands on the guidance for implementing fair value measurements; and increases the level of disclosure required for fair value measurements. Although SFAS 157 applies to (and amends) the provisions of existing authoritative literature, it does not, of itself, require any new fair value measurements, nor does it establish valuation standards. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This statement will be effective for the Company's fiscal year beginning January 2008. We will evaluate the impact of adopting SFAS 157 but do not expect that it will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In September 2006, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108") which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 became effective in 2006 and did not have a material impact on the Company's consolidated financial position or results of operations.

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In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115 ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method, is irrevocable (unless a new election date occurs), and is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The Company has not completed its review of the new guidance.

### B. Fixed Assets

Fixed assets consist of the following at December 31, 2006 and 2005 (in thousands):

|                                                | <b>2006</b> | <b>2005</b> |
|------------------------------------------------|-------------|-------------|
| Equipment                                      | \$ 5,385    | \$ 4,442    |
| Telephone systems                              | 922         | 868         |
| Furniture and fixtures                         | 411         | 405         |
| Transportation equipment                       | 70          | 42          |
| Leasehold improvements                         | 380         | 380         |
|                                                | <hr/>       | <hr/>       |
|                                                | 7,168       | 6,137       |
| Less accumulated depreciation and amortization | 5,170       | 4,436       |
|                                                | <hr/>       | <hr/>       |
| Fixed assets - net                             | \$ 1,998    | \$ 1,701    |
|                                                | <hr/>       | <hr/>       |

Depreciation and amortization expense for the years ended December 31, 2006, 2005 and 2004 was \$655,000, \$751,000 and \$1,035,000, respectively.

### C. Marketable Securities

Marketable securities consists of the following (in thousands):

|                                                                     | <b>December 31,</b> |             |
|---------------------------------------------------------------------|---------------------|-------------|
|                                                                     | <b>2006</b>         | <b>2005</b> |
| Edgar Online - Available for sale securities - at market            | \$ -                | \$ 734      |
| Innodata - Available for sale securities - at market                | 730                 | 1,193       |
| Arbitrage trading securities - at market                            | 8,027               | 7,565       |
|                                                                     | <hr/>               | <hr/>       |
| Marketable securities                                               | \$ 8,757            | \$ 9,492    |
|                                                                     | <hr/>               | <hr/>       |
| Arbitrage trading securities sold but not yet purchased - at market | \$ 6,102            | \$ 8,223    |
|                                                                     | <hr/>               | <hr/>       |

During the year ended December 31, 2006, the Company sold its remaining shares of Edgar Online, Inc. ("EOL"), an Internet-based supplier of business, financial and competitive intelligence derived from U.S. Securities and Exchange Commission data. As a result, the Company received proceeds of \$1,771,000 and recorded a gain of \$1,766,000 during the year ended December 31, 2006. At December 31, 2005, the Company owned 403,498 shares of EOL. The Company carried the investment at \$734,000, the market value at December 31, 2005. The difference between the cost of \$5,000 and fair market value of these securities, net of \$292,000 in deferred taxes, or \$437,000 was classified as a component of accumulated other comprehensive income included in stockholders' equity at December 31, 2005.

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The Company owns 337,898 shares of Innodata, a provider of digital content outsourcing services. The Company carries the investment at \$730,000, the market value at December 31, 2006. The Company sold 6,750 shares, received proceeds of \$16,000 and recorded a gain of \$11,000 during the year ended December 31, 2006. In addition, the Company purchased 100 shares during the year ended December 31, 2006. The difference between the cost of \$324,000 and fair market value of these securities, net of \$163,000 in deferred taxes, or \$243,000 is classified as a component of accumulated other comprehensive income included in stockholders' equity as of December 31, 2006. At December 31, 2005, the Company owned 344,548 shares of Innodata. The Company carried the investment at \$1,193,000, the market value at December 31, 2005. The difference between the cost of \$329,000 and fair market value of these securities, net of \$346,000 in deferred taxes, or \$518,000 is classified as a component of accumulated other comprehensive income included in stockholders' equity at December 31, 2005.

