

TRACK DATA CORP
Form 10-K
March 30, 2009

UNITED STATES
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, 2008
- Transition report pursuant to section 13 or 15(d) of the securities exchange act of 1934
For the Transition period from _____ to _____
Commission file number 0-24634

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. No Yes

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "Smaller Reporting Company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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, 2008 of \$2.23 per share. \$8,106,000

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, 2009.

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's executive office is 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 Financial Industry Regulatory Authority ("FINRA"). 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 Edge, for the individual trader. The Company operates Track ECN, an electronic communications network ("ECN") 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 in the accompanying 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 600 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 Penion 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, NYSE and AMEX listed securities, and exchange-listed securities on its platform.

Track ECN generally pays subscribers who add liquidity \$.0022 per share on a monthly basis and charges \$.0023 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. Track ECN currently displays orders on the National Stock Exchange (NSX). In November, 2008, the NSX changed its pricing for accessing its order delivery system pursuant to which it no longer pays rebates for adding liquidity to its book. As a result, Track ECN can only pay its subscribers for adding liquidity when there is an internal match on its own book. This change resulted in further deterioration of the trading volume on the Track ECN. The Company is presently exploring other venues for displaying its orders. Until such time, there is no expectation of increasing volume of trading.

NewsWatch Service

The Company's NewsWatch service includes a high-speed consolidated news ticker, including database access with full-text indexing and access to a variety of third-party databases. A typical installation is approximately \$300/month per user 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 4 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 Thomson/Reuters Group. To a lesser degree, these Company services compete with 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 NYSE/ARCA, 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 Acquire Media/News Edge.

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 Edge products. myTrack and myTrack Edge 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, the Company's web-based service, are currently offered at \$5.00 per stock trade; options at \$5.00 per trade plus \$.50 per contract; and futures at \$3.00 per contract. Equity trades on myTrack Edge 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 Edge 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 \$30 per month plus exchange fees to \$115 per month (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 \$54 to \$89 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 \$54 to \$74, depending on the type of data received.

Marketing

The Company markets myTrack and myTrack Edge 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 myTrack Edge's target market. The Company also promotes these services through Internet web site and banner advertisements, direct mailings and trade shows. The Company has spent minimal amounts on advertising and has encouraged alliances with other companies to refer trading customers.

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 and myTrack Edge 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, as well as financial institutions and mutual funds.

MyTrack Edge'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, 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 FINRA 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, FINRA, 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, FINRA 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, FINRA and various exchanges. 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.

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 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, FINRA, 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, 2008, TDSC was required to maintain minimum net capital, in accordance with SEC rules, of approximately \$1 million and had total net capital of \$4,998,000, or approximately \$3,998,000 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 FINRA 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 Edge, 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, 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, Development and Maintenance

The Company charges all costs incurred to establish the technological feasibility of a product or product enhancement, as well as correction of software bugs and minor enhancements to existing software applications, to research, development and maintenance expense. Research, development and maintenance expenses, included in direct operating costs, were approximately \$75,000, \$162,000 and \$159,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Employees

The Company employed approximately 115 persons on a full-time basis as of December 31, 2008. 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.

The Company also engages in options trading with a higher risk profile. The Company's trading strategy consists of selling short deep out-of-the-money calls and puts. These naked option positions (when there is no underlying security position held) are not hedged. The investment strategy is to take advantage of options that have a very low probability of becoming "in-the-money." The Company seeks to earn the low premiums that these options are selling for, and expects that all or most of the options will end up expiring worthless. To minimize risk, the Company limits its exposure to any one underlying stock and constantly monitors the option against the real time underlying stock price, and immediately seeks to cover its option position by buying/selling the underlying stock to protect against a larger loss. From time to time, significant losses may result from option positions whose underlying stock price realized a sudden large increase or decrease. During October, 2008, the Company incurred a loss of approximately \$600,000 in connection with this trading strategy.

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 the Company's investment in Innodata common stock, an available-for-sale security 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

Not required.

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 Company has a two-year lease expiring September 30, 2009. The annual rental of approximately 36,000 square feet is approximately \$657,000 plus real estate taxes. 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 maintained sales and/or service offices in Brooklyn, NY, Boston, MA, Philadelphia, PA and Dallas, TX with aggregate annual rentals of \$732,000 in 2008. These leases expire at various dates through September 30, 2009.

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.

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 permanent bar from association with a broker or dealer, with the right to apply for reinstatement after a two-year period, 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. In May, 2007, the Board of Directors agreed to reimburse Mr. Hertz under the indemnification provisions of Delaware law, \$75,000 for the disgorgement and interest portion of the amounts paid to the SEC by him. The Company from time to time is subject to informal inquiries and document requests from the SEC to review compliance with Mr. Hertz's association bar. As of March 16, 2009, the two-year officer or director bar expired. Mr. Hertz has not applied for reinstatement, and termination of his association bar.

