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TRACK DATA CORP
Form 10-K
March 25, 2002

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

(Mark One)

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

For the fiscal year ended December 31, 2001

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

Commission file number 0-24634

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

22-3181095
(I.R.S. Employer Identification No.)

56 Pine Street
New York, New York
(Address of principal executive offices)

10005
(Zip Code)

(212) 943-4555
(Registrant's telephone number)

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

State the aggregate market value of the voting stock held by non-affiliates of the Registrant based on the closing price of the Company's Common Stock on February 28, 2002 of \$1.94 per share. \$51,225,000

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State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 53,824,010 shares of common stock, \$.01 par value, as of February 28, 2002

DOCUMENTS INCORPORATED BY REFERENCE
[SEE INDEX TO EXHIBITS]

PART I

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

ITEM 1. BUSINESS

Track Data Corporation (the "Company") is a financial services company that owns Track Data Securities Corp. ("TDSC"), a registered securities broker-dealer and member of the National Association of Securities Dealers, Inc. The Company provides a proprietary, fully integrated Internet-based online trading and market data system, myTrack, for the individual trader, and proTrack for the institutional trader. The proTrack system is also licensed as a trading platform for other broker-dealers. The Company provides real-time financial market data, fundamental research, charting, and analytical services to institutional and individual investors through dedicated telecommunication lines and the Internet. The Company also disseminates news and third-party database information from more than 100 sources worldwide. In February 2002, TDSC received authorization to operate Track ECN, an electronic communications network that enables traders to display and match limit orders for stocks.

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

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trading systems that require a new connection to a server every time information is requested or sent. The Company also offers proTrack through a direct point-to-point T1 connection.

The Company maintains offices in the U.S. and Europe, with executive offices located at 56 Pine Street, New York, New York 10005 and at 95 Rockwell Place, Brooklyn, New York 11217. Its telephone number is 212-943-4555 or 718-522-7373.

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

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

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

General

The evolution of the Internet has fundamentally changed the way in which many investors manage their financial affairs. The speed, convenience, choice, cost savings, and information that the Internet offers as an investment tool has driven investor assets online.

The Company combined its strength from 20 years of delivering market data and third-party market information to the professional trading community with a unique order entry system to create a proprietary trading system, myTrack. The Company has offered its myTrack software-based online trading system since June 1999. Since myTrack is a client-server application, it is not restricted by the limitations of HTML, the primary programming language of the worldwide web. With trading systems that use HTML, displayed data remains static until a query is repeated. In contrast, myTrack delivers and automatically updates a continuous, dynamic stream of live market data to the client's screen. The Company believes this difference gives myTrack a substantial edge over the web site-based trading offered by the vast majority of online brokerage firms.

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

myTrack clients may place bids or offers onto an ECN which will also appear in the Nasdaq Market Maker Level 2 screen with the corresponding price and size of the order. We believe that this gives myTrack clients an

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advantage in attempting to execute orders between the bid and asked prices of Nasdaq securities.

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

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

The Company markets myTrack by targeting active traders through advertisements, including direct mail and telemarketing. The Company's marketing efforts have included advertisements on financial TV networks, in financial publications, and in various other regional and national publications that have demographics similar to myTrack's target market. The Company also advertises and promotes myTrack through Internet web site banner advertisements.

myTrack Services

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

Commission Rates: Trading is currently offered at prices starting at \$12.95 per trade. Volume trading rebates can result in trade costs as low as \$8.20 per trade. The Company also offers software for day traders, dayTrader by myTrack, which offers commissions from \$.015 to \$.02 per share based on volume. Futures are generally priced at \$7.00 per contract.

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

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

Customer Service: Client services for all levels of online service, including trading, administrative, and technical support, are among the Company's highest priorities. Based on the Company's experience in the financial services industry and client feedback, it believes that providing an effective client service team to handle client needs is critical to its success. The Company's Client Service department helps clients get online, handles product and service inquiries and addresses all brokerage and technical questions. The Client Service department also conducts various

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surveys to verify the satisfaction of our clients and to learn more about client preferences and requirements. Live client support is available 13 hours a day, from 7:00 AM to 8:00 PM Eastern Time, Monday through Friday.

