ENDO PHARMACEUTICALS HOLDINGS INC
Form 10-Q
May 01, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012.

OR

¨ **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: 001-15989

ENDO PHARMACEUTICALS HOLDINGS INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**13-4022871**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**
100 Endo Boulevard Chadds Ford, Pennsylvania	**19317**
(Address of Principal Executive Offices)	**(Zip Code)**

(610) 558-9800

(Registrant s Telephone Number, Including Area Code)

Not applicable

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

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO x

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

Common Stock, $0.01 par value	Shares outstanding as of April 19, 2012: 117,189,618

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FORWARD-LOOKING STATEMENTS

Statements contained or incorporated by reference in this document contain information that includes or is based on forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements, including estimates of future revenues, future expenses, future net income and future net income per share, contained in the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations, which is included in this document, are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed results of operations. We have tried, whenever possible, to identify such statements by words such as believes, expects, anticipates, intends, estimates, plan, projected, forecast, will, may or similar expressions. We have based th forward-looking statements on our current expectations and projections about the growth of our business, our financial performance and the development of our industry. Because these statements reflect our current views concerning future events, these forward-looking statements involve risks and uncertainties. Investors should note that many factors, as more fully described under the caption Risk Factors in Item 1A of this document and in Item 1A under the caption Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2011, supplement and as otherwise enumerated herein, could affect our future financial results and could cause our actual results to differ materially from those expressed in forward-looking statements contained or incorporated by reference in this document.

We do not undertake any obligation to update our forward-looking statements after the date of this document for any reason, even if new information becomes available or other events occur in the future. You are advised to consult any further disclosures we make on related subjects in our reports filed with the Securities and Exchange Commission (SEC). Also note that, in Item 1A of this document and in Item 1A under the caption Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2011, we provide a cautionary discussion of the risks, uncertainties and possibly inaccurate assumptions relevant to our business. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results. We note these factors for investors as permitted by Section 27A of the Securities Act and Section 21E of the Exchange Act. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider this to be a complete discussion of all potential risks or uncertainties.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ENDO PHARMACEUTICALS HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share data)

	March 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 248,303	$ 547,620
Accounts receivable, net	657,135	733,222
Inventories, net	288,875	262,419
Prepaid expenses and other current assets	45,590	29,732
Income taxes receivable	38,529	
Deferred income taxes	194,978	215,103
Total current assets	$ 1,473,410	1,788,096
MARKETABLE SECURITIES	18,899	19,105
PROPERTY, PLANT AND EQUIPMENT, NET	300,052	297,731
GOODWILL	2,560,043	2,558,041
OTHER INTANGIBLES, NET	2,416,921	2,504,124
OTHER ASSETS	117,885	125,486
TOTAL ASSETS	$ 6,887,210	$ 7,292,583
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 248,583	$ 260,385
Accrued expenses	723,868	732,831
Current portion of long-term debt	102,199	88,265
Acquisition-related contingent consideration	5,953	4,925
Income taxes payable		35,372
Total current liabilities	$ 1,080,603	1,121,778
DEFERRED INCOME TAXES	573,760	617,677
ACQUISITION-RELATED CONTINGENT CONSIDERATION	2,607	3,762
LONG-TERM DEBT, LESS CURRENT PORTION, NET	3,197,015	3,424,329
OTHER LIABILITIES	83,340	85,446
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS EQUITY:		
Preferred Stock, $0.01 par value; 40,000,000 shares authorized; none issued		
Common Stock, $0.01 par value; 350,000,000 shares authorized; 139,337,813 and 138,337,002 shares issued; 117,293,972 and 117,158,880 shares outstanding at March 31, 2012 and December 31, 2011, respectively	1,393	1,383
Additional paid-in capital	980,449	952,325
Retained earnings	1,464,565	1,551,910

Accumulated other comprehensive loss	(7,194)	(9,436)
Treasury stock, 22,043,841 and 21,178,122 shares at March 31, 2012 and December 31, 2011, respectively	(550,080)	(518,492)
Total Endo Pharmaceuticals Holdings Inc. stockholders equity	$ 1,889,133	1,977,690
Noncontrolling interests	60,752	61,901
Total stockholders equity	$ 1,949,885	2,039,591
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 6,887,210	$ 7,292,583

See Notes to Condensed Consolidated Financial Statements.

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ENDO PHARMACEUTICALS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share data)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
REVENUES:		
Net pharmaceutical product sales	$ 504,600	$ 505,784
Devices revenues	130,166	
Service and other revenues	55,867	54,242
TOTAL REVENUES	$ 690,633	$ 560,026
COSTS AND EXPENSES:		
Cost of revenues	364,820	231,558
Selling, general and administrative	254,454	159,386
Research and development	88,688	42,130
Asset impairment charges	40,000	
Acquisition-related items, net	3,749	6,073
OPERATING (LOSS) INCOME	$ (61,078)	$ 120,879
INTEREST EXPENSE, NET	46,896	18,790
LOSS ON EXTINGUISHMENT OF DEBT	5,426	
OTHER EXPENSE, NET	451	348
(LOSS) INCOME BEFORE INCOME TAX	$ (113,851)	$ 101,741
INCOME TAX	(39,326)	33,446
CONSOLIDATED NET (LOSS) INCOME	$ (74,525)	$ 68,295
Less: Net income attributable to noncontrolling interests	12,820	12,508
NET (LOSS) INCOME ATTRIBUTABLE TO ENDO PHARMACEUTICALS HOLDINGS INC.	$ (87,345)	$ 55,787
NET (LOSS) INCOME PER SHARE ATTRIBUTABLE TO ENDO PHARMACEUTICALS HOLDINGS INC.:		
Basic	$ (0.75)	$ 0.48
Diluted	$ (0.75)	$ 0.46
WEIGHTED AVERAGE SHARES:		
Basic	117,052	116,354
Diluted	117,052	120,761

See Notes to Condensed Consolidated Financial Statements.

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ENDO PHARMACEUTICALS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In thousands)

	Three Months Ended March 31, 2012		2011	
CONSOLIDATED NET (LOSS) INCOME		$ (74,525)		$ 68,295
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Net unrealized (loss) gain on securities:				
Unrealized (losses) gains arising during the period	$ (192)		$ 150	
Less: reclassification adjustments for (losses) gains realized in net (loss) income		(192)		150
Foreign currency translation gain		3,072		
Fair value adjustment on derivatives designated as cash flow hedges:				
Fair value adjustment on derivatives designated as cash flow hedges arising during the period	$ (798)		$	
Less: reclassification adjustments for cash flow hedges settled and included in net (loss) income	160	(638)		
OTHER COMPREHENSIVE INCOME		$ 2,242		$ 150
CONSOLIDATED COMPREHENSIVE (LOSS) INCOME		$ (72,283)		$ 68,445
Less: Comprehensive income attributable to noncontrolling interests		12,820		12,508
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO ENDO PHARMACEUTICALS HOLDINGS INC.		$ (85,103)		$ 55,937

See Notes to Condensed Consolidated Financial Statements.

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ENDO PHARMACEUTICALS HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
OPERATING ACTIVITIES:		
Consolidated net (loss) income	$ (74,525)	$ 68,295
Adjustments to reconcile consolidated net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	66,957	47,741
Stock-based compensation	14,518	7,416
Amortization of debt issuance costs and premium / discount	7,868	5,997
Selling, general and administrative expenses paid in shares of common stock	118	55
Deferred income taxes	(24,461)	(768)
Loss on disposal of property, plant and equipment	26	114
Loss on extinguishment of debt	5,426	
Change in fair value of acquisition-related contingent consideration	(127)	(685)
Asset impairment charges	40,000	
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	77,138	(1,576)
Inventories	(26,297)	(26,473)
Prepaid and other assets	703	(4,871)
Accounts payable	(4,118)	28,095
Accrued expenses	(3,301)	4,639
Other liabilities	(19,056)	(6,602)
Income taxes payable/receivable	(73,931)	9,681
Net cash (used in) provided by operating activities	(13,062)	131,058
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(29,112)	(12,561)
Proceeds from sale of property, plant and equipment	191	
Acquisitions, net of cash acquired		(1,232)
License fee	(5,000)	
Other investments		522
Net cash used in investing activities	(33,921)	(13,271)
FINANCING ACTIVITIES:		
Capital lease obligation repayments	(127)	
Tax benefits of stock awards	3,521	3,381
Principal payments on Term Loans, net	(219,063)	(4,197)
Principal payments on other indebtedness	(439)	
Exercise of Endo Pharmaceuticals Holdings Inc. stock options	9,543	12,417
Purchase of common stock	(33,000)	(17,552)
Issuance of common stock from treasury	1,412	
Distributions to noncontrolling interests	(13,120)	(12,627)
Buy-out of noncontrolling interests, net of contributions	(849)	(261)
Net cash used in financing activities	(252,122)	(18,839)

Effect of foreign exchange rate	(212)	
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(299,317)	98,948
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	547,620	466,214
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 248,303	$ 565,162
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	$ 52,938	$ 2,865
Cash paid for income taxes	$ 54,405	$ 19,854
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Purchases of property, plant and equipment financed by capital leases	$	$ 62
Accrual for purchases of property, plant and equipment	$ 3,961	$ 2,855

See Notes to Condensed Consolidated Financial Statements.

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ENDO PHARMACEUTICALS HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2012

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying Condensed Consolidated Financial Statements of Endo Pharmaceuticals Holdings Inc. (the Company or we, our, us, or Endo) and its subsidiaries, which are unaudited, include all normal and recurring adjustments considered necessary to present fairly the Company s financial position as of March 31, 2012 and the results of our operations and our cash flows for the periods presented. Operating results for the three-month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board (FASB or the Board) issued ASU 2011-05 on the presentation of comprehensive income. This ASU amends FASB Codification Topic 220, Comprehensive Income, to require an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011 and early adoption is permitted. In December 2011, the FASB issued ASC 2011-12 which amends ASU 2011-05 to defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments to allow the Board time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. The Company has adopted all current required provisions of ASU 2011-05. The adoption of this standard, as amended, will not have a significant impact on the Company s Consolidated Financial Statements.