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

The Company held its Annual Meeting on December 11, 2008. The results of matters voted at that Meeting are presented below:

Election of Directors:		For	Against	Withheld	Abstain
Nominee					
	Abraham Biderman	7,636,351		313,139	
	Albert Drillick	7,323,032		626,458	
	E. Bruce Fredrikson	7,635,951		313,539	
	Martin Kaye	7,326,852		622,638	
	Philip Ort	7,631,211		318,279	
	Shaya Sofer	7,635,831		313,659	
	Stanley Stern	7,318,552		630,938	
Appointment of Auditors:		7,701,133	66,280		182,076

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, 2009, there were 218 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 5,500.

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

	Common Stock Sale Price	
	High	Low
2007		
First Quarter	\$ 4.00	\$ 3.10
Second Quarter	3.49	3.08
Third Quarter	3.15	2.30
Fourth Quarter	2.84	1.81
2008		
First Quarter	\$ 2.67	\$ 1.45
Second Quarter	3.42	2.00
Third Quarter	2.43	1.60
Fourth Quarter	3.11	.78

Dividends

The Company has not paid a dividend since 2004. 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 Purchased	Number of Shares of Common Stock Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plans
October, 2008				
November, 2008				
December, 2008				
Total	None		None	993,501

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.

Equity Compensation Plans

See Item 12 for disclosures of the Company's equity compensation plans.

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ITEM 6. SELECTED FINANCIAL DATA

Year Ended December 31,	2008	2007	2006	2005	2004
	(in thousands, except earnings and dividends per share)				
SERVICE FEES AND REVENUE					
Market Data Services	\$ 17,554	\$ 18,648	\$ 21,474	\$ 23,175	\$ 26,308
ECN Services	2,527	6,764	13,375	6,911	5,050
Broker-Dealer Commissions (includes \$79 in 2008, \$125 in 2007 and \$89 in 2006 from related party)	10,578	8,668	7,137	6,008	8,735
Total	30,659	34,080	41,986	36,094	40,093
COSTS, EXPENSES AND OTHER:					
Direct operating costs	19,104	24,963	30,465	25,002	23,544
Selling and administrative expenses	9,051	10,575	10,986	12,485	13,815
Rent expense – related party	657	637	630	623	600
Marketing and advertising	297	247	200	274	414
Net gain on sale of investments in private companies		-	-	(412)	-
Gain on arbitrage trading	(775)	(2,114)	(1,013)	(819)	(1,512)
Gain on marketable securities-Innodata and Edgar Online	(65)	(344)	(1,777)	(1,067)	(5,887)
Impairment of goodwill	200	-	-	-	-
Interest (income) expense – net	(166)	291	(84)	223	305
Total	28,303	34,255	39,407	36,309	31,279
INCOME (LOSS) BEFORE INCOME TAXES	2,356	(175)	2,579	(215)	8,814
INCOME TAX PROVISION (BENEFIT)	1,015	(43)	1,030	(178)	3,614
NET INCOME (LOSS)	\$ 1,341	\$ (132)	\$ 1,549	\$ (37)	\$ 5,200
BASIC AND DILUTED NET INCOME (LOSS) PER SHARE	\$.16	\$ (.02)	\$.18	\$ (.00)	\$.53
DIVIDENDS PER SHARE	\$.00	\$.00	\$.00	\$.00	\$.05
WEIGHTED AVERAGE SHARES OUTSTANDING	8,392	8,392	8,382	9,221	9,732
ADJUSTED DILUTIVE SHARES OUTSTANDING	8,392	8,392	8,401	9,221	9,740
December 31,	2008	2007	2006	2005	2004
	(in thousands)				
TOTAL ASSETS	\$ 58,886	\$ 32,953	\$ 34,848	\$ 36,207	\$ 69,438
TOTAL LIABILITIES	35,267	10,219	12,415	14,658	42,570
STOCKHOLDERS' EQUITY	23,619	22,734	22,433	21,549	26,868

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 FINRA. 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 Edge, 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 market data 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 2009. Track ECN currently displays its orders on the National Stock Exchange (NSX). In November, 2008, the NSX changed its pricing for accessing its order delivery system pursuant to which it no longer pays rebates for adding liquidity to its book. As a result, Track ECN can only pay its subscribers for adding liquidity when there is an internal match on its own book. This change resulted in further deterioration of the trading volume on the Track ECN. The Company is presently exploring other venues for displaying its orders. Until such time, there is no expectation of increasing volume of trading.

The Non-Professional Market segment revenues have been inconsistent month to month, but grew overall in 2008. 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.