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, for which the Company pays a per-ticket charge. 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 can be sold. Under applicable rules, in the event of a decline in the market value of the securities in a margin account, the client is required to deposit additional securities or cash in the account. The margin agreement allows the Company or Penson to sell securities owned by the client under certain circumstances.

Network Infrastructure

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

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

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

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

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

Account Security

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

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

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

Other Internet-Based Market Data Services To The Individual
Non-Professional Market

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AIQ Systems

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

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

AIQ's most popular product is AIQ TradingExpert for Windows. This advanced analysis package includes market timing, stock timing, and industry group analysis capabilities. TradingExpert retails for \$995. AIQ and myTrack joined forces to give investors the design and testing tools required to uncover profitable trading systems with myTrack's delayed and real-time quotes and news and Dial/Data's historical and end of day data. In addition, the 32-bit TradingExpert Pro contains state-of-the-art charting, industry group analysis, market timing, reports and screening, and portfolio management. AIQ offers this package for monthly fees starting at \$59 for delayed quotes and \$79 plus exchange fees for real-time quotes. AIQ waives the purchase price for users that sign up for one of these monthly packages.

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

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

Dial/Data Service

Dial/Data is an Internet-based service that provides historical and end-of-day pricing data for U.S., Canadian and European exchange-traded equities and related instruments, futures, equity options, futures options, mutual funds, bonds, government issues, money markets and indexes. In addition, fundamental data is provided for equity issues such as splits, dividends, and earnings per share. News headlines and full text stories from some of the Company's news vendors can also be delivered to Dial/Data customers. Dial/Data is primarily marketed through independent software vendors who provide analytical and charting programs for analyzing financial information. The Company's AIQ division, Equis International, and other independent software vendors include Dial/Data access as an integral

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part of the software that they market. The Company encourages these vendors of charting software, through the payment of royalties, to make their software compatible with the Company's Dial/Data market information, and to advise customers by inserts and other means that they may select Dial/Data as their source of market information by contacting Dial/Data and entering into a month to month subscription agreement. A customer that has subscribed to Dial/Data accesses the service directly using the vendor's software program through modems on their PC's and is billed for the Dial/Data service directly by the Company. Access to the Company's database is provided by using the Internet. Although the software can operate on real-time information, customers primarily apply their charting techniques to historical information and there is substantially less emphasis on up-to-the-minute information for this service than there is for other services provided by the Company.

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

Marketing

The Company markets myTrack by targeting active traders through advertisements, including direct mail and telemarketing. The Company's marketing efforts have included advertisements on financial TV networks, in financial publications, and various other regional and national publications that have a demographic similar to myTrack's target market. The Company also advertises and promotes myTrack through Internet web site and banner advertisements.

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

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

Competition

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

The Company believes its competition consists of large and small brokerage firms, utilizing the Internet to transact retail brokerage business. Among these competitors are E*Trade Group, Inc., Charles Schwab &

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Co., Inc., Quick & Reilly, Inc., TD Waterhouse, Inc., Fidelity Brokerage Services, Inc. and Datek Securities Corp. 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 Signal, DTN, PC Quote, AT Financial, as well as many other Internet providers of financial information.

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

Competitors of AIQ include Equis International (MetaStock), Omega Research (SuperCharts), Windows on Wall Street, and many others. Generally, these competitors' products can be classified as "charting" packages. They concentrate their resources on general charting (graphical) and stock market back-testing capabilities, rather than the pre-programmed market analysis offered by the AIQ products. Due to this approach, which tends to be less support intensive, they compete at a lower price range of between \$250 and \$450 per unit, as compared to AIQ Systems which sells its most popular software product, "TradingExpert," for \$695. AIQ's TradingExpert Pro competes with Omega's TradeStation and MetaStock Professional.

B. ONLINE TRADING AND MARKET DATA SERVICES TO THE INSTITUTIONAL PROFESSIONAL INVESTMENT COMMUNITY

MarkeTrack

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

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

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and workstation platforms.

Pricing and Customers: Customers are charged a monthly service fee and a communications or location charge that typically varies with the location and size of the customer's installation. Service charges vary with the number and types of functions to which an individual subscribes, and are typically between \$250 and \$600 per month per user. Typically subscribers who execute a subscriber agreement contract that specifies both term and quantity of users receive pricing discounts for multi-year contracts. Such agreements allow subscribers to receive services at a known cost and ensure the Company of a recurring revenue stream into the future.