NOTE 3. FAIR VALUE MEASUREMENTS

The financial instruments recorded in our Condensed Consolidated Balance Sheets include cash and cash equivalents, accounts receivable, marketable securities, auction-rate securities, equity and cost method investments, accounts payable, acquisition-related contingent consideration, our debt obligations, and derivative instruments. Included in cash and cash equivalents are money market funds representing a type of mutual fund required by law to invest in low-risk securities (for example, U.S. government bonds, U.S. Treasury Bills and commercial paper). Money market funds are structured to maintain the fund s net asset value at $1 per unit, which assists in ensuring adequate liquidity upon demand by the holder. Money market funds pay dividends that generally reflect short-term interest rates. Thus, only the dividend yield fluctuates. Due to their short-term maturity, the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values.

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The following table presents the carrying amounts and estimated fair values of certain assets and liabilities as of March 31, 2012 and December 31, 2011 (in thousands):

	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Current assets:				
Derivative instruments	$ 379	$ 379	$ 1,471	$ 1,471
	$ 379	$ 379	$ 1,471	$ 1,471
Long-term assets:				
Auction-rate securities	17,292	17,292	17,463	17,463
Equity securities	1,607	1,607	1,642	1,642
Equity and cost method investments	20,568	N/A	20,661	N/A
	$ 39,467		$ 39,766	
Current liabilities:				
Acquisition-related contingent consideration short-term	$ 5,953	$ 5,953	$ 4,925	$ 4,925
Current portion of Term Loan A Facility Due 2016	98,438	98,438	84,375	84,375
3.25% AMS Convertible Notes due 2036	841	841	841	841
4.00% AMS Convertible Notes due 2041	131	131	131	131
Current portion of other long-term debt	2,789	2,789	2,918	2,918
Derivative instruments	154	154	119	119
Minimum Voltaren® Gel royalties due to Novartis short-term	22,500	22,500	30,000	30,000
Other	1,000	1,000		
	$ 131,806	$ 131,806	$ 123,309	$ 123,309
Long-term liabilities:				
Acquisition-related contingent consideration long-term	$ 2,607	$ 2,607	$ 3,762	$ 3,762
1.75% Convertible Senior Subordinated Notes Due 2015, net	304,535	353,016	299,222	330,950
Term Loan A Facility Due 2016, less current portion	1,359,375	1,353,397	1,387,500	1,372,119
Term Loan B Facility Due 2018	233,250	233,693	438,250	439,017
7.00% Senior Notes Due 2019	500,000	535,625	500,000	532,500
7.00% Senior Notes Due 2020, net	397,427	429,250	396,618	424,750
7.25% Senior Notes Due 2022	400,000	429,250	400,000	422,500
Other long-term debt, less current portion	2,428	2,428	2,739	2,739
Minimum Voltaren® Gel royalties due to Novartis long-term	13,306	13,306	20,100	20,100
Other	5,375	5,375		
	$ 3,218,303	$ 3,357,947	$ 3,448,191	$ 3,548,437

Equity securities consist of publicly traded common stock, the value of which is based on a quoted market price. These securities are not held to support current operations and are therefore classified as non-current assets. The acquisition-related contingent consideration, which is required to be measured at fair value on a recurring basis, consists primarily of contingent cash consideration related to the November 2010 acquisition of Generics International (US Parent), Inc. (doing business as Qualitest Pharmaceuticals, which we refer to herein as Qualitest). The fair value of our acquisition-related contingent consideration is determined using an income approach (present value technique), which is discussed in more detail below. The fair value of our 1.75% Convertible Senior Subordinated Notes is based on an income approach known as the binomial lattice model which incorporated certain inputs and assumptions, including scheduled coupon and principal payments, the conversion feature inherent in the Convertible Notes, the put feature inherent in the Convertible Notes, and stock price volatility assumptions of 33% at March 31, 2012 and December 31, 2011 that were based on historic volatility of the Company s common stock and other factors. The fair values of Term Loan Facilities and 2019, 2020, and 2022 Notes were estimated using a discounted cash flow model based on the contractual repayment terms of the respective instruments and discount rates that reflect current market conditions.

The total fair value of various foreign exchange forward contracts as of March 31, 2012 includes assets of $0.4 million reported in Accounts receivable, net and liabilities of $0.2 million, reported in Accrued expenses. We measure our derivative instruments at fair value on a recurring basis using significant observable inputs. Refer to Note 16. Derivative Instruments and Hedging Activities for more information regarding our derivative instruments.

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The minimum Voltaren® Gel royalty due to Novartis AG was recorded at fair value at inception during 2008 using an income approach (present value technique) and is being accreted up to the maximum potential future payment of $52.5 million. We believe the carrying amount of this minimum royalty guarantee at March 31, 2012 and December 31, 2011 represents a reasonable approximation of the price that would be paid to transfer the liability in an orderly transaction between market participants at the measurement date. Accordingly, the carrying value approximates fair value as of March 31, 2012 and December 31, 2011.

The fair value of equity method and cost method investments is not readily available nor have we estimated the fair value of these investments and disclosure is not required. The Company is not aware of any identified events or changes in circumstances that would have a significant adverse effect on the carrying value of any of our equity or cost method investments included in our Condensed Consolidated Balance Sheet at March 31, 2012.

As of March 31, 2012, the Company held certain assets and liabilities that are required to be measured at fair value on a recurring basis. Fair value guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company s financial assets and liabilities measured at fair value on a recurring basis at March 31, 2012 and December 31, 2011, were as follows (in thousands):

	$000,000	$000,000	$000,000	$000,000
	Fair Value Measurements at Reporting Date Using			
March 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Money market funds	$ 423	$	$	$ 423
Equity securities	1,607			1,607
Derivative instruments		379		379
Auction-rate securities			17,292	17,292
Total	$ 2,030	$ 379	$ 17,292	$ 19,701
Liabilities:				
Derivative instruments	$	$ 154	$	$ 154
Acquisition-related contingent consideration short-term			5,953	5,953
Acquisition-related contingent consideration long-term			2,607	2,607
Total	$	$ 154	$ 8,560	$ 8,714

	$000,000	$000,000	$000,000	$000,000
		Fair Value Measurements at Reporting Date Using		
December 31, 2011	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets:				
Money market funds	$ 110,816	$	$	$ 110,816
Equity securities	1,642			1,642
Derivative instruments		1,471		1,471
Auction-rate securities			17,463	17,463
Total	$ 112,458	$ 1,471	$ 17,463	$ 131,392
Liabilities:				
Derivative instruments	$	$ 119	$	$ 119
Acquisition-related contingent consideration short-term			4,925	4,925
Acquisition-related contingent consideration long-term			3,762	3,762
Total	$	$ 119	$ 8,687	$ 8,806

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Auction-Rate Securities

Auction-rate securities are long-term variable rate bonds tied to short-term interest rates. After the initial issuance of the securities, the interest rate on the securities is reset periodically, at intervals established at the time of issuance (e.g., every seven, twenty-eight, or thirty-five days; every six months; etc.). In an active market, auction-rate securities are bought and sold at each reset date through a competitive bidding process, often referred to as a Dutch auction . However, given the current negative liquidity conditions in the global credit markets, the auction-rate securities market has become inactive and as such, quoted market prices and other observable data are not available or their utility is limited.

Our auction-rate securities consist of municipal bonds with an auction reset feature, the underlying assets of which are student loans that are backed substantially by the Federal Family Education Loan Program, or FFELP and have underlying credit ratings of AAA as of March 31, 2012 and December 31, 2011. The issuers have been making interest payments promptly.

The Company determined that an income approach (present value technique) that maximizes the use of observable market inputs is the preferred approach to measuring the fair value of our securities. Specifically, the Company used the discount rate adjustment technique to determine an indication of fair value.

To calculate a price for our auction-rate securities, the Company calculates duration to maturity, coupon rates, market required rates of return (discount rate) and a discount for lack of liquidity in the following manner:

The Company identifies the duration to maturity of the auction-rate securities as the time at which principal is available to the investor. This can occur because the auction-rate security is paying a coupon that is above the required rate of return, and the Company treats the security as being called. It can also occur because the market has returned to normal and the Company treats the auctions as having recommenced. Lastly, and most frequently, the Company treats the principal as being returned as prepayment occurs and at the maturity of the security. The initial life used for each remaining security, representing time to maturity, was seven years as of March 31, 2012 and eight years as of December 31, 2011.

The Company calculates coupon rates based on estimated relationships between the maximum coupon rate (the coupon rate in event of a failure) and market interest rates. The representative coupon rate was 3.68% on March 31, 2012 and 3.61% at December 31, 2011. The Company calculates appropriate discount rates for securities that include base interest rates, index spreads over the base rate, and security-specific spreads. These spreads include the possibility of changes in credit risk over time. The spread over the base rate applied to our securities was 215 basis points at March 31, 2012 and 204 basis points at December 31, 2011.

The Company believes that a market participant would require an adjustment to the required rate of return to adjust for the lack of liquidity. We do not believe it is unreasonable to assume a 150 basis points adjustment to the required rate of return and a term of either three, four or five years to adjust for this lack of liquidity. The increase in the required rate of return decreases the prices of the securities. However, the assumption of a three, four or five-year term shortens the times to maturity and increases the prices of the securities. The Company has evaluated the impact of applying each term and the reasonableness of the range indicated by the results. The Company chose to use a four-year term to adjust for the lack of liquidity as we believe it is the point within the range that is most representative of fair value. The Company s conclusion is based in part on the fact that the fair values indicated by the results are reasonable in relation to each other given the nature of the securities and current market conditions.

This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. At March 31, 2012, the fair value of our auction-rate securities, as determined by applying the above described discount rate adjustment technique, was approximately $17.3 million, representing an 8%, or $1.5 million discount from their original purchase price or par value. This compares to approximately $17.5 million at December 31, 2011, representing a 7%, or $1.3 million discount from their original purchase price or par value. We believe we have appropriately reflected our best estimate of the assumptions that market participants would use in pricing the assets in a current transaction to sell the asset at the measurement date. Accordingly, the carrying value of our auction-rate securities at March 31, 2012 and December 31, 2011 were reduced by approximately $1.5 million and $1.3 million, respectively. These adjustments appropriately reflect the changes in fair value, which the Company attributes to liquidity issues rather than credit issues.