The Company also engages in options trading with a higher risk profile. The Company's trading strategy consists of selling short deep out-of-the-money calls and puts. These naked option positions (when there is no underlying security position held) are not hedged. The investment strategy is to take advantage of options that have a very low probability of becoming "in-the-money." The Company seeks to earn the low premiums that these options are selling for, and expects that all or most of the options will end up expiring worthless. To minimize risk, the Company limits its exposure to any one underlying stock and constantly monitors the option against the real time underlying stock price, and immediately seeks to cover its option position by buying/selling the underlying stock to protect against a larger loss. From time to time, significant losses may result from option positions whose underlying stock price realized a sudden large increase or decrease. During October, 2008, the Company incurred a loss of approximately \$600,000 in connection with this trading strategy.

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, 2008 and 2007

Revenues for the year ended December 31, 2008 and 2007 were \$30,659,000 and \$34,080,000, respectively, a decrease of 10%. The Company's Professional Market segment had revenues for the year ended December 31, 2008 and 2007 of \$14,525,000 and \$20,803,000, respectively, a decrease of 30% for this segment. The Company's Non-Professional Market segment had revenues of \$16,134,000 and \$13,277,000, respectively, for the year ended December 31, 2008 and 2007, an increase of 22% for this segment, principally due to increased broker-dealer commissions. The decrease in revenues in 2008 was primarily attributable to the Company's Track ECN revenues which decreased approximately \$4.2 million. ECN revenues were down significantly since the second half of 2007. In November, 2008, the NSX changed its pricing for accessing its order delivery system pursuant to which it no longer pays rebates for adding liquidity to its book. As a result, Track ECN can only pay its subscribers for adding liquidity when there is an internal match on its own book. This change resulted in further deterioration of the trading volume on the Track ECN. The Company is presently exploring other venues for displaying its orders. Until such time, there is no expectation of increasing volume of trading. Market data revenues decreased approximately \$1.1 million in 2008 compared to 2007. 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 2009. The declines in ECN and market data revenues in 2008 were partially offset by an increase of approximately \$2 million in broker-dealer commissions, principally from the Non-Professional Market Segment.

Direct operating costs were \$19,104,000 for the year ended December 31, 2008 and \$24,963,000 for the similar period in 2007, a decrease of 23%. Direct operating costs as a percentage of revenues were 62% in 2008 and 73% in 2007. Without giving effect to unallocated depreciation, amortization expense and costs directly allocated to the Arbitrage segment, the Company's Professional Market segment had \$9,036,000 and \$16,568,000 of direct costs for the year ended December 31, 2008 and 2007, respectively, a decrease of 45%. Direct operating costs as a percentage of revenues for the Professional segment were 63% in 2008 and 80% in 2007. The dollar decrease in direct costs is due principally to the decrease in ECN rebates due to reduced ECN revenues. The Company's Non-Professional Market segment had \$9,197,000 and \$7,598,000 in direct costs for the year ended December 31, 2008 and 2007, respectively, an increase of 21%. The dollar increase in direct costs is due principally to the increased broker-dealer commissions in 2008. Direct operating costs as a percentage of revenues for the Non-Professional segment were 57% in 2008 and 2007. 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.

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Selling and administrative expenses were \$9,051,000 and \$10,575,000 in the 2008 and 2007 periods, respectively, a decrease of 14%. Selling and administrative expenses as a percentage of revenues were 30% in 2008 and 31% in 2007. 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 \$5,231,000 and \$7,064,000 in the 2008 and 2007 periods, respectively, a decrease of 26%. The reduction in expenses was due principally to cost cutting measures instituted in the fourth quarter of 2007, including closing certain offices and across the board salary reductions. For the Professional Market segment selling and administrative expenses as a percentage of revenues were 36% in 2008 and 34% in 2007. Selling and administrative expenses for the Non-Professional segment were \$3,727,000 and \$3,418,000 in the 2008 and 2007 periods, respectively, an increase of 9%. For the Non-Professional segment selling and administrative expense as a percentage of revenue was 23% in 2008 and 26% in 2007. Certain selling and administrative expenses are allocated to each segment based on revenues.

The Professional Market segment realized a loss of \$226,000 in 2008 compared to a loss of \$3,320,000 in 2007 before unallocated amounts and income taxes. The Non-Professional Market segment realized income of \$2,739,000 in 2008 and \$1,870,000 in 2007 before unallocated amounts and income taxes. The Arbitrage segment realized income of \$641,000 in 2008 compared to \$1,584,000 in 2007 before unallocated amounts and income taxes.

In 2008 and 2007, the Company recognized gains of \$65,000 and \$344,000 from the sale of available-for-sale securities of Innodata.

Net interest income in 2008 was \$166,000 compared to net interest expense of \$291,000 in 2007. The decrease in interest expense in 2008 is due principally to decreased levels of net margin debt in connection with the Company's arbitrage trading program.

In 2008, the Company recognized an impairment of goodwill charge of \$200,000 in connection with a business division of its Non-Professional Market Segment.

As a result of the above-mentioned factors, the Company realized income before income taxes of \$2,356,000 in the 2008 period compared to a loss before income taxes of \$175,000 in the 2007 period.