MarkeTrack currently serves over 3,000 customers in trading and institutional investment management positions. Customers include floor traders, block traders, market makers, OTC traders, options specialists, head traders, arbitrageurs and hedge fund managers.

proTrack Online Trading

The Company has taken its 20 years of experience delivering mission-critical market data to the world's top traders and integrated that system with a direct access trading system to provide a state-of-the-art system for the professional market, proTrack, which has been available since January, 2002. Many competing systems are connected with a particular market maker or ECN that require all trades to first pass through that platform, even when the execution will not be done there. proTrack enables the trader to access the market directly. There is also smart order routing built into the system for times when a routing destination is not selected by the trader. proTrack is a Windows-based fully customizable system with flexibility to see the information the trader wants to see with dynamically updating linked windows.

Among many trading features offered by proTrack are: point and click equities and options trading, direct access to market makers (not just through SelectNet as many other systems offer) and ECN's, hot keys, smart order routing, reserve book, quick modification of existing orders, multiple order types and a wide variety of market data and news which the Company has provided to the professional market for over 20 years.

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

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

NewsWatch Service

The market focus of NewsWatch is the business professional who "must know first." This group includes traders, bankers, research analysts, investment relations professionals, corporate executives, or any "knowledge worker" who needs real-time information for making day-to-day business decisions. The service provides enterprise wide solutions to corporations needing to deliver external/internal real-time information to their

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"knowledge workers," leveraging internal networks and/or intranets. The service includes a high-speed consolidated news ticker, an NT-resident database with full-text indexing, access to a variety of third-party databases, and multiple domestic/international exchanges, all via a state of the art user-friendly presentation environment.

NewsWatch also provides a browser-based interface, bringing all the advantages of the Company's news collection and delivery service to the web environment. It is appropriate for corporations which are comfortable with browser technology and need access to real-time business news for their end-user population via an internal intranet or the World Wide Web.

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

Marketing

MarkeTrack competes in several highly competitive segments of the on-line real-time financial information marketplace: equity, options and futures trading; and the investment management segments of the professional investment community. The equities, options, and futures trading segment of this market is comprised of approximately 30,000 professionals who spend an estimated \$150 million per year on financial information, and the investment management segment is comprised of approximately 60,000 professionals who spend an estimated \$320 million per year on financial information. The Company's focus is on the premium end of these trading markets, appealing to institutional sales people, arbitrageurs, market makers and traders. The Company estimates that the premium segment of the trading market consists of approximately 16,000 terminals, of which its share is approximately 18%.

MarkeTrack, proTrack, as well as the NewsWatch service, are marketed primarily through a dedicated sales force, including 12 full-time regional sales persons in the U.S. and an international sales staff of 2 full-time sales persons. All services are sold directly, often as a result of on-site presentations and service demonstrations. In March 2002, the Company commenced a cable TV ad campaign for its new proTrack online trading service.

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

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

Competition

The Company competes with many other providers of electronically

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transmitted financial information. The Company competes in its service offerings to varying extents through price and quality of service.

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

The Company's newly introduced proTrack service competes primarily with the Redi System offered by Spear Leeds and Real-Tick offered by AT Financial. 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 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.

C. MATTERS RELATED TO BOTH SEGMENTS

Securities Regulation

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

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

Broker-dealers are subject to regulations covering all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of clients' funds and securities, capital structure, record keeping and the conduct of directors, officers and employees. Because of the recent increase in 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.

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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, 2001, TDSC was required to maintain minimum net capital, in accordance with SEC rules, of approximately \$79,000 and had total net capital of \$543,000, or approximately \$464,000 in excess of minimum net capital requirements. In February 2002, TDSC received permission to operate an ECN. Its minimum capital requirement after that date was increased to \$1 million. The additional capital was provided by Track Data Corporation pursuant to a subordinated loan of \$600,000.

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 our technologies and other intellectual property is difficult, particularly because the global nature of the Internet makes it difficult to control the ultimate destination or security of software or other data transmitted.

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

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

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Research and Development

Expenditures for research and development incurred primarily to establish technological feasibility of a product or for product enhancement were \$307,000, \$324,000 and \$364,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Employees

The Company employed approximately 250 persons on a full time basis as of December 31, 2001. The Company believes that its relationship with its employees is satisfactory.