The Company engages in arbitrage trading activity. The Company's trading strategy consists principally of establishing hedged positions consisting of stocks and options. The Company is subject to market risk in attempting to establish a hedged position, as the market prices could change, precluding a profitable hedge. In these instances, any positions that were established for this hedge would be immediately sold, usually resulting in small losses. If the hedged positions are successfully established at the prices sought, the positions generally stay until the next option expiration date, resulting in small gains, regardless of market value changes in these securities. While virtually all positions are liquidated at option expiration date, certain stock positions remain. The liquidation of these positions generally results in small profits or losses. From time to time, losses may result from certain dividends that may have to be delivered on positions held, as well as from certain corporate restructurings and mergers that may not have been taken into account when the positions were originally established.

As of December 31, 2006, trading securities had a long market value of \$8,027,000, with a cost of \$8,013,000, or a net unrealized gain of \$14,000. Securities sold but not yet purchased, had a short market value of \$6,102,000 with a cost/short proceeds of \$6,102,000. The Company expects that its December 31, 2006 positions will be closed during the first quarter of 2007 and that other positions with the same strategy will be established. The Company pledged its holdings in Innodata as collateral for its trading accounts. In addition, the Company's Principal Stockholder, who served as its Chairman and CEO until his resignation on March 16, 2007 (referred to hereafter as "Principal Stockholder"), pledged approximately 1.8 million shares of his holdings in the Company's common stock as collateral for these accounts. The Company is paying its Principal Stockholder at the rate of 2% per annum on the value of the collateral pledged. Such payments aggregated \$42,000, \$44,000 and \$87,000, respectively, for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company recognized gains from arbitrage trading of \$1,013,000, \$819,000 and \$1,512,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

At December 31, 2005, trading securities had a long market value of \$7,565,000 with a cost of \$7,567,000, or a net unrealized loss of \$2,000. Securities sold but not yet purchased, had a short market value of \$8,223,000 with a cost/short proceeds of \$8,253,000, or a net unrealized gain of \$30,000.

In connection with the arbitrage trading activity, the Company incurs margin loans. The Company is exposed to interest rate change market risk with respect to these margin loans. The level of trading in the arbitrage trading account is partially dependent on the margin value of the Company's common stock pledged by its Principal Stockholder, and Innodata common stock, which is used as collateral. The market value of such securities is dependent on future market conditions for these companies over which the Company has little or no control.

**D. Note Payable - Bank**

The note payable - bank is a revolving line of credit up to a maximum of \$3 million (of which \$987,000 was outstanding at December 31, 2006) which bears interest at a per annum rate of 1.75% above the bank's prime rate (11% at December 31, 2006) and is due on demand. The note is collateralized by substantially all of the assets of Track Data Corporation and is guaranteed by its Principal Stockholder. The Company may borrow up to 80% of eligible accounts receivable and is required to maintain a compensating cash balance of not less than 10% of the outstanding loan obligation, or \$98,000 at December 31, 2006. Borrowings available under the line of credit at December 31, 2006 was \$6,000 based on these formulas.

**E. Segment Information**

The Company is a financial services company that 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 owns Track Data Securities Corp., 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 and myTrack Pro, for the individual trader. The Company also operates Track ECN, an electronic communications network that enables traders to display and match limit orders for stocks. The Company's operations are classified in three business segments: (1) market data services and trading, including ECN services, to the institutional professional investment community, (2) Internet-based online trading and market data services to the non-professional individual investor community, and (3) arbitrage trading. See Note C.

The accounting policies of the segments are the same as those described in Note A, Summary of Significant Accounting Policies. Segment data includes charges allocating corporate overhead to each segment. The Company has not disclosed asset information by segment as the information is not produced internally. Substantially all long-lived assets are located in the U.S. The excess of the purchase price of acquired businesses over the fair value of net assets ("goodwill") on the dates of acquisition amounts to \$1,900,000, net of accumulated amortization of \$2,494,000 as of December 31, 2006 and 2005. Goodwill is an asset of the non-professional market segment. The Company's business is predominantly in the U.S. Revenues and net income (loss) from international operations are not material.