The Company's effective tax rate was 43% in 2008 and 25% in 2007. The lower rate in 2007 was due principally to non-taxable items and permanent differences.

The Company realized net income of \$1,341,000 in 2008 compared to a net loss of \$132,000 in 2007.

Years ended December 31, 2007 and 2006

Revenues for the years ended December 31, 2007 and 2006 were \$34,080,000 and \$41,986,000, respectively, a decrease of 19%. The Company's Professional Market segment had revenues for the years ended December 31, 2007 and 2006 of \$20,803,000 and \$29,642,000, respectively, a decrease of 30% for this segment. The Company's Non-Professional Market segment had revenues of \$13,277,000 and \$12,344,000, respectively, for the years ended December 31, 2007 and 2006, an increase of 8% for this segment. The decrease in revenues was principally attributable to the Company's Track ECN which revenues decreased approximately \$6.6 million. 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 displays its quotes on the National Stock Exchange. This change has resulted in significantly lower ECN revenues since November, 2006. Market data revenues decreased approximately \$2.8 million in 2007 compared to 2006. 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 2008, negatively impacting revenues and profits. The declines in ECN and market data revenues were partially offset by an increase of \$1.5 million in broker-dealer commissions, principally from the Non-Professional Market Segment.

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Direct operating costs were \$24,963,000 for the year ended December 31, 2007 and \$30,465,000 for the similar period in 2006, a decrease of 18%. Direct operating costs as a percentage of revenues were 73% in 2007 and 2006. Without giving effect to unallocated depreciation, amortization expense and costs directly allocated to the Arbitrage segment, the Company's Professional Market segment had \$16,568,000 and \$23,153,000 of direct costs for the years ended December 31, 2007 and 2006, respectively, a decrease of 28%. Direct operating costs as a percentage of revenues for the Professional segment were 80% in 2007 and 78% in 2006. The dollar decrease in direct costs is due principally to the decrease in ECN rebates due to reduced ECN revenues. The Company's Non-Professional Market segment had \$7,598,000 and \$6,542,000 in direct costs for the years ended December 31, 2007 and 2006, respectively, an increase of 16%. The dollar increase in direct costs is due principally to the increased broker-dealer commissions in 2007. Direct operating costs as a percentage of revenues for the Non-Professional segment were 57% in 2007 and 53% in 2006. Certain direct operating costs are allocated to each segment based on revenues.

Selling and administrative expenses were \$10,575,000 and \$10,986,000 in the 2007 and 2006 periods, respectively, a decrease of 4%. Selling and administrative expenses as a percentage of revenues were 31% in 2007 and 26% in 2006. 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 \$7,064,000 and \$7,788,000 in the 2007 and 2006 periods, respectively, a decrease of 9%. For the Professional Market segment selling and administrative expenses as a percentage of revenues were 34% in 2007 and 26% in 2006. Selling and administrative expenses for the Non-Professional segment were \$3,418,000 and \$3,098,000 in the 2007 and 2006 periods, respectively, an increase of 10%. For the Non-Professional segment selling and administrative expense as a percentage of revenue was 26% in 2007 and 25% in 2006. The increase in selling and administrative expenses was due principally to increased expenses due to increased revenues. Certain selling and administrative expenses are allocated to each segment based on revenues.

The Professional Market segment realized a loss of \$3,320,000 in 2007 compared to a loss of \$1,829,000 before unallocated amounts and income taxes in 2006. The Non-Professional Market segment realized income of \$1,870,000 in 2007 and \$2,404,000 in 2006 before unallocated amounts and income taxes. The Arbitrage segment realized income of \$1,584,000 in 2007 compared to \$843,000 in 2006 before unallocated amounts and income taxes.

In 2007 and 2006, the Company recognized gains of \$344,000 and \$1,777,000, respectively, from the sale of available-for-sale securities of Innodata and Edgar Online common stock.

Net interest expense in 2007 was \$291,000 compared to net interest income of \$84,000 in 2006. The increase in interest expense in 2007 is due principally to increased 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 \$175,000 in the 2007 period compared to income before income taxes of \$2,579,000 in the 2006 period.

The Company's effective tax rate was 25% in 2007 and 40% in 2006. The lower rate in 2007 is due principally to non-taxable items and permanent differences.

The Company realized a net loss of \$132,000 in 2007 compared to net income of \$1,549,000 in 2006.

Liquidity and Capital Resources

During the year ended December 31, 2008, cash provided by operating activities was \$3,179,000 compared to \$181,000 in 2007. The increase in 2008 was principally due to increased earnings of \$1,593,000 and a net improvement of \$1,405,000 in the changes in operating assets and liabilities. Cash flows used in investing activities was \$518,000 in 2008 compared to \$449,000 in 2007. The increase in cash flows used in investing activities was principally due to reduced purchases of fixed assets offset by reduced proceeds from sales of Innodata and Edgar Online common stock. Cash used in financing activities was \$782,000 in 2008 compared to \$962,000 in 2007. The cash used in 2008 was principally used for the repayment of employee savings upon the termination of an employee savings program, which was less than the repayment of bank borrowings in 2007.