D. ELECTRONIC COMMUNICATIONS NETWORK

In February 2002, TDSC received authorization from the NASD and the Securities and Exchange Commission to operate an Electronic Communications Network ("ECN") that enables traders to display and match limit orders for stocks. This authorization will allow trading of Nasdaq National Market, Small Cap, and exchange-listed securities on its ECN trading platform. In order to set the Track ECN apart from other ECNs, the Company has incorporated state-of-the-art trading functionality into the ECN. This functionality is normally available only on sophisticated front-end trading platforms. The Track ECN has the market maker symbol TRAC. The Company commenced operations of its ECN trading platform in March 2002. The Company does not anticipate the ECN will have any measurable impact on its results of operations during 2002.

ITEM 2. PROPERTIES

The Company's executive offices are located at 56 Pine Street, New York, NY and 95 Rockwell Place, Brooklyn, NY. The Company maintains office space and data centers at locations in New York, NY, Brooklyn, NY and Chicago, IL. The Brooklyn, NY location is leased from a family partnership controlled by the Company's Chairman. The annual rental of approximately 36,000 square feet is approximately \$540,000. The lease expires in April 2002. 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 leases its New York, NY property comprising 16,800 square feet from an unaffiliated third party through February 2005 with base rent of \$260,000 per annum, subject to annual increases of 2.5% plus payment for electric and a share of increases in taxes.

The Company maintains sales and/or service offices for its institutional customers in Chicago, IL, Los Angeles, CA, San Francisco, CA, Boston, MA, Incline Village, NV, Philadelphia, PA, Dallas, TX, Boca Raton, FL and Toronto and Montreal, Canada with aggregate annual rentals of \$521,000. These leases expire at various dates through 2004. The Company also maintains a full service office in London, England under a lease for annual rentals of \$149,000 expiring in 2004.

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

ITEM 3. LEGAL PROCEEDINGS

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There is no material litigation pending to which the Company is a party or of which any of its property is the subject.

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

The Company held its Annual Meeting on November 1, 2001. The results of matters voted at that Meeting were reported in Part II, Item 4 of the Company's Form 10-Q for the period ended September 30, 2001.

PART II

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

The Company's Common Stock is quoted on the Nasdaq National Market System under the symbol "TRAC." On February 28, 2002, there were 229 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 18,000.

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

	Common Stock	

	Sale Price	

	High	Low
	----	---
2000		

First Quarter	12--1/4	6
Second Quarter	8--7/32	1--7/64
Third Quarter	2--1/4	15/16
Fourth Quarter	1--15/32	5/8
2001		

First Quarter	1--1/4	11/16
Second Quarter	1--31/32	3/4
Third Quarter	1--15/16	1--1/64
Fourth Quarter	1--19/32	1--1/16

Dividends

The Company has never paid cash dividends on its Common Stock and does not anticipate that it will do so in the foreseeable future. The future payment of dividends, if any, on the Common Stock is within the discretion of the Board of

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Directors and will depend on the Company's earnings, its capital requirements, financial condition, and other relevant factors.

ITEM 6. SELECTED FINANCIAL DATA

Year Ended December 31,	2001	2000	1999	1998	1997
	(in thousands, except per share data)				
SERVICE FEES AND REVENUE	\$62,217	\$58,767	\$46,620	\$46,473	\$47,631
	-----	-----	-----	-----	-----
COSTS AND EXPENSES:					
Direct operating costs	29,539	31,484	26,989	26,466	25,629
Selling and administrative expenses	19,560	21,564	19,290	18,147	18,676
Marketing and advertising	1,243	5,472	5,684	1,302	734
Gain on sale of Internet domain name	(1,000)	-	-	-	-
Other income - net	(2,749)	(1,429)	(350)	-	-
Interest (income) expense-net	(58)	288	270	508	719
	-----	-----	-----	-----	-----
Total	46,535	57,379	51,883	46,423	45,758
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE EQUITY IN NET INCOME (LOSS) OF AFFILIATE AND INCOME TAXES	15,682	1,388	(5,263)	50	1,873
EQUITY IN NET INCOME (LOSS) OF AFFILIATE	276	718	275	326	(1,146)
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	15,958	2,106	(4,988)	376	727
INCOME TAXES	4,880	47	60	158	299
	-----	-----	-----	-----	-----
NET INCOME (LOSS)	\$11,078	\$ 2,059	\$ (5,048)	\$ 218	\$ 428
	=====	=====	=====	=====	=====
BASIC AND DILUTED NET INCOME (LOSS) PER SHARE	\$.19	\$.03	\$ (.08)	\$.00	\$.01
	=====	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	59,593	63,660	61,229	58,224	58,220
	=====	=====	=====	=====	=====
ADJUSTED DILUTIVE SHARES OUTSTANDING	59,874	64,056	61,229	58,224	58,220
	=====	=====	=====	=====	=====
December 31,	2001	2000	1999	1998	1997
	(In thousands)				
TOTAL ASSETS	\$76,920	\$24,479	\$25,056	\$18,591	\$18,312
TOTAL LIABILITIES	53,759	7,747	10,060	9,979	11,683
STOCKHOLDERS' EQUITY	23,161	16,732	14,996	8,612	6,629