Information concerning operations in its business segments is as follows (in thousands):

|                                                            | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|------------------------------------------------------------|-------------|-------------|-------------|
| Revenues                                                   |             |             |             |
| Professional Market                                        | \$ 29,642   | \$ 24,419   | \$ 25,124   |
| Non-Professional Market                                    | 12,344      | 11,675      | 14,969      |
|                                                            | <hr/>       | <hr/>       | <hr/>       |
| Total Revenues                                             | \$ 41,986   | \$ 36,094   | \$ 40,093   |
|                                                            | <hr/>       | <hr/>       | <hr/>       |
| Arbitrage Trading - Gain on sale of marketable securities  | \$ 1,013    | \$ 819      | \$ 1,387    |
|                                                            | <hr/>       | <hr/>       | <hr/>       |
| (Loss) income before unallocated amounts and income taxes: |             |             |             |
| Professional Market                                        | \$ (1,829)  | \$ (2,742)  | \$ 455      |
| Non-Professional Market                                    | 2,404       | 1,409       | 2,588       |
| Arbitrage Trading (including interest)                     | 843         | 406         | 933         |
| Unallocated amounts:                                       |             |             |             |
| Depreciation and amortization                              | (659)       | (755)       | (1,053)     |
| Gain on sale of Innodata common stock                      | 1,777       | 1,067       | 5,887       |
| Net gain on sale of investment in private companies        | -           | 412         | -           |

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|                                   |                 |                 |                 |
|-----------------------------------|-----------------|-----------------|-----------------|
| Interest income (expense)-net     | <u>43</u>       | <u>(12)</u>     | <u>4</u>        |
| Income (loss) before income taxes | <u>\$ 2,579</u> | <u>\$ (215)</u> | <u>\$ 8,814</u> |

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**F. Income Taxes**

The components of the provision for (benefit from) income taxes are as follows (in thousands):

|                                           | <b>2006</b>     | <b>2005</b>     | <b>2004</b>     |
|-------------------------------------------|-----------------|-----------------|-----------------|
| Federal:                                  |                 |                 |                 |
| Current                                   | \$ 712          | \$ 28           | \$ 2,354        |
| Deferred                                  | 36              | (12)            | 151             |
|                                           | <u>748</u>      | <u>16</u>       | <u>2,505</u>    |
| Total federal                             |                 |                 |                 |
| State and local:                          |                 |                 |                 |
| Current                                   | 275             | (193)           | 1,092           |
| Deferred                                  | 7               | (1)             | 17              |
|                                           | <u>282</u>      | <u>(194)</u>    | <u>1,109</u>    |
| Total state and local                     |                 |                 |                 |
| Provision for (benefit from) income taxes | <u>\$ 1,030</u> | <u>\$ (178)</u> | <u>\$ 3,614</u> |

Reconciliation of the U.S. statutory rate with the Company's effective tax rate is summarized as follows:

|                              | <b>2006</b>  | <b>2005</b>    | <b>2004</b>  |
|------------------------------|--------------|----------------|--------------|
| Federal statutory rate       | 34.0%        | (34.0)%        | 34.0%        |
| State and local income taxes | 7.0          | (60.0)         | 6.4          |
| Non-deductible penalties     | -            | 14.0           | -            |
| Other                        | (1.1)        | (3.0)          | 0.6          |
|                              | <u>39.9%</u> | <u>(83.0)%</u> | <u>41.0%</u> |
| Effective rate               |              |                |              |

The components of the Company's net deferred taxes are as follows (in thousands):

|                                          | <b>2006</b>     | <b>2005</b>     |
|------------------------------------------|-----------------|-----------------|
| Deferred tax assets:                     |                 |                 |
| Charitable contributions                 | \$ 153          | \$ 129          |
| Deferred compensation                    | -               | 65              |
| Other                                    | 148             | 104             |
|                                          | <u>301</u>      | <u>298</u>      |
| Deferred tax liabilities:                |                 |                 |
| Unrealized gain on marketable securities | (240)           | (722)           |
| Accelerated depreciation                 | (589)           | (535)           |
|                                          | <u>(829)</u>    | <u>(1,257)</u>  |
| Net deferred tax liability               | <u>\$ (528)</u> | <u>\$ (959)</u> |