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. Interest is charged at 1.75% above the bank's prime rate and is due on demand. The line expires in August, 2009, subject to automatic renewal. 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, 2008, the Company had no borrowings under the line. Borrowings available on the line of credit at December 31, 2008 were \$577,000 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 in the accompanying Notes to Consolidated Financial Statements. The Company expects that its December 31, 2008 positions will be closed during the first quarter of 2009 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.

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 approximately 6,000 shares of its common stock for \$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 FINRA. TDSC operations are subject to reviews by regulators within its industry which include the SEC, FINRA and various exchanges. In the past, certain reviews have resulted in the Company incurring fines (an estimated \$260,000 in 2008 (actual amounts may differ from these estimates), of which \$200,000 is accrued at December 31, 2008), 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.

The Company's New York City tax returns for 2003 through 2005 are presently under audit. The outcome cannot be reasonably estimated at this time.

From time to time 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, 2008, the Company had \$5.8 million in margin credit extended to its customers. The Company's margin loans in connection with Arbitrage trading were immaterial at December 31, 2008. The Company believes it is unlikely it will have to make material payments under the indemnification agreement and has not recorded any related liability in the Consolidated Financial Statements.

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 in the accompanying 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 investment in Innodata as available for sale securities. The Company carries this investment 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 operations when realized. The Company reviews its 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.

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 operations.

New Pronouncements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (previously referred to as minority interests). SFAS 160 also requires that a retained noncontrolling interest upon the deconsolidation of a subsidiary be initially measured at its fair value. Upon adoption of SFAS 160, the Company would be required to report any noncontrolling interests as a separate component of stockholders' equity. The Company would also be required to present any net income allocable to noncontrolling interests and net income attributable to the stockholders of the Company separately in its consolidated statements of operations. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 shall be applied prospectively. SFAS 160 would have an impact on the presentation and disclosure of the noncontrolling interests of any non wholly-owned businesses acquired in the future.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" ("SFAS 141R"), which replaces SFAS No. 141, "Business Combinations." SFAS 141R establishes principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including noncontrolling interests, contingent consideration, and certain acquired contingencies. SFAS 141R also requires acquisition-related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. SFAS 141R will be applicable prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R would have an impact on accounting for any businesses acquired after the effective date of this pronouncement.

In December 2007, the SEC staff issued Staff Accounting Bulletin 110 ("SAB 110"), "Share-Based Payment," which amends SAB 107, "Share-Based Payment," to permit public companies, under certain circumstances, to use the simplified method in SAB 107 for employee option grants after December 31, 2007. Use of the simplified method after December 2007 is permitted only for companies whose historical data about their employees' exercise behavior does not provide a reasonable basis for estimating the expected term of the options. The adoption of this pronouncement did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

On March 19, 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133" ("SFAS 161"). SFAS 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"; and (c) derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Specifically, SFAS 161 requires: disclosure of the objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation; disclosure of the fair values of derivative instruments and their gains and losses in a tabular format; information about credit-risk-related contingent features; and cross-reference from the derivative footnote to other footnotes in which derivative-related information is disclosed. SFAS 161 is effective for fiscal years and interim periods beginning after

November 15, 2008. The adoption of this pronouncement is not expected to have a material affect on the Company's consolidated financial position, results of operations or cash flows.

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In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are prepared in conformance with generally accepted accounting principles. Unlike Statement on Auditing Standards (SAS) No. 69, "The Meaning of Present in Conformity With GAAP," SFAS No. 162 is directed to the entity rather than the auditor. The statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with GAAP," and is not expected to have any impact on the Company's consolidated results of operations, financial condition or liquidity.

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 8. 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, 2008 and 2007, and the related consolidated statements of operations, stockholders’ equity and comprehensive income and cash flows for each of the three years in the period ended December 31, 2008. 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 audits 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, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008 in conformity with United States generally accepted accounting principles.