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

Results of Operations

Years ended December 31, 2001 and 2000

Revenues for the years ended December 31, 2001 and 2000 were \$62,217,000 and \$58,767,000, respectively, an increase of 6%. The Company's Professional Market segment had revenues for the years ended December 31, 2001 and 2000 of \$35,074,000 and \$32,261,000, respectively, an increase of 9% for this segment. The increase was due to additional desktop market data services, increased Newswire news services and a price increase. The Company's Non-Professional Market segment had revenues of \$27,143,000 and \$26,506,000, respectively, for the years ended December 31, 2001 and 2000, an increase of 2% for this segment. The revenue increase in 2001 is due principally to myTrack's online trading and market data services. The Company obtained its own broker-dealer license and its registration in all of the states by August 2000. Prior thereto, trading revenues include only revenues from the licensing of its trading system, rather than a full amount of commissions paid by customers. Since August 2001, the Company has experienced a decline in revenues from its Professional Market segment due principally to customers' staffing reductions which have continued during the first quarter of 2002. Management expects this trend to continue through the first half of 2002 negatively impacting revenues and profits. In addition, the Company has also experienced a decline in revenues from its retail trading business in the fourth quarter after the new day trader rules were instituted by the NASD.

Direct operating costs were \$29,539,000 for the year ended December 31, 2001 and \$31,484,000 for the similar period in 2000, a decrease of 6%. Direct operating costs as a percentage of revenues were 47% in 2001 and 54% in 2000. Without giving effect to unallocated depreciation and amortization expense, the Company's Professional Market segment had \$14,102,000 and \$14,863,000 of direct costs for the years ended December 31, 2001 and 2000, respectively. Direct operating costs as a percentage of revenues for the Professional segment were 40% in 2001 and 46% in 2000. The decline in dollars and percent in 2001 is due to reduced costs of telecommunications and greater sharing of the overhead by the Non-Professional segment. The Company's Non-Professional Market segment had \$13,666,000 and \$14,475,000 in direct costs for the years ended December 31, 2001 and 2000, respectively. Direct operating costs as a percentage of revenues for the Non-Professional segment were 50% in 2001 and 55% in 2000. Direct operating costs include direct payroll, direct telecommunication costs, computer supplies, depreciation, equipment lease expense and the amortization of software development costs. Since August 2000, when the Company commenced recording the full commissions from customers, direct costs include costs of clearing, back office payroll and other direct broker-dealer expenses.

Selling and administrative expenses were \$19,560,000 and \$21,564,000 in the 2001 and 2000 periods, respectively, a decrease of 9%. Selling and administrative expenses as a percentage of revenues was 31% in 2001 and 37% in 2000. Without giving effect to unallocated depreciation and amortization expense, selling and administrative expenses for the Professional Market segment were \$11,204,000 and \$12,893,000 in the 2001 and 2000 periods, respectively, a decrease of 13%. For the Professional Market segment selling and administrative expenses as a percentage of revenues was 32% in 2001 and 40% in 2000. The dollar and percentage decrease was due to a reduction in payroll and telecommunications costs combined with increased revenues. In addition, prior to August 2000, when the Company received its broker-dealer license, certain

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costs were included in selling and administrative expenses and such costs allocated to each segment were accordingly greater. Certain of these costs are presently classified as direct operating costs. Selling and administrative expenses for the Non-Professional segment were \$7,995,000 and \$8,311,000 in the 2001 and 2000 periods, respectively, a decrease of 4%. For the Non-Professional segment selling and administrative expense as a percentage of revenue was 29% in 2001 and 31% in 2000. The dollar and percentage decrease in 2001 compared to 2000 was principally due to decreased payroll and related expenses for myTrack's online trading and market data services combined with increased revenues.