**G. Commitments and Contingencies**

**Leases**--The Company is obligated under various lease agreements covering office space and computer equipment which expire at various dates between 2007 and 2010. The lease agreements for office space contain escalation clauses based principally on increases in real estate taxes, building maintenance and utility costs. A summary of such commitments as of December 31, 2006 follows (in thousands):

| <b>Year Ending<br/>December 31,</b> | <b>Operating Leases</b> |                               | <b>Total</b>      |
|-------------------------------------|-------------------------|-------------------------------|-------------------|
|                                     | <b>Office<br/>Space</b> | <b>Computer<br/>Equipment</b> |                   |
| 2007                                | \$ 301,000              | \$ 45,000                     | \$ 346,000        |
| 2008                                | 217,000                 | 24,000                        | 241,000           |
| 2009                                | 155,000                 | -                             | 155,000           |
| 2010                                | 76,000                  | -                             | 76,000            |
| Total                               | <u>\$ 749,000</u>       | <u>\$ 69,000</u>              | <u>\$ 818,000</u> |

Rent expense for the years ended December 31, 2006, 2005 and 2004 amounted to \$1,058,000, \$1,072,000 and \$1,167,000 for office space and \$77,000, \$66,000 and \$172,000 for computer equipment, respectively.

The Company leases its executive office facilities in Brooklyn from a limited partnership owned by the Company's Principal Stockholder and members of his family. The Company paid the partnership rent of \$630,000 in 2006, \$623,000 in 2005 and \$600,000 in 2004. The lease provided for the Company to pay \$630,000 per annum through April 1, 2006. The Company has continued to pay rent at the same rate without a new lease.

**Transactions with Clearing Broker and Customers**--The Company conducts business through a clearing broker which 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 obligation 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. However, the Company is required to either obtain additional collateral 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 Principal Stockholder had a margin loan of approximately \$3 million as a customer of the Company's broker-dealer which was subject to such indemnity in the event the clearing broker were to sustain losses. The loan was repaid in November, 2005. At December 31, 2006, the Company had \$11.8 million in margin credit extended to its customers. The Company believes it is unlikely it will have to make material payments under the indemnification agreement and has not recorded any contingent liability in the consolidated financial statements.

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



**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, including 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, 2006, TDSC was required to maintain minimum net capital, in accordance with SEC rules, of approximately \$1 million and had total net capital of \$4,826,000, or approximately \$3,826,000 in excess of minimum net capital requirements.

If TDSC fails to maintain the required net capital it 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.

The operations of TDSC are subject to reviews by regulators within its industry, which include the SEC and the NASD. In the past, certain reviews have resulted in the Company incurring fines and required the Company to change certain of its internal control and operating procedures. Ongoing and future reviews may result in the Company incurring additional fines and changes in its internal control and operating procedures. Management does not expect any ongoing reviews to have a material affect on the Company's financial position or statement of operations.

**Litigation**--The Company is subject to legal proceedings and claims which 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 or results of operations.

On June 14, 2005, the SEC filed a civil complaint against Barry Hertz, the Company's Chairman and CEO at that time, in the U.S. District Court for the Eastern District of New York in Brooklyn alleging violations of various provisions of the federal securities laws in connection with certain transactions in the Company's stock owned by others. Mr. Hertz reached a settlement with the SEC regarding these charges. Mr. Hertz consented, without admitting or denying the allegations in the SEC's complaint, to a permanent injunction from violations of Section 10(b) and 10b-5 of the Exchange Act and Section 17(a) of the Securities Act of 1933, a two-year bar from serving as an officer or director of a publicly traded company, a two-year bar from association with a broker or dealer, and also agreed to pay approximately \$136,000 in disgorgement, interest and civil penalties. On March 16, 2007, Mr. Hertz resigned as Chairman and CEO of the Company.

## **H. Deferred Compensation and Savings Program**

The Company had a deferred compensation plan pursuant to which certain employees were entitled to payments after termination of their employment. The plan was based on these employees having phantom stock units prior to its public offering. In December 1995, the Board of Directors agreed to satisfy all obligations to participants under the phantom stock plan by committing to pay upon termination of employment, or sooner upon approval of the Board, an aggregate of 247,284 shares of Innodata common stock and 600,880 shares of the Company's common stock. As of December 31, 2005, all stock had been distributed to the participants.