The Company has assessed the portion of the decline in fair value associated with our auction-rate securities to be temporary due to the financial condition and near-term prospects of the underlying issuers, our intent and ability to retain our investment in the issuers for a period of time sufficient to allow for any anticipated recovery in market value and based on the extent to which fair value is less than par. Accordingly, we recorded a $0.2 million loss and a $0.1 million gain in Stockholders equity in Accumulated other comprehensive loss as of March 31, 2012 and December 31, 2011, respectively. Our auction-rate securities are analyzed each reporting period for other-than-temporary impairment factors. Any future fluctuation in fair value related to these instruments that the Company judges to be temporary, including any recoveries of previous write-downs, would be recorded to Other comprehensive income, net of tax. If the Company determines that any future valuation adjustment was other-than-temporary, it would record a charge to earnings as appropriate. However, there can be no assurance that our current belief that our auction-rate securities will recover their value will not change.

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We did not sell any of our remaining auction-rate securities during the three months ended March 31, 2012 or 2011.

As of March 31, 2012, the yields on our long-term auction-rate securities averaged 0.28%. These yields represent the predetermined maximum reset rates that occur upon auction failures according to the specific terms within each security s prospectus. Total interest recognized on our auction-rate securities for the three months ended March 31, 2012 and 2011 was less than $0.1 million.

Acquisition-Related Contingent Consideration

On November 30, 2010 (the Qualitest Acquisition Date), Endo acquired Qualitest, who was party to an asset purchase agreement with Teva Pharmaceutical Industries Ltd (Teva) (the Teva Agreement). Pursuant to this agreement, Qualitest purchased certain pipeline generic products from Teva and could be obligated to pay consideration to Teva upon the achievement of certain future regulatory milestones (the Teva Contingent Consideration).

The range of the undiscounted amounts the Company could pay under the Teva Agreement is between zero and $12.5 million. The Company is accounting for the Teva Contingent Consideration in the same manner as if it had entered into that arrangement with respect to its acquisition of Qualitest. Accordingly, the fair value was estimated based on a probability-weighted discounted cash flow model, or income approach. The resultant probability-weighted cash flows were then discounted using a discount rate of U.S. Prime plus 300 basis points. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement within the fair value hierarchy. Using this valuation technique, the fair value of the contractual obligation to pay the Teva Contingent Consideration was determined to be $8.6 million at March 31, 2012, $8.7 million at December 31, 2011 and $9.0 million on the Qualitest Acquisition Date.

The decrease from December 31, 2011 to March 31, 2012 primarily reflects changes of our present value assumptions associated with our valuation model. The decrease in the liability was recorded as a gain and is included in Acquisition-related items, net in the accompanying Condensed Consolidated Statements of Operations.

Fair Value Measurements Using Significant Unobservable Inputs

The following table presents changes to the Company s financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2012 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Auction-rate Securities
Assets:	
Balance at January 1, 2012	$ 17,463
Securities sold or redeemed	
Securities purchase or acquired	
Transfers in and/or (out) of Level 3	
Changes in fair value recorded in earnings	
Unrealized gains included in other comprehensive income	(171)
Balance at March 31, 2012	$ 17,292

	Acquisition-related Contingent

		Consideration
Liabilities:		
Balance at January 1, 2012	$	(8,687)
Amounts (acquired) sold or (issued) settled, net		
Transfers in and/or (out) of Level 3		
Changes in fair value recorded in earnings		127
Balance at March 31, 2012	$	(8,560)

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The following table presents changes to the Company s financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2011 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Auction-rate Securities
Assets:	
Balance at January 1, 2011	$ 17,332
Securities sold or redeemed	
Securities purchase or acquired	
Transfers in and/or (out) of Level 3	
Changes in fair value recorded in earnings	
Unrealized gains included in other comprehensive income	77
Balance at March 31, 2011	$ 17,409

	Acquisition-related Contingent Consideration
Liabilities:	
Balance at January 1, 2011	$ (16,050)
Amounts (acquired) sold or (issued) settled, net	(827)
Transfers in and/or (out) of Level 3	
Changes in fair value recorded in earnings	685
Balance at March 31, 2011	$ (16,192)

The following is a summary of available-for-sale securities held by the Company as of March 31, 2012 and December 31, 2011 (in thousands):

	Available-for-sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
March 31, 2012:				
Money market funds	$ 423	$	$	$ 423
Total included in cash and cash equivalents	$ 423	$	$	$ 423
Auction-rate securities	18,800		(1,508)	17,292
Equity securities	1,766		(159)	1,607
Long-term available-for-sale securities	$ 20,566	$	$ (1,667)	$ 18,899
Total available-for-sale securities	$ 20,989	$	$ (1,667)	$ 19,322

	Available-for-sale			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
December 31, 2011:				
Money market funds	$ 110,816	$	$	$ 110,816
Total included in cash and cash equivalents	$ 110,816	$	$	$ 110,816
Auction-rate securities	18,800		(1,337)	17,463
Equity securities	1,766		(124)	1,642
Long-term available-for-sale securities	$ 20,566	$	$ (1,461)	$ 19,105
Total available-for-sale securities	$ 131,382	$	$ (1,461)	$ 129,921

At March 31, 2012 and December 31, 2011, our investments in auction-rate securities consisted of two securities which, as of those dates, had been in unrealized loss positions for more than twelve months. As previously discussed, the Company has determined that the gross unrealized losses associated with the auction-rate securities are not other-than-temporary.

At March 31, 2012 and December 31, 2011, our equity securities consisted of investments in the stock of three publically traded companies. As of March 31, 2012, one had been in an unrealized loss position for more than twelve months. As of December 31, 2011, two of these investments had been in an unrealized loss position for less than twelve months and one had been in an unrealized loss position for more than twelve months. The Company does not believe the remaining unrealized losses are other-than-temporary at March 31, 2012 or December 31, 2011 primarily because the Company has both the ability and intent to hold these investments for a period of time we believe will be sufficient to recover such losses.

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The amortized cost and estimated fair value of available-for-sale debt and equity securities by contractual maturities are shown below (in thousands). Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2012		December 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale debt securities:				
Due in less than 1 year	$	$	$	$
Due in 1 to 5 years				
Due in 5 to 10 years				
Due after 10 years	18,800	17,292	18,800	17,463
Equity securities	1,766	1,607	1,766	1,642
Total	$ 20,566	$ 18,899	$ 20,566	$ 19,105

Nonrecurring Fair Value Measurements

The Company s financial assets measured at fair value on a nonrecurring basis at March 31, 2012 were as follows (in thousands):

	Fair Value Measurements at March 31, 2012 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Loss
Assets:				
Sanctura XR® developed technology intangible asset	$	$	$ 21,550	$ (40,000)
Total	$	$	$ 21,550	$ (40,000)

Pursuant to the Sanctura XR® Amended and Restated License, Commercialization and Supply Agreement with Allergan USA, Inc. (Allergan), the Company receives royalties based on net sales of Sanctura XR® made by Allergan.

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In March 2009, Watson Pharmaceutical Inc. (Watson) filed an Abbreviated New Drug Application (ANDA) seeking FDA approval to market generic versions of Sanctura XR® before the expiration of Allergan s patents listed in the Orange Book. Subsequent to Watson s ANDA filing, Sandoz Inc. and Paddock Laboratories, Inc., (acquired by Perrigo Company in August 2011) also filed ANDAs for a generic version of Sanctura XR®.

In April 2012, the U.S. District Court for the District of Delaware ruled that five patents covering Allergan s Sanctura XR® (trospium chloride) extended-release capsules were invalid. Watson Pharmaceutical Inc. s application with the Food and Drug Administration for a generic version is currently pending.

The Company intends to appeal the District Court s ruling. However, the Company concluded that an impairment assessment was required to evaluate the recoverability of the indefinite-lived intangible asset as of March 31, 2012.

To estimate fair value, we assessed the estimates of the amount and timing of future cash flows from royalties and milestones received from Allergan related to net sales of the product. To calculate the fair value of the Sanctura XR® intangible asset, the Company used an income approach using a discounted cash flow model considering management s current evaluation of the above mentioned factors. The Company utilized probability-weighted cash flow models using a present value discount factor commensurate with the overall risk associated with this particular product. The cash-flow models included our best estimates of future FDA approval of generic versions of the product and the probability of a successful appeals process. The Company presently believes that the level and timing of cash flows assumed, discount rate, and probabilities used in the model appropriately reflect market participant assumptions.

The fair value of the Sanctura XR® intangible asset was determined to be $21.6 million. Accordingly, the Company recorded a pre-tax non-cash impairment charge of $40.0 million for the three months ended March 31, 2012, representing the difference between the carrying value of the intangible asset and its estimated fair value. The impairment charge was recognized in earnings and included in the Asset impairment charges line item in the Condensed Consolidated Statements of Operations. Changes in any of our assumptions may result in a further reduction to the estimated fair value of the Sanctura XR® intangible asset and could result in additional and potentially full future impairment charges of up to $21.6 million.

NOTE 4. INVENTORIES

Inventories are comprised of the following at March 31, 2012 and December 31, 2011, respectively (in thousands):

	March 31, 2012	December 31, 2011
Raw materials	$ 111,583	$ 103,064
Work-in-process	45,337	51,063
Finished goods	131,955	108,292
Total	$ 288,875	$ 262,419

Inventory amounts in the table above are shown net of obsolescence. Our reserve for obsolescence is not material to the Condensed Consolidated Balance Sheets for any of the periods presented and therefore has not been separately disclosed.

NOTE 5. ACQUISITIONS

American Medical Systems Holdings, Inc. (AMS)

On June 17, 2011 (the AMS Acquisition Date), the Company completed its acquisition of all outstanding shares of common stock of AMS for approximately $2.4 billion in aggregate consideration, including $70.8 million related to existing AMS stock-based compensation awards and certain other amounts, at which time AMS became a wholly-owned subsidiary of the Company. AMS s shares were purchased at a price of $30.00 per share.