Marketing and advertising costs were \$1,243,000 in 2001 and \$5,472,000 in 2000. The substantial majority of these costs were incurred by the Non-Professional segment of the Company which incurred \$1,091,000 in 2001 and \$5,361,000 in 2000. Marketing costs in 2000 are net of \$666,000 received from Track Securities under a licensing agreement. These costs were principally incurred in connection with the Company's myTrack online trading and market data systems. Due to a downturn in the market and lower levels of trading activity by the retail trading sector, the Company decided to spend significantly less on marketing in 2001 and continues to spend at these significantly reduced levels in 2002. The Professional Market segment spent \$152,000 in 2001 and \$111,000 in 2000.

As a result of the above-mentioned factors, the Professional Market segment realized \$9,616,000 in income before unallocated amounts, equity in net income of affiliate and income taxes in 2001 compared to income of \$4,395,000 in 2000. The Non-Professional Market segment realized \$4,390,000 in income in 2001 and incurred losses of \$1,642,000 in 2000 before unallocated amounts, equity in net income of affiliate and income taxes.

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

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

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

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

The Company's effective tax rate in 2001 was approximately 31% due to the utilization of tax loss carryforwards in that year and the effect of the reversal of a valuation allowance. The Company expects the rate for 2002 to approximate 40%.

The Company realized net income of \$11,078,000 in 2001 principally from increased revenues from online trading and market data services, arbitrage trading activities, gains on sale of marketable securities and an Internet domain name, and a significant reduction in expenses, including marketing and

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advertising, compared to \$2,059,000 in 2000, which was substantially less than 2001, principally due to significant expenditures for marketing and advertising of the Company's myTrack service.

Years ended December 31, 2000 and 1999

Revenues for the years ended December 31, 2000 and 1999 were \$58,767,000 and \$46,620,000, respectively, an increase of 26%. The Company's Professional Market segment had revenues for the years ended December 31, 2000 and 1999 of \$32,261,000 and \$30,482,000, respectively, an increase of 6% for this segment. The Company's Non-Professional Market segment had revenues of \$26,506,000 and \$16,138,000, respectively, for the years ended December 31, 2000 and 1999, an increase of 64% for this segment. The revenue increase in 2000 is due principally to myTrack's online trading and market data services. The Company obtained its own broker-dealer license and its registration in all of the states by August 2000. Prior thereto, trading revenues include only revenues from the licensing of its trading system, rather than a full amount of commissions paid by customers.

Direct operating costs were \$31,484,000 for the year ended December 31, 2000 and \$26,989,000 for the similar period in 1999, an increase of 17%. Direct operating costs as a percentage of revenues were 54% in 2000 and 58% in 1999. The decrease in 2000 is due principally to the greater revenues recognized after obtaining the broker-dealer license. Without giving effect to unallocated depreciation and amortization expense, the Company's Professional Market segment had \$14,863,000 and \$15,445,000 of direct costs for the years ended December 31, 2000 and 1999, respectively. Direct operating costs as a percentage of revenues for the Professional segment were 46% in 2000 and 51% in 1999. The Company's Non-Professional Market segment had \$14,475,000 and \$9,007,000 in direct costs for the years ended December 31, 2000 and 1999, respectively. Direct operating costs as a percentage of revenues for the Non-Professional segment were 55% in 2000 and 56% in 1999. Direct operating costs include direct payroll, direct telecommunication costs, computer supplies, depreciation, equipment lease expense and the amortization of software development costs. Since August 2000, when the Company commenced recording the full commissions from customers, direct costs include costs of clearing, back office payroll and other direct broker-dealer expenses.