In addition, the Company has an employee savings program under which employees may make deposits and receive interest at the prime rate. As of December 31, 2006, the Company's Chief Financial Officer had deposits in the program of \$479,000 and received interest of \$32,000, \$16,000 and \$6,000 during the years ended December 31, 2006, 2005 and 2004, respectively. Amounts due to employees under the program aggregated \$745,000 which is

included in other liabilities at December 31, 2006.

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## **I. Capital Stock and Dividends**

**Common Stock**--On January 18, 2005, The Board of Directors authorized a one-for-five reverse stock split, which was consented to by the Company's Principal Stockholder. The stock split became effective on February 28, 2005.

During the year ended December 31, 2006, the Company purchased 6,000 shares of its common stock at a cost of \$20,000. During the year ended December 31, 2005, the Company purchased 1,247,000 shares of its common stock at a cost of \$3,676,000. The purchases include 300,000 shares purchased from the Company's Principal Stockholder for \$837,000, including 200,000 shares purchased in the Company's tender offer. The purchases include 1,042,000 shares (200,000 shares tendered by the Company's Principal Stockholder) pursuant to a tender offer made on August 17, 2005 to purchase shares at \$3.00 per share. The total costs relating to the tender offer were \$3,179,000, including transaction costs.

In November 2005, the Board of Directors authorized the buy-back of up to 1 million additional shares from time to time in open market or privately negotiated transactions. As of December 31, 2006, 6,000 shares were repurchased under this program.

During the year ended December 31, 2004, the Company purchased pursuant to announced buyback programs 173,000 shares of its common stock, at a cost of \$806,000. The purchases included 4,000 shares purchased from the Company's Principal Stockholder for \$16,000.

**Dividends**--On February 19, 2004, the Company declared a cash dividend of \$.05 per common share payable on March 22, 2004 to holders of record on March 8, 2004. No dividends were declared during the years ended December 31, 2006 and 2005. The Board expects to consider future dividends, if any, based on such factors as the Company's earnings, financial condition, cash requirements, future prospects and other factors.

**Preferred Stock**--The Company is authorized to issue up to 5,000,000 shares of \$.01 par value preferred stock. The Board of Directors is authorized to fix the terms, rights, preferences and limitations of the preferred stock and to issue the preferred stock in series which differ as to their relative terms, rights, preferences and limitations. No preferred shares have been issued.

**Common Stock Reserved**--At December 31, 2006, the Company reserved for issuance 1,985,000 shares of its common stock pursuant to the Company's Stock Option Plans.

## **J. Stock Options**

The Company adopted, with stockholder approval, the 1994, 1995, 1995 Disinterested Director, 1996, 1998, 2001 and 2002 Stock Option Plans (the "1994 Plan," "1995 Plan," "1995 DD Plan," "1996 Plan," "1998 Plan," "2001 Plan" and the "2002 Plan") which provide for the granting of options to purchase not more than an aggregate of 240,000, 400,000, 40,000, 640,000, 640,000, 560,000 and 500,000 shares of common stock, respectively, subject to adjustment under certain circumstances. Such options may be incentive stock options ("ISOs") within the meaning of the Internal Revenue Code of 1986, as amended, or options that do not qualify as ISOs ("Non-Qualified Options"). No options may be granted under the 1994 Plan after March 31, 2004, under the 1995 Plan and 1995 DD Plan after May 15, 2005, under the 1996 Plan after July 8, 2006, under the 1998 Plan after July 9, 2008, under the 2001 Plan after May 3, 2011 and under the 2002 Plan after May 2, 2012. At December 31, 2006, the total options available for issuance under the plans were options to purchase 1,299,000 shares.

The option exercise price per share for a Non-Qualified Option may not be less than 85% of the fair market value per share of common stock on the date of grant and for an ISO may not be less than the fair market value per share of common stock on the date of grant (110% of such fair market value for an ISO, if the grantee owns stock possessing more than 10% of the combined voting power of all classes of the Company's stock). Options may be granted under the Stock Option Plan to all officers, directors and employees of the Company and, in addition, Non-Qualified Options may be granted to other parties who perform services for the Company.

The Stock Option Plans may be amended from time to time by the Board of Directors of the Company. However, the Board of Directors may not, without stockholder approval, amend the Stock Option Plans to increase the number of shares of common stock which may be issued under the Stock Option Plans (except upon changes in capitalization as specified in the Stock Option Plans), decrease the minimum exercise price provided in the Plans or change the class of persons eligible to participate in the Plans.