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AMS is a worldwide developer and provider of technology solutions to physicians treating men s and women s pelvic health conditions. The AMS business and applicable services include:

Men s Health.

AMS supplies surgical solutions for the treatment of male urinary incontinence, the involuntary release of urine from the body. The fully implantable AMS 800® system includes an inflatable urethral cuff to restrict flow through the urethra and a control pump that allows the patient to discreetly open the cuff when he wishes to urinate. Since 2000, AMS has also been selling the InVance® sling system, a less-invasive procedure for men with moderate incontinence, and in 2007, AMS released the AdVance® sling system for the treatment of mild to moderate stress urinary incontinence. AMS also offers the UroLume® endoprosthesis stent as a less invasive procedure for patients who may not be good surgical candidates, as well as for men suffering from bulbar urethral strictures.

AMS also supplies penile implants to treat erectile dysfunction, the inability to achieve or maintain an erection sufficient for sexual intercourse, with a series of semi-rigid malleable prostheses and a complete range of more naturally functioning inflatable prostheses, including the AMS 700® MS. AMS has refined its implants over the years with improvements to the AMS 700® series of inflatable prostheses, including the AMS 700 LGX® and the MS Pump®. Another key factor that distinguishes AMS s products is the use of the InhibiZone® antibiotic coating, which received FDA approval in July 2009 for AMS s product claim that InhibiZone® reduces the rate of revision surgery due to surgical infections.

Women s Health.

AMS offers a broad range of systems, led by Monarc® and MiniArc®, to treat female stress urinary incontinence, which generally results from a weakening of the tissue surrounding the bladder and urethra which can be a result of pregnancy, childbirth and aging. Monarc® incorporates unique helical needles to place a self-fixating, sub-fascial hammock through the obturator foramin. AMS s MiniArc® Single-Incision Sling for stress incontinence was released in 2007 and requires just one incision to surgically place a small sling under the urethra, which minimizes tissue disruption and potential for blood loss, thereby allowing the procedure to be done with less anesthesia on an outpatient basis. In 2010, AMS launched the MiniArc Precise™, which is designed to enhance the ease and accuracy of placement of the MiniArc® device.

AMS also offers solutions for pelvic floor prolapse and other pelvic floor disorders, which may be caused by pregnancy, labor, and childbirth. In 2008, AMS introduced the Elevate® transvaginal pelvic floor repair system, with no external incisions. Using an anatomically designed needle and self-fixating tips, Elevate® allows for safe, simple and precise mesh placement through a single vaginal incision. The posterior system was launched in 2008 and the anterior system was launched in 2009.

BPH Therapy.

AMS s products can be used to relieve restrictions on the normal flow of urine from the bladder caused by bladder obstructions, generally the result of BPH or bulbar urethral strictures. AMS offers men experiencing a physical obstruction of the prostatic urethra an alternative to a TURP, with the GreenLight™ photovaporization of the prostate. This laser therapy is designed to reduce the comorbidities associated with TURP. AMS s GreenLight™ XPS and MoXy™ Liquid Cooled Fiber provide shorter treatment times with similar long-term results compared to other laser systems. The GreenLight™ laser system offers an optimal laser beam that balances vaporization of tissue with coagulation to prevent blood loss and providing enhanced surgical control compared to other laser systems. AMS also offers the StoneLight® laser and SureFlex™ fiber optics for the treatment of urinary stones. StoneLight® is a lightweight and portable 15-watt holmium laser that offers the right amount of power to effectively fragment most urinary stones. The SureFlex™ fiber optic line is engineered to deliver more energy safely and effectively, even under maximum scope deflection, for high performance holmium laser lithotripsy.

AMS s TherMatrx® product is designed for those men not yet to the point of urethral obstruction, but for whom symptomatic relief is desired. It is a less-invasive tissue ablation technique that can be performed in a physician s office using microwave energy delivered to the prostate.

The acquisition of AMS furthers Endo s evolution from a pharmaceutical product-driven company to a healthcare solutions provider, strengthens our leading core urology franchise and expands our presence in the medical devices market. We believe the combination of AMS with Endo s existing platform will provide additional cost-effective solutions across the entire urology spectrum.

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The operating results of AMS from and including June 18, 2011 are included in the accompanying Condensed Consolidated Statements of Operations. The Condensed Consolidated Balance Sheet as of March 31, 2012 reflects the acquisition of AMS. The following table summarizes the fair values of the assets acquired and liabilities assumed at the AMS Acquisition Date (in thousands):

	June 17, 2011 (As initially reported)	Measurement period adjustments	June 17, 2011 (As adjusted)
Cash and cash equivalents	$ 47,289	$	$ 47,289
Commercial paper	71,000		71,000
Accounts receivable	73,868		73,868
Other receivables	791	(161)	630
Inventories	75,525	(156)	75,369
Prepaid expenses and other current assets	7,133		7,133
Income taxes receivable	11,179	(1,712)	9,467
Deferred income taxes	15,360	(820)	14,540
Property, plant and equipment	57,372	(959)	56,413
Other intangible assets	1,390,000	(130,000)	1,260,000
Other assets	4,581		4,581
Total identifiable assets	$ 1,754,098	$ (133,808)	$ 1,620,290
Accounts payable	$ 9,437	$ 890	$ 10,327
Accrued expenses	45,648	187	45,835
Deferred income taxes	507,019	(90,384)	416,635
Long-term debt	520,012	363	520,375
Other liabilities	23,578		23,578
Total liabilities assumed	$ 1,105,694	$ (88,944)	$ 1,016,750
Net identifiable assets acquired	$ 648,404	$ (44,864)	$ 603,540
Goodwill	$ 1,752,427	$ 44,009	$ 1,796,436
Net assets acquired	$ 2,400,831	$ (855)	$ 2,399,976

The above estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the AMS Acquisition Date to estimate the fair value of assets acquired and liabilities assumed. The Company believes that information provides a reasonable basis for estimating the fair values but the Company is waiting for additional information necessary to finalize those amounts, particularly with respect to the estimated fair values of deferred income taxes. Thus, the provisional measurements of fair value reflected are subject to change. Such changes could be significant. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable but no later than one year from the AMS Acquisition Date. Measurement period adjustments related primarily to revisions in estimated cash flows for certain products after obtaining additional information regarding facts and circumstances existing as of the AMS Acquisition Date.

The valuation of the intangible assets acquired and related amortization periods are as follows:

	Valuation (in millions)	Amortization Period (in years)
Customer Relationships:		
Men s Health	$ 97.0	17
Women s Health	37.0	15
BPH	26.0	13

Total	$	160.0	16
Developed Technology:			
Men s Health	$	690.0	18
Women s Health		150.0	9
BPH		161.0	18
Total	$	1,001.0	16
Tradename:			
AMS	$	45.0	30
GreenLight		12.0	15
Total	$	57.0	27
In Process Research & Development:			
Oracle	$	12.0	n/a
Genesis		14.0	n/a

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	Valuation (in millions)	Amortization Period (in years)
TOPAS	8.0	n/a
Other	8.0	n/a
Total	$ 42.0	n/a
Total other intangible assets	$ 1,260.0	n/a

The fair value of the developed technology, IPR&D and customer relationship assets were estimated using a discounted present value income approach. Under this method, an intangible asset s fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company used cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes that the level and timing of cash flows appropriately reflect market participant assumptions. The fair value of the AMS and GreenLight tradenames were estimated using an income approach, specifically known as the relief from royalty method. The relief from royalty method is based on a hypothetical royalty stream that would be received if the Company were to license the AMS or GreenLight tradename. Thus, we derived the hypothetical royalty income from the projected revenues of AMS and GreenLight products, respectively. Cash flows were assumed to extend through the remaining economic useful life of each class of intangible asset.

The $1,796.4 million of goodwill has been assigned to our Devices segment. The goodwill recognized is attributable primarily to strategic and synergistic opportunities across the entire urology spectrum, expected corporate synergies, the assembled workforce of AMS and other factors. Approximately $13.6 million of goodwill is expected to be deductible for income tax purposes.

Deferred tax assets of $14.5 million are related primarily to federal net operating loss and credit carryforwards of AMS and its subsidiaries. Deferred tax liabilities of $416.6 million are related primarily to the difference between the book basis and tax basis of identifiable intangible assets.

The Company recognized $1.7 million of AMS acquisition-related costs that were expensed during the three months ended March 31, 2012. These costs are included in Acquisition-related items, net in the accompanying Condensed Consolidated Statements of Operations and are comprised of the following items (in thousands):

	Three Months Ended March 31, 2012
Bank fees	$
Legal, separation, integration, and other costs	1,720
Total	$ 1,720

The following supplemental pro forma information presents the financial results as if the acquisition of AMS had occurred on January 1, 2011 for the three months ended March 31, 2011. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2011, nor are they indicative of any future results.

	Three Months Ended March 31, 2011

Pro forma consolidated results (in thousands, except per share data):		
Revenue	$	700,894
Net income attributable to Endo Pharmaceuticals Holdings Inc.	$	44,373
Basic net income per share	$	0.38
Diluted net income per share	$	0.37

These amounts have been calculated after applying the Company s accounting policies and adjusting the results of AMS to reflect factually supportable adjustments that give effect to events that are directly attributable to the AMS Acquisition, including the borrowing under the 2011 Credit Facility, 2019 Notes, and 2022 Notes as well as the additional depreciation and amortization that would have been charged assuming the fair value adjustments primarily to property, plant and equipment, inventory, and intangible assets, had been applied on January 1, 2010, together with the consequential tax effects.

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Other

In the second half of 2011, as part of our effort to increase and broaden the relationships within the urology community, we acquired two electronic medical records software companies, Intuitive Medical Software, LLC and meridianEMR, Inc., which individually and combined represent immaterial acquisitions. These acquisitions provide electronic medical records for urologists. Together, these acquisitions provide access to approximately 1,850 urologists using data platforms that will enhance service offerings in urology practice management.