/S/ Marcum & Kliegman LLP

Melville, New York
March 26, 2009

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Track Data Corporation and Subsidiaries

Consolidated Balance Sheets
December 31, 2008 and 2007
(in thousands, except share data)

	2008	2007
ASSETS		
CASH AND EQUIVALENTS	\$ 7,139	\$ 5,275
ACCOUNTS RECEIVABLE – net of allowance for doubtful accounts of \$213 in 2008 and \$227 in 2007	976	1,382
DUE FROM CLEARING BROKER	760	635
DUE FROM BROKER	42,029	12,258
MARKETABLE SECURITIES	3,616	8,581
FIXED ASSETS - at cost (net of accumulated depreciation and amortization)	1,818	2,093
EXCESS OF COST OVER NET ASSETS ACQUIRED – net	1,700	1,900
OTHER ASSETS	848	829
TOTAL	\$ 58,886	\$ 32,953
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,707	\$ 3,540
Trading securities sold, but not yet purchased	30,896	5,060
Net deferred income tax liabilities	496	755
Other liabilities	168	864
Total liabilities	35,267	10,219
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock - \$.01 par value; 60,000,000 shares authorized; issued and outstanding –8,392,000 shares	84	84
Additional paid-in capital	10,183	10,183
Retained earnings	13,132	11,791
Accumulated other comprehensive income	220	676
Total stockholders' equity	23,619	22,734

TOTAL	\$ 58,886	\$ 32,953
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See notes to consolidated financial statements

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Track Data Corporation and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2008, 2007 and 2006
(in thousands, except earnings per share)

	2008	2007	2006
SERVICE FEES AND REVENUE			
Market Data Services	\$ 17,554	\$ 18,648	\$ 21,474
ECN Services	2,527	6,764	13,375
Broker Dealer Commissions (includes \$79 in 2008, \$125 in 2007 and \$89 in 2006 from related party)	10,578	8,668	7,137
Total	30,659	34,080	41,986
COSTS, EXPENSES AND OTHER:			
Direct operating costs (includes depreciation and amortization of \$667, \$628 and \$559 in 2008, 2007 and 2006, respectively)	19,104	24,963	30,465
Selling and administrative expenses (includes depreciation and amortization of \$94, \$94 and \$100 in 2008, 2007 and 2006, respectively)	9,051	10,575	10,986
Rent expense – related party	657	637	630
Marketing and advertising	297	247	200
Gain on arbitrage trading	(775)	(2,114)	(1,013)
Gain on sale of marketable securities – Innodata and Edgar Online	(65)	(344)	(1,777)
Impairment of goodwill	200	-	-
Interest income	(372)	(445)	(430)
Interest expense	206	736	346
 Total	 28,303	 34,255	 39,407
 INCOME (LOSS) BEFORE INCOME TAXES	 2,356	 (175)	 2,579
 INCOME TAX PROVISION (BENEFIT)	 1,015	 (43)	 1,030
 NET INCOME (LOSS)	 \$ 1,341	 \$ (132)	 \$ 1,549
 BASIC AND DILUTED NET INCOME (LOSS) PER SHARE	 \$.16	 \$(.02)	 \$.18
 WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	 8,392	 8,392	 8,382
 ADJUSTED DILUTIVE SHARES OUTSTANDING	 8,392	 8,392	 8,401

See notes to consolidated financial statements

Track Data Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity and Comprehensive Income
Years Ended December 31, 2008, 2007 and 2006
(in thousands)

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Stock- holders' Equity	Compre- hensive Income
BALANCE, JANUARY 1, 2006	8,380	\$ 84	\$10,136	\$ 10,374	\$ 955	\$ 21,549	
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							\$ 837
BALANCE, DECEMBER 31, 2006	8,392	84	10,183	11,923	243	22,433	
Net loss				(132)		(132)	\$ (132)
Reclassification adjustment for gain on marketable securities - net of taxes					(142)	(142)	(142)

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Unrealized gain on marketable securities - net of taxes					575	575	575
Comprehensive income							\$ 301
BALANCE, DECEMBER 31, 2007	8,392	84	10,183	11,791	676	22,734	
Net income				1,341		1,341	\$ 1,341
Reclassification adjustment for gain on marketable securities - net of taxes					(34)	(34)	(34)
Unrealized loss on marketable securities - net of taxes					(422)	(422)	(422)
Comprehensive income							\$ 885
BALANCE, DECEMBER 31, 2008	8,392	\$84	\$10,183	\$13,132	\$ 220	\$23,619	

See notes to consolidated financial statements

Track Data Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2008, 2007 and 2006
(in thousands)

	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 1,341	\$ (132)	\$ 1,549
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	761	722	659
Deferred taxes	45	(62)	43
Impairment of goodwill	200	-	-
Provision for doubtful accounts	-	-	33
Tax effect of stock options exercised and phantom shares	-	-	(11)
Loss on surrender of leases	-	36	-
Gain on sale of Innodata and Edgar Online common stock	(65)	(344)	(1,777)
Changes in operating assets and liabilities:			
Accounts receivable and due from clearing broker	281	(245)	299
Due from broker	(29,771)	704	2,629
Marketable securities	4,229	818	(462)
Other assets	55	140	306
Accounts payable and accrued expenses	167	(388)	221
Trading securities sold, but not yet purchased	25,836	(1,042)	(2,121)
Other liabilities	100	(26)	(60)
Net cash provided by operating activities	3,179	181	1,308
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(488)	(869)	(1,031)
Investment in private companies	-	-	(150)
Purchase of Innodata common stock	(35)	-	-
Proceeds from sale of Innodata and Edgar Online common stock	77	420	1,787
Issuance of note receivable, net of repayments	(72)	-	-
Net cash (used in) provided by investing activities	(518)	(449)	606
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net payments on note payable – bank	-	(987)	(150)
Net (repayments) proceeds from contributions to employee savings program	(782)	25	233
Proceeds from exercise of stock options	-	-	56
Excess tax benefit from exercise of stock options	-	-	11
Purchase of treasury stock	-	-	(20)
Net cash (used in) provided by financing activities	(782)	(962)	130
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH	(15)	(3)	(5)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,864	(1,233)	2,039