In December 2005, the Company granted five-year options to purchase 202,650 shares (102,500 shares to officers and directors) of its common stock at exercise prices of \$3.00 - 3.05 per share, the market value at date of grant. The options were exercisable immediately. The intrinsic value of options exercised in 2006 was \$28,000. No options vested in 2006. The fair value of shares vested in 2005 and 2004 was \$793,000 and \$1,572,000, respectively.

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A summary of the Company's Stock Option Plans is as follows:

|                     | Per Share<br>Range of<br>Exercise<br>Prices | Number<br>Outstanding | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Fair<br>Value<br>Date of<br>Grant |
|---------------------|---------------------------------------------|-----------------------|-----------------------------------------------------------------|------------------------------------------|-----------------------|------------------------------------------|----------------------------------------------------------|
| Balance<br>01/01/04 | \$ 5.00 - 6.25                              | 254,220               | 4                                                               | \$ 5.65                                  | 141,670               | \$ 5.65                                  |                                                          |
|                     | \$ 7.50 - 10.00                             | 904,750               | 3                                                               | \$ 7.55                                  | 822,583               | \$ 7.50                                  |                                                          |
|                     | \$ 12.50 - 18.75                            | 94,420                | 1                                                               | \$ 15.05                                 | 95,020                | \$ 15.05                                 |                                                          |
|                     | \$ 21.25 - 33.75                            | 18,100                | 1                                                               | \$ 32.90                                 | 18,100                | \$ 32.90                                 |                                                          |
|                     |                                             | <u>1,271,490</u>      |                                                                 |                                          | <u>1,077,373</u>      |                                          |                                                          |
| Canceled            | \$ 5.00 - 27.50                             | (219,190)             | 1                                                               | \$ 11.35                                 |                       |                                          |                                                          |
| Exercised           | \$ 5.00 - 7.50                              | (1,800)               | 3                                                               | \$ 5.95                                  |                       |                                          |                                                          |
| Granted             | \$ 7.50                                     | 289,930               | 4                                                               | \$ 7.50                                  |                       |                                          | \$ 6.25                                                  |
|                     |                                             | <u></u>               |                                                                 |                                          |                       |                                          |                                                          |
| Balance<br>12/31/04 | \$ 5.00 - 6.25                              | 247,660               | 3                                                               | \$ 5.65                                  | 247,660               | \$ 5.65                                  |                                                          |
|                     | \$ 7.50                                     | 1,076,770             | 4                                                               | \$ 7.50                                  | 881,253               | \$ 7.50                                  |                                                          |
|                     | \$ 33.75                                    | 16,000                | 1                                                               | \$ 33.75                                 | 16,000                | \$ 33.75                                 |                                                          |
|                     |                                             | <u>1,340,430</u>      |                                                                 |                                          | <u>1,144,913</u>      |                                          |                                                          |
| Canceled            | \$ 5.00 - 33.75                             | (283,170)             | 1                                                               | \$ 8.93                                  |                       |                                          |                                                          |
| Granted             | \$ 3.00 - 3.05                              | 202,650               | 5                                                               | \$ 3.01                                  |                       |                                          | \$ 2.95                                                  |
|                     |                                             | <u></u>               |                                                                 |                                          |                       |                                          |                                                          |
| Balance<br>12/31/05 | \$ 3.00 - 3.05                              | 202,650               | 5                                                               | \$ 3.01                                  | 202,650               | \$ 3.01                                  |                                                          |
|                     | \$ 5.00 - 6.25                              | 240,300               | 2                                                               | \$ 5.63                                  | 240,300               | \$ 5.63                                  |                                                          |
|                     | \$ 7.50                                     | 816,960               | 3                                                               | \$ 7.50                                  | 816,960               | \$ 7.50                                  |                                                          |
|                     |                                             | <u>1,259,910</u>      |                                                                 |                                          | <u>1,259,910</u>      |                                          |                                                          |
| Canceled            | \$ 3.00 - 7.50                              | (555,320)             | 4                                                               | \$ 7.47                                  |                       |                                          |                                                          |
| Exercised           | \$ 3.00                                     | (18,750)              |                                                                 |                                          |                       |                                          |                                                          |