NOTE 6. SEGMENT RESULTS

In the fourth quarter of 2011, as a result of our strategic planning process, the Company s executive leadership team reorganized the manner in which it views our various business activities. Management s intention was to better understand the entity s performance, better assess its prospects and future cash flow potential and ultimately make more informed operating decisions about resource allocation and the enterprise as a whole. Based on this change, we reassessed our reporting structure under the applicable accounting guidance and determined that the Company now has four reportable segments. We have retrospectively revised the segment presentation for all periods presented reflecting the change from three to four reportable segments. This change in our segments has no impact on the Company s Condensed Consolidated Financial Statements for all periods presented.

The four reportable business segments in which the Company now operates include: (1) Branded Pharmaceuticals, (2) Generics, (3) Devices and (4) Services. Each segment derives revenue from the sales or licensing of their respective products or services and is discussed below.

Branded Pharmaceuticals

This group of products includes a variety of branded prescription products related to treating and managing pain as well as our urology, endocrinology and oncology products. The marketed products that are included in this segment include Lidoderm®, Opana® ER , Percocet®, Voltaren® Gel, Frova®, Supprelin® LA, Vantas®, Valstar® and Fortesta® Gel.

Generics

This segment is comprised of our legacy Endo non-branded generic portfolio and the portfolio from our recently acquired Qualitest business. Our generics business has historically focused on selective generics related to pain that have one or more barriers to market entry, such as complex formulation, regulatory or legal challenges or difficulty in raw material sourcing. With the addition of Qualitest, the segment s product offerings now include products in the pain management, urology, central nervous system (CNS) disorders, immunosuppression, oncology, women s health and hypertension markets, among others.

Devices

The Devices segment currently focuses on providing technology solutions to physicians treating men s and women s pelvic health conditions and operates in the following business lines: men s health, women s health, and BPH therapy. These business lines are discussed in greater detail within Note 5. Acquisitions. We distribute devices through our direct sales force and independent sales representatives in the U.S., Canada, Australia, Brazil and Western Europe. Additionally, we distribute devices through foreign independent distributors, primarily in Europe, Asia, and South America, who then sell the products to medical institutions. None of our devices customers or distributors accounted for ten percent or more of our total revenues during the three months ended March 31, 2012, or 2011. Foreign subsidiary sales are predominantly to customers in Western Europe, Canada, Australia and Brazil.

Services

The Services segment provides urological services, products and support systems to urologists, hospitals, surgery centers and clinics across the U.S. These services are sold through the following business lines: lithotripsy services, prostate treatment services, anatomical pathology services, medical products manufacturing, sales and maintenance and electronic medical records services.

We evaluate segment performance based on each segment s adjusted income (loss) before income tax. We define adjusted income (loss) before income tax as income (loss) before income tax before certain upfront and milestone payments to partners, acquisition-related items, net, cost reduction and integration-related initiatives, asset impairment charges, amortization of intangible assets related to marketed products and customer relationships, inventory step-up recorded as part of our acquisitions, non-cash interest expense, and certain other items that the Company believes do not reflect its core operating performance.

Certain corporate general and administrative expenses are not allocated and are therefore included within Corporate unallocated. We calculate consolidated adjusted income (loss) before income tax by adding the adjusted income (loss) before income tax of each of our reportable segments to corporate unallocated adjusted income (loss) before income tax.

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The following represents selected information for the Company s reportable segments for the three months ended March 31, 2012 and 2011 (in thousands):

	Three months ended March 31, 2012	Three months ended March 31, 2011
Net revenues to external customers		
Branded Pharmaceuticals	$ 363,574	$ 375,514
Generics	145,345	134,409
Devices(1)	130,166	
Services	51,548	50,103
Total consolidated net revenues to external customers	$ 690,633	$ 560,026
Adjusted income before income tax		
Branded Pharmaceuticals	$ 178,826	$ 193,256
Generics	36,251	26,387
Devices	27,052	
Services	12,408	14,441
Corporate unallocated	(92,160)	(56,269)
Total consolidated adjusted income before income tax	$ 162,377	$ 177,815

(1) The following table displays our devices revenue by geography (in thousands). International revenues were not material to any of our other segments for any of the periods presented.

	Three months ended March 31, 2012	Three months ended March 31, 2011
Devices:		
United States	$ 86,970	$
International	43,196	
Total devices revenues	$ 130,166	$

The table below provides reconciliations of our consolidated adjusted income before income tax to our consolidated (loss) income before income tax, which is determined in accordance with GAAP, for the three months ended March 31, 2012 and 2011 (in thousands):

	Three months ended March 31, 2012	Three months ended March 31, 2011
Total consolidated adjusted income before income tax	$ 162,377	$ 177,815
Upfront and milestone payments to partners	(45,841)	(11,001)
Asset impairment charges	(40,000)	
Acquisition-related items, net	(3,749)	(6,073)
Cost reduction and integration-related initiatives	(11,614)	(3,462)
Amortization of commercial intangible assets related to marketed products	(53,360)	(37,211)
Inventory step-up	(1,262)	(13,786)

Non-cash interest expense	(4,976)	(4,541)
Loss on extinguishment of debt	(5,426)	
Accrual for payment to Impax related to sales of Opana® ER	(110,000)	
Total consolidated (loss) income before income tax	$ (113,851)	$ 101,741

The following represents additional selected financial information for our reportable segments three months ended March 31, 2012 and 2011 (in thousands):

	Three months ended March 31,	
	2012	**2011**
Depreciation expense		
Branded Pharmaceuticals	$ 3,798	$ 3,667
Generics	2,937	2,613
Devices	2,656	

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	Three months ended March 31,	
	2012	2011
Services	2,992	3,093
Corporate unallocated	1,064	1,006
Total depreciation expense	$ 13,447	$ 10,379
Amortization expense		
Branded Pharmaceuticals	$ 21,934	$ 26,061
Generics	10,381	9,900
Devices	19,406	
Services	1,789	1,401
Total amortization expense	$ 53,510	$ 37,362

Interest income and expense are considered corporate items and are not allocated to our segments. Asset information is not accounted for at the segment level and consequently is not reviewed or included within our internal management reporting. Therefore, the Company has not disclosed asset information for each reportable segment.

NOTE 7. INCOME TAXES

The effective income tax rate on earnings from continuing operations before income taxes was 34.5% for the three months ended March 31, 2012, compared to 32.9% for the three months ended March 31, 2011.

We incurred an income tax benefit of $39.3 million during the three months ended March 31, 2012 and income tax expense of $33.4 million during the comparable 2011 period. This fluctuation is due to the $113.9 million loss before income tax we incurred during the three months ended March 31, 2012 compared to the $101.7 million of income before income tax during the three months ended March 31, 2011, as well as an increase in the effective income tax rate to 34.5% from 32.9% in the comparable 2011 period. The increase in the effective income tax rate is primarily due to an increase in the non-deductible charge for the Branded Prescription Drug fee, a benefit from the Research and Development credit in the comparable prior period that expired in the current period, an increase in the state tax rate and an unfavorable impact from the start-up of certain international operations. The increase was partially offset by a discreet charge for certain excess parachute payments.

NOTE 8. LICENSE AND COLLABORATION AGREEMENTS

Commercial Products

Novartis AG and Novartis Consumer Health, Inc.

On March 4, 2008, we entered into a License and Supply Agreement (the Voltaren® Gel Agreement) with and among Novartis AG and Novartis Consumer Health, Inc (Novartis) to obtain the exclusive U.S. marketing rights for the prescription medicine Voltaren® Gel (Voltaren® Gel or Licensed Product). Voltaren® Gel received regulatory approval in October 2007 from the FDA, becoming the first topical prescription treatment for use in treating pain associated with osteoarthritis and the first new product approved in the U.S. for osteoarthritis since 2001. Voltaren® Gel was granted marketing exclusivity in the U.S. as a prescription medicine until October 2010.

Under the terms of the five-year Voltaren® Gel Agreement, Endo made an upfront cash payment of $85 million. Endo agreed to pay royalties to Novartis on annual Net Sales of the Licensed Product, subject to certain thresholds as defined in the Voltaren® Gel Agreement. In addition, Endo agreed to make certain guaranteed minimum annual royalty payments of $30 million per year payable in the fourth and fifth year of the Voltaren® Gel Agreement, which may be reduced under certain circumstances, including Novartis s failure to supply the Licensed Product, subject to certain limitations including the launch of a generic to the Licensed Product in the U.S. These guaranteed minimum royalties will be creditable against royalty payments on an annual basis such that Endo s obligation with respect to each year is to pay the greater of (i) royalties payable based on annual net sales of the Licensed Product or (ii) the guaranteed minimum royalty for such Voltaren® Gel Agreement year. Novartis is also eligible to receive a one-time milestone payment of $25 mil

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	464	305	
Total	39,407	36,309	31,279
INCOME (LOSS) BEFORE INCOME TAXES	2,579	(215)	8,814
INCOME TAX EXPENSE (BENEFIT)	1,030	(178)	3,614

NET INCOME (LOSS)	$ 1,549	$ (37)	$ 5,200
BASIC AND DILUTED NET INCOME (LOSS) PER SHARE	$.18	$(.00)	$.53
DIVIDENDS PER SHARE	$.00	$.00	$.05
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	8,382		

	9,221
	9,732
ADJUSTED DILUTIVE SHARES OUTSTANDING	
	8,401
	9,221
	9,740

See notes to consolidated financial statements

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

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Stock-holders' Equity	Compre-hensive Income (Loss)
BALANCE, JANUARY 1, 2004	**9,800**	**$ 98**	**$ 14,544**	**$ 5,701**	**$ 3,462**	**$ 23,805**	
Net income				5,200		5,200	$ 5,200
Stock options exercised			11			11	
Dividends paid				(490)		(490)	
Purchase and retirement of treasury stock	(173)	(2)	(804)			(806)	
Tax effect of stock options exercised			35			35	
Reclassification adjustment for gain on marketable securities - net of taxes					(2,176)	(2,176)	(2,176)
Unrealized gain on marketable securities - net of taxes					1,289	1,289	1,289
Comprehensive income							**$ 4,313**
BALANCE, DECEMBER 31, 2004	**9,627**	**96**	**13,786**	**10,411**	**2,575**	**26,868**	
Net loss				(37)		(37)	$ (37)
Purchase and retirement of treasury stock	(1,247)	(12)	(3,664)			(3,676)	
Tax effect on distribution of phantom shares			14			14	
Reclassification adjustment for gain on marketable securities - net of taxes					(472)	(472)	(472)
Unrealized loss on marketable securities - net of taxes					(1,148)	(1,148)	(1,148)
Comprehensive loss							**$ (1,657)**
BALANCE, DECEMBER 31, 2005	**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**	