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CASH AND EQUIVALENTS, BEGINNING OF YEAR		5,275	6,508	4,469
CASH AND EQUIVALENTS, END OF YEAR	\$	7,139	\$ 5,275	\$ 6,508
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid for: Interest	\$	206	\$ 737	\$ 346
Income taxes		924	50	708
NON-CASH INVESTING ACTIVITIES				
Retirement of treasury stock	\$	-	\$ -	\$ 20

See notes to consolidated financial statements

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Track Data Corporation and Subsidiaries
Notes To Consolidated Financial Statements
Years Ended December 31, 2008, 2007 and 2006

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 Financial Industry Regulatory Authority ("FINRA"). 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 Edge, for the individual trader. The Company also operates Track ECN, an electronic communications network ("ECN") 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.

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's cash and cash equivalents includes \$500,000 of restricted cash on deposit with the Company's clearing broker. The Company has cash balances in banks in excess of the maximum amount insured by the FDIC as of December 31, 2008.

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 \$213,000 and \$227,000 at December 31, 2008 and 2007, respectively. There have been no significant write offs during the years ended December 31, 2008, 2007 and 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, as if they had been settled. Securities are valued at quoted market value. The resulting difference between cost and market (or fair value) is included in "gain (loss) 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--Due from broker includes cash, securities owned and securities sold, but not yet purchased carried by the Company's 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, 2008. Software and database costs, net of accumulated amortization, at December 31, 2008 and 2007 of \$31,000 and \$30,000, respectively, were 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, 2008, 2007 and 2006 was approximately \$9,000, \$7,000 and \$4,000, 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 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 Company'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 is 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 are 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. SFAS 142 requires that an impairment test for goodwill be performed in two steps, (i) determine impairment based upon fair value of a reporting unit as compared to its carrying value, and (ii) if there is an impairment, measure the impairment loss by comparing the implied fair value of goodwill with the carrying amount of goodwill. The excess of the purchase price of acquired businesses over the fair value of net assets ("goodwill") on the dates of acquisition amounts to \$1,700,000, net of accumulated amortization of \$2,494,000 and a 2008 impairment charge of \$200,000, at December 31, 2008, and \$1,900,000, net of accumulated amortization of \$2,494,000 at December 31, 2007.

The Non-Professional Segment is tested for impairment in the fourth quarter. Due to a decline in operating profits and cash flows in the fourth quarter of 2008 and which decline is expected to continue in 2009, the earnings forecast for the next five years was revised. In December 2008, a goodwill impairment loss of \$200,000 was recognized in a division of the Non-Professional reporting segment. The fair value was estimated using the expected present value of future cash flows.

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.

Foreign Currency Translation--The Company has a division which operates in a foreign country for which the functional currency is the British pound. Balance sheet accounts are translated at the exchange rates in effect at December 31, 2008 and 2007, and the income statement accounts are translated at the weighted average rates prevailing during the years ended December 31, 2008, 2007 and 2006. 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 (excluding charges related to comprehensive income items).

The Company accounts for uncertainties in income tax positions in accordance with the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes (as amended) - an interpretation of FASB Statement No. 109" ("FIN 48") which prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 states that a tax benefit from an uncertain tax position may be recognized only if it is "more likely than not" that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all relevant information. Under FIN 48, the liability for unrecognized tax benefits is classified as noncurrent unless the liability is expected to be settled in cash within 12 months of the reporting date.

No liability for unrecognized tax benefits was required to be reported at December 31, 2008 and 2007. The Company has identified its federal tax return and its state and city tax returns in New York as "major" tax jurisdictions, as defined. The Company is also subject to filings in multiple other state and city jurisdictions. Based on the Company's evaluation, it has concluded that there are no significant uncertain tax positions requiring recognition in the Company's financial statements. The Company's evaluation was performed for tax years ended 2003 through 2008, the only periods subject to examination. The Company believes that its income tax positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. The Company's New York City tax returns for 2003 through 2005 are presently under audit. The outcome cannot be

reasonably estimated at this time.

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The Company's policy for recording interest and penalties associated with uncertain tax positions is to record such items as a component of income before income taxes. Penalties are recorded in other expense and interest paid or received is recorded in interest expense or interest income, respectively, in the statement of operations. For the years ended December 31, 2008 and 2007, penalties and interest related to the settlements of audits were insignificant.