Selling and administrative expenses were \$21,564,000 and \$19,290,000 in the 2000 and 1999 periods, respectively, an increase of 12%. Selling and administrative expenses as a percentage of revenues was 37% in 2000 and 41% in 1999. Without giving effect to unallocated depreciation and amortization expense, selling and administrative expenses for the Professional Market segment were \$12,893,000 and \$12,235,000 in the 2000 and 1999 periods, respectively, an increase of 5%. For the Professional Market segment selling and administrative expenses as a percentage of revenues was 40% in 2000 and 41% in 1999. Selling and administrative expenses for the Non-Professional segment were \$8,311,000 and \$6,643,000 in the 2000 and 1999 periods, respectively, an increase of 25%. For the Non-Professional segment selling and administrative expense as a percentage of revenue was 31% in 2000 and 41% in 1999. The dollar increase in 2000 compared to 1999 was principally due to increased payroll and related expenses for myTrack's online trading and market data services. Online trading was first introduced in the second quarter of 1999.

Marketing and advertising costs were \$5,472,000 in 2000 and \$5,684,000 in 1999. The substantial majority of these costs were incurred by the Non-Professional segment of the Company, which incurred \$5,361,000 in 2000, and \$5,451,000 in 1999. Marketing costs in 2000 and 1999 are net of \$666,000 and \$571,000, respectively, received from Track Securities under a licensing agreement. These costs were principally incurred in connection with the Company's myTrack online trading and market data systems. The level of

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expenditures in the second half of 2000 was substantially below the expenditures in the first half of 2000. The Professional Market segment spent \$111,000 in 2000 and \$233,000 in 1999.

As a result of the above-mentioned factors, the Professional Market segment realized \$4,395,000 in income before unallocated amounts, equity in net income of affiliate and income taxes in 2000 compared to income of \$2,570,000 in 1999. The Non-Professional Market segment incurred losses of \$1,642,000 in 2000 and \$4,964,000 in 1999 before unallocated amounts, equity in net income of affiliate and income taxes.

In 1999, the Company relocated certain of its personnel to other office space and realized a gain on the landlord buy-out of the lease of approximately \$350,000.

In 2000, the Company realized a gain of approximately \$1,683,000 on the sale of certain shares of Edgar Online, Inc., Innodata Corporation and other marketable securities.

In 2000, the Company wrote off its investment in iAnalyst of \$254,000.

As a result of the above mentioned factors, the Company realized income before equity in net income from an affiliate of \$1,388,000 in the 2000 period compared to a loss of \$5,263,000 in 1999. The income realized in 2000 was due principally to gains realized from the sale of marketable securities and the increased revenues in the Company's myTrack online trading and market data systems.

The equity in net income from an affiliate, Innodata Corporation, was \$718,000 and \$275,000 in 2000 and 1999, respectively.

The Company had a valuation allowance of \$5,727,000 at December 31, 2000 as management believed it may not be able to realize all of its net operating loss carryforwards in the future. The establishment of a valuation allowance results in not recognizing tax benefits currently. However, in the event such benefits are realized or determined at a later date to be realizable, such future periods will benefit, net of amounts credited to paid-in capital, from such change and reflect greater income or a decreased loss.

The Company realized net income of \$2,059,000 in 2000 principally from gains on marketable securities and increased revenues from myTrack's online trading and market data services compared to a net loss of \$5,048,000 in 1999 principally due to marketing and advertising of the Company's myTrack service.

Liquidity and Capital Resources

During the year ended December 31, 2001, cash provided by operating activities was \$9,778,000 compared to \$1,637,000 in 2000. The increase in 2001 was primarily due to significantly increased operating income in 2001. Cash flows provided by investing activities in 2001 was \$1,865,000 compared to \$812,000 in 2000 principally from the sale of an Internet domain name for \$1,000,000. Cash flows used in financing activities in 2001 were \$12,461,000 principally from the purchase of treasury stock, compared to \$1,608,000 used in the 2000 period. In 2000, the Company realized \$2,586,000 from the exercise of stock options and warrants and the sale of common stock.

The Company has a line of credit with a bank. The line is collateralized by the assets of the Company and is guaranteed by its Chairman. Interest is charged at 1.75% above the bank's prime rate and is due on demand. The Company may borrow up to 80% of eligible accounts receivable and is required to maintain a compensating balance of 10% of the outstanding loans. At December 31, 2001,

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the Company had outstanding borrowings under the line of \$1,865,000. The Company believes that its line of credit is sufficient for the Company's present cash requirements.