See notes to consolidated financial statements

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

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 1,549	$ (37)	$ 5,200
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	659	755	1,053
Deferred taxes	43	(13)	168
Provision for doubtful accounts	33	-	-
Tax effect of phantom shares and stock options exercised	(11)	14	35
Net gain on sale of investment in private companies	-	(412)	-
Loss on sale of fixed assets	-	51	-
Gain on sale of Innodata and Edgar Online common stock	(1,777)	(1,067)	(5,887)
Changes in operating assets and liabilities:			
Accounts receivable and due from clearing broker	299	325	(783)
Due from broker	2,629	20,160	1,390
Marketable securities	(462)	7,916	(1,295)
Other assets	306	137	296
Accounts payable and accrued expenses	221	(1,006)	712
Trading securities sold, but not yet purchased	(2,121)	(25,392)	(7,381)
Other liabilities	(60)	(2,087)	343
Net cash provided by (used in) operating activities	1,308	(656)	(6,149)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(1,031)	(726)	(683)
Investment in private companies	(150)	(100)	-
Proceeds from sale of fixed assets	-	8	-
Proceeds from sale of investment in private company	-	522	-
Proceeds from sale of Innodata and Edgar Online common stock	1,787	1,085	6,978
Net cash provided by investing activities	606	789	6,295
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (payments) proceeds on note payable - bank	(150)	1,137	-
Net payments on notes payable - other	-	-	(494)
Net proceeds on loans from employees	233	66	154
Dividends paid	-	-	(490)
Proceeds from exercise of stock options and warrants	56	-	11
Excess tax benefit from exercise of stock options	11	-	-
Purchase of treasury stock	(20)	(3,676)	(806)
Net cash provided by (used in) financing activities	130	(2,473)	(1,625)
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH	(5)	(9)	(18)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	2,039	(2,349)	(1,497)

CASH AND EQUIVALENTS, BEGINNING OF YEAR	4,469	6,818	8,315
CASH AND EQUIVALENTS, END OF YEAR	$ 6,508	$ 4,469	$ 6,818
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for: Interest	$ 346	$ 465	$ 535
Income taxes	708	1,943	3,135

See notes to consolidated financial statements

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

A. The Company and Summary of Significant Accounting Policies

Description of Business and Basis of Presentation--Track Data Corporation (the "Company") is a financial services company that provides real-time financial market data, fundamental research, charting and analytical services to institutional and individual investors through dedicated telecommunication lines and the Internet. The Company also disseminates news and third-party database information from more than 100 sources worldwide. The Company's wholly-owned subsidiary, Track Data Securities Corp. ("TDSC"), is a registered securities broker-dealer and member of the National Association of Securities Dealers, Inc. ("NASD"). The Company provides a proprietary, fully integrated Internet-based online trading and market data system, proTrack, for the professional institutional traders, and myTrack and myTrack Pro, for the individual trader. The Company also operates Track ECN, an electronic communications network that enables traders to display and match limit orders for stocks. The Company operates in a highly competitive environment, and competes based on its service, reliability and price. Many of the Company's competitors have significantly greater resources than the Company. The Company's operations are classified in three business segments: (1) Professional Market -- Market data services and trading, including ECN services, to the institutional professional investment community, (2) Non-Professional Market -- Internet-based online trading and market data services to the non-professional individual investor community, and (3) Arbitrage trading.

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

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

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

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

Marketable Securities--The Company accounts for securities owned in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS 115 requires investments in debt and equity securities to be classified as either "held to maturity," "trading," or "available for sale." The accounting treatment for unrealized gains and losses on those securities is then determined by the classification chosen. Arbitrage trading securities transactions, consisting of stocks and options, are recorded on a trade-date basis. Securities are valued at quoted market value. The resulting difference between cost and market (or fair value) is included in "gain on arbitrage trading." Securities sold, but not yet purchased, consist of trading securities at market values. The difference between the proceeds received from securities sold short and the current market value is included in gain on arbitrage trading. Securities available for sale are carried at fair value, with unrealized gains and losses, net of deferred taxes, reported as comprehensive income (loss), a separate component of stockholders' equity, and realized gains and losses, determined on a specific identification basis, are included in earnings. The Company reviews these holdings on a regular basis to evaluate whether or not each security has experienced an other-than-temporary decline in fair value. If the Company believes that an other-than-temporary decline exists in the marketable securities, the equity investments are written down to market value and an investment loss is recorded in the consolidated statement of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

Use of Estimates--In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates relate to: useful lives and recoverability of long-lived assets, including goodwill; fair values of marketable securities; and, allowances for doubtful accounts.

***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 affect on earnings per share as a result of potential dilution. The calculation takes into account the shares that may be issued upon exercise of stock options (Note J), reduced by the shares that may be repurchased with the funds received from the exercise, based on the average price during the year.

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

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

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

	Year Ended December 31,	
	2005	**2004**
	(in thousands, except earnings per share)	
Net (loss) income, as reported	$ (37)	$ 5,200
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(476)	(943)
Net (loss) income, as adjusted	$ (513)	$ 4,257
Net (loss) income per share:		
Basic and diluted --as reported	$(.00)	$.53
Basic and diluted --as adjusted	$(.05)	$.44

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

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

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

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

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

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

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

B. Fixed Assets

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

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

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

C. Marketable Securities

Marketable securities consists of the following (in thousands):

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

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

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

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

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

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

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

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

D. Note Payable - Bank

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

E. Segment Information

The Company is a financial services company that provides real-time financial market data, fundamental research, charting and analytical services to institutional and individual investors through dedicated telecommunication lines and the Internet. The Company also disseminates news and third-party database information from more than 100 sources worldwide. The Company owns Track Data Securities Corp., a registered securities broker-dealer and member of the National Association of Securities Dealers, Inc. The Company provides a proprietary, fully integrated Internet-based online trading and market data system, proTrack, for the professional institutional traders, and myTrack and myTrack Pro, for the individual trader. The Company also operates Track ECN, an electronic communications network that enables traders to display and match limit orders for stocks. The Company's operations are classified in three business segments: (1) market data services and trading, including ECN services, to the institutional professional investment community, (2) Internet-based online trading and market data services to the non-professional individual investor community, and (3) arbitrage trading. See Note C.

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

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

Revenues	**2006**	**2005**	**2004**
Professional Market	$ 29,642	$ 24,419	$ 25,124
Non-Professional Market	12,344	11,675	14,969
Total Revenues	$ 41,986	$ 36,094	$ 40,093
Arbitrage Trading - Gain on sale of marketable securities	$ 1,013	$ 819	$ 1,387
(Loss) income before unallocated amounts and income taxes:			
Professional Market	$ (1,829)	$ (2,742)	$ 455
Non-Professional Market	2,404	1,409	2,588
Arbitrage Trading (including interest)	843	406	933
Unallocated amounts:			
Depreciation and amortization	(659)	(755)	(1,053)
Gain on sale of Innodata common stock	1,777	1,067	5,887
Net gain on sale of investment in private companies	-	412	-
Interest income (expense)-net	43	(12)	4
Income (loss) before income taxes	$ 2,579	$ (215)	$ 8,814

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F. Income Taxes

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

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

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

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

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

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

G. Commitments and Contingencies

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

	Operating Leases		
Year Ending December 31,	**Office Space**	**Computer Equipment**	**Total**
2007	$ 301,000	$ 45,000	$ 346,000
2008	217,000	24,000	241,000
2009	155,000	-	155,000
2010	76,000	-	76,000
Total	$ 749,000	$ 69,000	$ 818,000

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

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

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

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the clearing broker extends credit to the Company's customers, subject to various regulatory margin requirements, collateralized by cash and securities in the customers' accounts. However, the Company is required to either obtain additional collateral or to sell the customer's position if such collateral is not forthcoming. The Company is responsible for any losses on such margin loans, and has agreed to indemnify its clearing broker for losses that the clearing broker may sustain from the customer accounts introduced by the Company. The Company's Principal Stockholder had a margin loan of approximately $3 million as a customer of the Company's broker-dealer which was subject to such indemnity in the event the clearing broker were to sustain losses. The loan was repaid in November, 2005. At December 31, 2006, the Company had $11.8 million in margin credit extended to its customers. The Company believes it is unlikely it will have to make material payments under the indemnification agreement and has not recorded any contingent liability in the consolidated financial statements.

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

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

As of December 31, 2006, TDSC was required to maintain minimum net capital, in accordance with SEC rules, of approximately $1 million and had total net capital of $4,826,000, or approximately $3,826,000 in excess of minimum net capital requirements.