Research, Development and Maintenance--The Company charges all costs incurred to establish the technological feasibility of a product or product enhancement, as well as correction of software bugs and minor enhancements to existing software applications, to research, development and maintenance expense. Research, development and maintenance expenses, included in direct operating costs, were approximately \$75,000, \$162,000 and \$159,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Marketing and Advertising--Marketing and advertising costs are charged to expense when incurred. Marketing and advertising costs were approximately \$297,000, \$247,000 and \$200,000 for the years ended December 31, 2008, 2007 and 2006, 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 basis for disclosures about products and services, geographic areas, and major customers.

Fair Value of Financial Instruments—Through December 31, 2007, the Company 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."

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), for assets and liabilities measured at fair value on a recurring basis. SFAS 157 accomplishes the following key objectives:

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date;
 - Establishes a three-level hierarchy ("Valuation Hierarchy") for fair value measurements;
 - Requires consideration of the Company's creditworthiness when valuing liabilities; and
 - Expands disclosures about instruments measured at fair value.

The Valuation Hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the Valuation Hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of the Valuation Hierarchy and the distribution of the Company's financial assets within it are as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. The fair values of the Company's arbitrage trading securities and Innodata common stock are based on quoted prices and therefore classified as level 1.

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- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company’s assets carried at fair value on a recurring basis at December 31, 2008 are as follows (in thousands):

	Quoted Market Prices in Active Markets (Level 1)
Arbitrage trading securities	
Long Positions	\$ 2,980
Short Positions	30,896
Available for sale securities (1)	
Innodata common stock	636

(1) Available-for-sale securities are carried at fair value based on quoted market prices.

Certain financial instruments are carried at cost on the consolidated balance sheets, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued expenses.

Unrealized gains and losses on available for sale securities are recorded as a separate component of other comprehensive income in the consolidated statements of stockholders’ equity and comprehensive income.

In February 2008, the FASB issued Staff Position 157-2 (“FSP 157-2”). FSP 157-2 permits delayed adoption of SFAS 157 for certain non-financial assets and liabilities, which are not recognized at fair value on a recurring basis, until fiscal years and interim periods beginning after November 15, 2008. As permitted by FSP 157-2, the Company has elected to delay the adoption of SFAS 157 for qualifying non-financial assets and liabilities, such as fixed assets, goodwill and intangible assets measured at fair value in an impairment assessment. The effect of SFAS No. 157 on applicable non-financial assets and liabilities, when effective, is not expected to have a material effect on the financial statements.

Also effective January 1, 2008, the Company adopted SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115” (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Election of the fair value option is irrevocable and is applied on a contract-by-contract basis. The Company has elected not to apply the fair value option to its eligible financial assets and liabilities, and accordingly, the adoption of SFAS 159 had no financial statement impact.

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; income tax calculations; and allowances for doubtful accounts.

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--At December 31, 2008, the Company has seven stock-based employee compensation plans, which are described more fully in Note J. No stock-based employee compensation cost is reflected in the statement of operations, as there was no vesting of outstanding stock option awards in 2008, 2007 and 2006.

The Company is required pursuant to SFAS 123(R), "Share-Based Payments," to account for its options and other stock based awards at fair value. No such awards were granted during the three years ended December 31, 2008.

New Pronouncements--In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (previously referred to as minority interests). SFAS 160 also requires that a retained noncontrolling interest upon the deconsolidation of a subsidiary be initially measured at its fair value. Upon adoption of SFAS 160, the Company would be required to report any noncontrolling interests as a separate component of stockholders' equity. The Company would also be required to present any net income allocable to noncontrolling interests and net income attributable to the stockholders of the Company separately in its consolidated statements of operations. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 shall be applied prospectively. SFAS 160 would have an impact on the presentation and disclosure of the noncontrolling interests of any non wholly-owned businesses acquired in the future.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" ("SFAS 141R"), which replaces SFAS No. 141, "Business Combinations." SFAS 141R establishes principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including noncontrolling interests, contingent consideration, and certain acquired contingencies. SFAS 141R also requires acquisition-related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. SFAS 141R will be applicable prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R would have an impact on accounting for any businesses acquired after the effective date of this pronouncement.

In December 2007, the SEC staff issued Staff Accounting Bulletin 110 ("SAB 110"), "Share-Based Payment," which amends SAB 107, "Share-Based Payment," to permit public companies, under certain circumstances, to use the simplified method in SAB 107 for employee option grants after December 31, 2007. Use of the simplified method after December 2007 is permitted only for companies whose historical data about their employees' exercise behavior does not provide a reasonable basis for estimating the expected term of the options. The adoption of this pronouncement did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

On March 19, 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133” (“SFAS 161”). SFAS 161 enhances required disclosures regarding derivatives and he