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 trading strategy described in Note C. The December 31, 2001 positions were closed during the first quarter of 2002 and other positions with the same strategy have been established. In the fourth quarter of 2001, the Company expanded its arbitrage trading program to include a greater risk profile trading program. The greater risk trading program resulted in pre-tax losses of \$400,000 in the fourth quarter of 2001 and \$1,400,000 in the first quarter of 2002. The Company is continuing its arbitrage trading program but has discontinued the greater risk trading program.

Since August 2001, the Company has experienced a decline in revenues from its Professional Market segment due principally to customers' staffing reductions which have continued during the first quarter of 2002. Management expects this decline to continue at a minimum through the first half of 2002 negatively impacting revenues and profits. In addition, the Company also experienced a decline in revenues from its retail trading business in the fourth quarter after the new day trader rules were instituted by the NASD. The Company substantially reduced its advertising costs in 2001 and does not expect to significantly increase advertising for 2002. During the first quarter of 2002, the Company repurchased under its buy back program approximately 1 million shares of its common stock for approximately \$2 million. The Company may seek additional financing and/or dispose of certain of its marketable securities to support increased advertising costs, if deemed appropriate, in the future or to support its working capital or other opportunity requirements. No major capital expenditures are anticipated beyond the normal replacement of equipment and additional equipment to meet customer requirements.

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 contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the clearing broker extends credit to the Company's customers, subject to various regulatory margin requirements, collateralized by cash and securities in the customers' accounts. 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 seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary.

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, 2001, \$1,865,000 was outstanding under the credit facility. Changes in the prime interest rate during fiscal 2002 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 2002.

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 trading strategy described in Note C. The Company's arbitrage trading strategy is to fully cover its open positions during each month with covering option positions that expire in the succeeding month. The December 31, 2001 positions were closed during the first quarter of 2002 and other positions with the same strategy have been established. In the fourth quarter of 2001, the Company expanded its arbitrage trading program to include a greater risk profile trading program. The greater risk trading program resulted in pre-tax losses of \$400,000 in the fourth quarter of 2001 and \$1,400,000 in the first quarter of 2002. The Company is continuing its arbitrage trading program but has discontinued the greater risk trading program.

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

ITEM 8. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Track Data Corporation

We have audited the accompanying consolidated balance sheets of Track Data Corporation and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Track Data Corporation and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

/S/

Grant Thornton LLP
Melville, New York
March 1, 2002

Track Data Corporation and Subsidiaries
Consolidated Balance Sheets
December 31, 2001 and 2000
(in thousands, except number of shares)

2001 2000

ASSETS

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CASH AND EQUIVALENTS	\$ 5,687	\$ 6,506
ACCOUNTS RECEIVABLE - net of allowance for doubtful accounts of \$159 in 2001 and 2000	1,813	1,744
DUE FROM CLEARING BROKER	735	775
DUE FROM BROKER	14,813	-
MARKETABLE SECURITIES	45,623	2,646
FIXED ASSETS - at cost (net of accumulated depreciation)	4,583	5,743
SOFTWARE AND DATABASE COSTS - at cost (net of accumulated amortization of \$7,594 in 2001 and \$7,444 in 2000)	107	288
INVESTMENT IN AFFILIATE	-	1,874
EXCESS OF COST OVER NET ASSETS ACQUIRED	1,920	2,334
NET DEFERRED INCOME TAX ASSETS	-	450
OTHER ASSETS	1,639	2,119
	-----	-----
TOTAL	\$76,920	\$24,479
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,099	\$ 3,338
Note payable - bank	1,865	569
Notes payable - other	918	836
Trading securities sold but not yet purchased	46,409	1,492
Capital lease obligations	480	1,216
Net deferred income tax liabilities	805	-
Other liabilities, including income taxes	183	296
	-----	-----
Total liabilities	53,759	7,747
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock - \$.01 par value; 300,000,000 shares authorized; issued and outstanding - 54,739,695 shares in 2001 and 64,453,556 shares in 2000	547	645
Additional paid-in capital	18,585	26,136
Accumulated other comprehensive income	3,676	676
Retained earnings (deficit)	353	(10,725)
	-----	-----
Total stockholders' equity	23,161	16,732
	-----	-----
TOTAL	\$76,920	\$24,479
	=====	=====