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

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

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

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

H. Deferred Compensation and Savings Program

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

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

I. Capital Stock and Dividends

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

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

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

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

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

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

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

J. Stock Options

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

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

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

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

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

	Per Share Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Fair Value Date of Grant
Balance 01/01/04	$ 5.00 - 6.25	254,220	4	$ 5.65	141,670	$ 5.65	
	$ 7.50 - 10.00	904,750	3	$ 7.55	822,583	$ 7.50	
	$ 12.50 - 18.75	94,420	1	$15.05	95,020	$15.05	
	$ 21.25 - 33.75	18,100	1	$32.90	18,100	$32.90	
		1,271,490			1,077,373		
Canceled	$ 5.00 - 27.50	(219,190)	1	$11.35			
Exercised	$ 5.00 - 7.50	(1,800)	3	$ 5.95			
Granted	$ 7.50	289,930	4	$ 7.50			$6.25
Balance 12/31/04	$ 5.00 - 6.25	247,660	3	$ 5.65	247,660	$ 5.65	
	$ 7.50	1,076,770	4	$ 7.50	881,253	$ 7.50	
	$ 33.75	16,000	1	$33.75	16,000	$33.75	
		1,340,430			1,144,913		
Canceled	$ 5.00 - 33.75	(283,170)	1	$ 8.93			
Granted	$ 3.00 - 3.05	202,650	5	$ 3.01			$2.95
Balance 12/31/05	$ 3.00 - 3.05	202,650	5	$ 3.01	202,650	$ 3.01	
	$ 5.00 - 6.25	240,300	2	$ 5.63	240,300	$ 5.63	
	$ 7.50	816,960	3	$ 7.50	816,960	$ 7.50	
		1,259,910			1,259,910		
Canceled	$ 3.00 - 7.50	(555,320)	4	$ 7.47			
Exercised	$ 3.00	(18,750)	4	$ 3.00			
Balance 12/31/06	$ 3.00 - 3.05	182,500	4	$ 3.01	182,500	$ 3.01	
	$ 5.00 - 6.25	234,510	1	$ 5.63	234,510	$ 5.63	
	$ 7.50	268,830	2	$ 7.50	268,830	$ 7.50	
		685,840		$ 5.67	685,840	$ 5.67	

All options have a life of five years and all are exercisable at December 31, 2006. The intrinsic value of outstanding and exercisable options at December 31, 2006 was $104,000.

K. Retirement Plan

The Company has a profit sharing plan, which qualifies, under Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees who have completed six months of service. Company contributions to the plan are discretionary and vest at a rate of 20% after two years of service, and 20% each year thereafter until employees are fully vested after 6 years. Company contributions to the plan for the years ended December 31, 2006, 2005 and 2004, were approximately $21,000, $7,000 and $42,000, respectively.

L. Sale of Minority Interest

In August, 2000, the Company acquired a minority interest in ODL Securities, Ltd., a broker-dealer in the U.K., for $10,000. The Company had a put option and extended a call option on its minority interest with certain other shareholders. On December 28, 2005, the other shareholders exercised the call at an aggregate price of approximately $522,000. The resulting gain of $512,000 was recorded during the year ended December 31, 2005 and included in the Consolidated Statement of Operations in net gain on sale of investment in private companies.

M. Investment in Private Companies

In July, 2005, the Company acquired for an initial payment of $100,000, an equity interest in txtQuotes, Inc., a privately held start-up operation, intending to commence business delivering stock quotes and other related information through premium text messaging using cell phones. As a result of an amended agreement, the Company received a 15% equity interest (non-dilutable, except in connection with a public offering) in exchange for the Company's initial investment with no further investment obligations. Although txtQuotes is still attempting to commence its business, the Company determined that the investment was impaired and recorded a charge of $100,000 during the year ended December 31, 2005. The impairment charge is included in the Consolidated Statement of Operations in net gain on sale of private companies.

In May, 2006, the Company purchased a non-dilutable 15% interest in SFB Market Systems, Inc. ("SFB") for $150,000 cash. The Company may be required to pay up to an additional $80,000 in the event SFB achieves certain sales projections between February and October, 2007. SFB is a privately held company that provides an online centralized securities symbol management system and related equity and option information for updating and loading of master files. The Company currently has a representative on SFB's four member Board of Directors. The Company accounts for its investment in SFB under the cost method, and is included in other assets in the balance sheet as of December 31, 2006.

N. Related Party Transactions

In April 2006, the Company's Principal Stockholder formed a private limited partnership of which he is the general partner for the purpose of operating a hedge fund for trading in certain options strategies. The Company has no financial interest in or commitments related to, the hedge fund. The hedge fund opened a trading account with the Company's broker-dealer. The Company charged commissions to the hedge fund totaling $89,000 for the year ended December 31, 2006.

O. Income (Loss) Per Share (in thousands, except per share)

	Year Ended December 31		
	2006	**2005**	**2004**
Net income (loss)	$ 1,549	$ (37)	$ 5,200
Weighted average common shares outstanding	8,382	9,221	9,732
Dilutive effect of outstanding options	19	-	8
Adjusted for dilutive computation	8,401	9,221	9,740
Basic income (loss) per share	$.18	$(.00)	$.53
Diluted income (loss) per share	$.18	$(.00)	$.53

Diluted net income (loss) per share is based on the weighted average number of common and potential dilutive common shares outstanding. 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. The calculation did not take into account options to purchase 667,000, 1,260,000 and 1,332,000 shares at December 31, 2006, 2005 and 2004, respectively, as they were antidilutive.

P. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share)			
2006				
Revenues	$10,524	$11,995	$ 10,323	$9,144
Net income (loss)	701(A)	914(A)	224	(290)
Basic and diluted net income (loss) per share	$.08(A)	$.11(A)	$.03	$(.03)
2005				
Revenues	$10,109	$ 8,478	$ 8,798	$8,709
Net income (loss)	286	(305)	(274)	256(B)
Basic and diluted net income (loss) per share	$.03	$(.03)	$(.03)	$.03(B)

(A) Includes $413, net of income taxes, or $.05 per share, and $653, net of income taxes, or $.08 per share, in the first and second quarters, respectively, from the sale of Edgar Online common stock.

(B) Includes $247, net of income taxes, or $.03 per share, from the sale of investment in private companies.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

See 8-K filed on January 20, 2006 with respect to reporting on a change in accountants.

ITEM 9A. CONTROLS AND PROCEDURES

An evaluation has been carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and the operation of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2006 (“Evaluation Date”). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the disclosure controls and procedures are reasonably designed and effective to ensure that (i) information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Officers and Directors

The officers and directors of the Company are as follows:

Name	Age	Position
Martin Kaye	59	Chief Executive Officer since March 16, 2007, Chief Financial Officer, Secretary and Director
Stanley Stern	56	Chief Compliance Officer, TDSC, Director
Albert Drillick	60	Senior Systems Analyst, Director
Abraham Biderman	58	Director
E. Bruce Fredrikson	68	Chairman of the Board since March 16, 2007
Philip Ort	57	Director
Shaya Sofer	57	Director
Key Employees		
Barry Hertz	56	Chief of Technology, served as Chairman of the Board and Chief Executive Officer until March 16, 2007
David Drillick	35	Chief Operating Officer, TDSC

Martin Kaye has been Chief Executive Officer since March 16, 2007, and has been Chief Financial Officer, Secretary and a Director of the Company since 1994. Mr. Kaye is a certified public accountant. Mr. Kaye served as Chief Financial Officer of Innodata from October 1993 and Director from March 1995 until his resignation from those positions in May 2001. He had been an audit partner with Deloitte & Touche LLP for more than five years until his resignation in 1993. Mr. Kaye holds a B.B.A. in accounting from Baruch College (1970).

Stanley Stern has been Chief Compliance Officer of the Company’s broker-dealer subsidiary, TDSC, since April, 2005. He served as Senior Vice President - Customer Relations from June 2000 to November 2005. He has been a Director of the Company since May 1999. He previously served as Director from April 1994 until his resignation in September 1997. He served as Vice President of the Company and in other capacities for more than five years until his resignation in December 1996. From January 1998 through May 2000, Mr. Stern was Chief Operating Officer of Integrated Medical Technologies, Inc., an Internet-based provider of medical services information. Mr. Stern holds a B.B.A. from Baruch College (1973).

Albert Drillick has been a Director of the Company since February 2004. He has served as a Director of Applications and Senior Systems Analyst for the Company for more than the past five years. He holds a Ph.D. degree in Mathematics from New York University Courant Institute (1971).

Abraham Biderman has been a Director of the Company since August 2002. Mr. Biderman is Chairman of Eagle Advisers, LLC, a diversified financial services and money management firm. From January 1990 to September 2003, he was Executive Vice President of Lipper & Company, Inc., a diversified financial services firm. Prior thereto, he served as special advisor to the Deputy Mayor and then the Mayor during New York City's Koch Administration. From January 1988 through December 1989, Mr. Biderman was Commissioner of New York City's Department of Housing, Preservation and Development. Prior thereto, he served as Commissioner of New York City's Department of Finance and as Chairman of New York City's Employee Retirement System. Mr. Biderman is a member of the Fiscal Opportunities Task Force of the New York City Partnership, a member of the Housing Committee of the Real Estate Board of New York, a Director of m-Phase Technologies, Inc., a company that manufactures and markets high-bandwidth telecommunications products incorporating DSL technology, and is also on the boards of numerous not-for-profit and philanthropic organizations. Mr. Biderman is a certified public accountant and graduated with a B.A. in Accounting from Brooklyn College (1970).

Dr. E. Bruce Fredrikson has been a Director of the Company since June 1994 and he has served as Chairman since March 16, 2007. Dr. Fredrikson is currently an independent consultant in corporate finance and governance. He is Professor of Finance, Emeritus, at Syracuse University's Martin J. Whitman School of Management where he taught from 1966 until his retirement in May 2003. He is a director of Consumer Portfolio Services, Inc., a consumer finance company, and Colonial Commercial Corp., a supplier of HVAC products and supplies. Dr. Fredrikson holds an A.B. in economics from Princeton University and a M.B.A. in accounting and a Ph.D. in finance from Columbia University.

Philip Ort has been a Director of the Company since June 2004. Mr. Ort has been the owner/operator of a family Real Estate Management and Investment business comprising residential and commercial properties since 1972. He serves on the boards of several non-profit organizations. He attended Brooklyn College from 1967 to 1970.

Shaya Sofer has been a Director of the Company since June 2004. Since January 2001, he has been Senior Managing Project Director of Energy Spectrum Inc., an energy consulting firm focusing on CHP "Combine Heat and Power" (Cogeneration). Prior thereto, he was a consultant. He served as Director of Facilities for Track Data Corp. and as Executive Vice President of Fast Track Systems, a disaster recovery business, from 1985 through 1998. He also was a member of the board of directors of Track Data Corp. from 1986 through 1995, prior to its merger with Global Market Information, Inc. Mr. Sofer holds a B.A. in Mathematics from Queens College (1972).

Barry Hertz has served as Chief of Technology since March 16, 2007. Prior thereto he served as the Company's Chairman and Chief Executive Officer since its inception. Mr. Hertz reached a settlement with the Securities and Exchange Commission ("SEC") regarding insider-trading charges. Mr. Hertz consented, without admitting or denying the allegations in the SECs complaint, to a two-year bar from serving as an officer or director of a publicly traded company and a two-year bar from association with a broker or dealer. He holds a Masters degree in Computer Science from New York University (1973) and a B.S. degree in Mathematics from Brooklyn College (1971). Until his resignation in May 2001, Mr. Hertz also served as Chairman of Innodata Corporation ("Innodata"), a public company co-founded by Mr. Hertz, of which the Company was a Principal Stockholder, and which is a global outsourcing provider of Internet and on-line digital content services.

David Drillick has been Chief Operating Officer of TDSC, the Company's broker-dealer subsidiary, since December 2005. He has served as the Company's Vice President of Online Trading Operations since August 2000. Mr. Drillick was a Principal at Pond Equities, a full service securities broker-dealer, from November 1997 through August 2000. He had previously been a Branch Manager for King Financial Services, a self-clearing and full service securities broker-dealer. Mr. Drillick holds a B.S. degree in Mathematics/Actuarial Studies from Touro College (1992).

Directors are elected to serve until the next annual meeting of stockholders and until their successors are elected and qualified. Officers serve at the discretion of the Board. There are no family relationships among directors or officers, except that Albert Drillick is the father of David Drillick, Chief Operating Officer of TDSC, the Company’s broker-dealer subsidiary.

Audit Committee

The Company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. Serving on the Committee are Dr. E. Bruce Fredrikson, Abraham Biderman, and Philip Ort. The Board of Directors has determined that it has an audit committee financial expert serving on the audit committee, Abraham Biderman. Mr. Biderman is an independent director as defined in item 7(d)(3)(iv) of Schedule 14A.

Code of Ethics

The Company has adopted a Code of Ethics that applies to its Chief Executive Officer and Chief Financial Officer. The Code as well as any amendments and waivers of the Code, if any, is posted on the Company's website at http://www.trackdata.com/codeofethics.

Compliance With Section 16(a) of the Securities Exchange Act of 1934

The Company believes that during the period from January 1, 2006 through December 31, 2006 all Section 16(a) filing requirements applicable to its officers, directors and greater than ten-percent beneficial owners were complied with.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Overview

This compensation discussion describes the material elements of compensation awarded to, earned by, or paid to each of our executive officers who served as named executive officers during the last completed fiscal year. This compensation discussion focuses on the information contained in the following tables and related footnotes and narrative for primarily the last completed fiscal year. Our Board oversaw and administered our executive compensation program. There is no compensation committee.

The principal elements of our executive compensation program are base salary and long-term equity incentives in the form of stock options. Other benefits and perquisites consist of health insurance benefits, a qualified 401(k) savings plan. Our philosophy is to position the aggregate of these elements at a level that is commensurate with our size and sustained performance.

Compensation Program Objectives and Philosophy

In General. The objectives of our compensation programs are to attract, motivate and retain talented and dedicated executive officers, provide our executive officers with both cash and equity incentives to further the interests of the Company and our stockholders, and provide employees with long-term incentives so we can retain them.

Generally, the compensation of our executive officers is composed of a base salary and equity awards in the form of stock options. In setting base salaries, the Board generally reviewed the individual contributions of the particular executive. In addition, stock options are granted to provide the opportunity for long-term compensation based upon the performance of our common stock over time.

Competitive Market. We define our competitive market for executive talent and investment capital to be the technology and business services industries. To date, we have not engaged in the benchmarking of executive compensation but we may choose to do so in the future.

Compensation Process. Our Board approved the compensation of our named executive officers taking into consideration recommendations from our principal executive officer (for compensation other than his own), as well as competitive market guidance.

Regulatory Considerations. Given the compensation cost to us of awarding stock options under recent accounting pronouncements, we will consider the size and frequency of any future stock option awards under our long-term equity incentive program.

Base Salaries

In General. We provide the opportunity for our named executive officers and other executives to earn a competitive annual base salary. We provide this opportunity to attract and retain an appropriate caliber of talent for the position, and to provide a base wage that is not subject to performance risk. We review base salaries for our named executive officers annually and increases are based on our performance and individual performance. The salary of our principal executive officer was set by our Board at $303,000 for 2007, the same rate as in 2006. Our Board also approved no increase in compensation for 2007 from the annual base salary rate from 2006 for Mr. Stern - $154,500; Mr. Hertz - $454,500 and an increase for Mr. Drillick from $165,000 to $166,000.

Total Compensation Comparison. No options were awarded to executive officers in 2006 and, except for a $9,000 bonus awarded to Mr. Drillick, base salary represented total compensation for executive officers.

Annual Cash Incentives

In General. There are no programs presently in place to provide the opportunity for our named executive officers and other executives to earn an annual cash incentive award. There are no specific individual performance goals for 2006 incentive awards, but the Board may exercise discretion and take into account individual and corporate performance in determining awards.

Long-term Equity Incentives

In General. We provide the opportunity for our named executive officers and other executives to earn a long-term equity incentive award. Long-term incentive awards provide employees with the incentive to stay with us for longer periods of time, which in turn, provides us with greater stability. These awards also are less costly to us in the short term than cash compensation. We review long-term equity incentives for our named executive officers and other executives annually.

Stock Options. For our named executive officers, our stock option program is based on grants that are individually negotiated. We have traditionally used stock options as our form of equity compensation because stock options provide a relatively straightforward incentive for our executives, result in less immediate dilution of existing shareholders' interests and, prior to our adoption of FAS 123(R), resulted in less compensation expense for us relative to other types of equity awards. For a discussion of the determination of the fair market value of these grants, see Note A to Notes to Consolidated Financial Statements.

The Board granted options at the end of 2005 and there were no new grants in 2006 to our named executive officers.

We do not time stock option grants to executives in coordination with the release of material non-public information. Our stock options have a 5-year contractual exercise term. In general, the option grants are also subject to the following post-termination and change in control provisions:

Event	Award Vesting	Exercise Term
Termination by Us for Reason Other than Cause, Disability or Death	Forfeit Unvested	Vested - 30 days
Disability or Death	Forfeit Unvested	Vested - 12 months
Termination for Cause	Forfeit Vested and Unvested	Expire
Change in Control	Not accelerated, comparable substitute, if necessary	Unchanged

Executive Benefits and Perquisites

We provide the opportunity for our named executive officers and other executives to receive certain perquisites and general health and welfare benefits. We also offer participation in our defined contribution 401(k) plan. We do not match employee contributions for executive officers under our 401(k) plan. We provide these benefits to provide an additional incentive for our executives and to remain competitive in the general marketplace for executive talent. For the last completed fiscal year, we provided the following personal benefits and perquisites to our named executives officers: the Company pays a portion of medical insurance premiums, and, in 2007, will pay long term healthcare insurance for Messrs. Hertz, Kaye and Stern.

The following table sets forth information with respect to compensation paid by the Company for services to it during the year ended December 31, 2006 to the Company's Chief Executive Officer and to the executive officers whose aggregate annual salary and bonus exceeded $100,000 in 2006.

Summary Compensation Table

Name and Position	Fiscal Year	Annual Salary	Bonus	Total
Barry Hertz Chairman, CEO until his resignation on March 16, 2007	2006	$454,500	-	$454,500
Martin Kaye Chief Executive Officer since March 16, 2007, Chief Financial Officer	2006	$303,000	-	$303,000
Key Employees				
Stanley Stern Senior Vice President until December 1, 2005, Chief Compliance Officer of TDSC since April 1, 2005	2006	$154,500	-	$154,500
David Drillick Chief Operating Officer of TDSC since December 1, 2005	2006	$165,000	$9,000	$174,000

The above table does not include certain perquisites and other personal benefits, the total value of which does not exceed $10,000. There were no options awarded in 2006. There are no employment agreements, stock appreciation rights, pension plans or long-term incentive plans or deferred compensation plans. No options were exercised in 2006.

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Outstanding Equity Awards at December 31, 2006

Name	Number of Securities Underlying Unexercised Options (1)	Option Exercise Price	Option Expiration Date
Barry Hertz	50,000	$5.00	01/22/08
	50,000	$6.25	01/22/08
	100,000	$7.50	03/11/09
Martin Kaye	20,000	$5.00	01/22/08
	20,000	$6.25	01/22/08
	40,000	$7.50	03/11/09
	50,000	$3.00	12/27/10
Stanley Stern	2,000	$5.00	01/22/08
	2,000	$6.25	01/22/08
	4,000	$7.50	03/11/09
	10,000	$3.00	12/27/10
David Drillick	2,000	$5.00	01/22/08
	2,000	$6.25	01/22/08
	4,000	$7.50	01/04/09
	10,000	$3.00	12/27/10

(1) All outstanding options are presently exercisable.

Directors Compensation Table

Name	Fees Earned or Paid in Cash	All Other Compensation	Total
E. Bruce Fredrikson	$15,000	$1,500	$16,500
Abraham Biderman	$15,000	$1,500	$16,500
Philip Ort	$15,000	$1,000	$16,000
Shaya Sofer	$15,000	$1,000	$16,000

At December 31, 2006 the aggregate number of outstanding options for each director is as follows: E. Bruce Fredrikson - 22,000; Abraham Biderman - 24,000; Philip Ort - 18,000; and Shaya Sofer - 18,000.

Compensation Committee Interlocks and Insider Participation

For the Company's fiscal year ended December 31, 2006, Messrs. Hertz and Kaye were officers of the Company and were members of the Board of Directors (there is no compensation committee).

Compensation Committee Report

The Company does not have a compensation committee. Accordingly, the entire Board of Directors reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) with management; and based on such review and discussions, the Board recommended that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K.

Board of Directors:

Martin Kaye
Albert Drillick
Stanley Stern
E. Bruce Fredrikson
Abraham Biderman
Philip Ort
Shaya Sofer

Stock Price Performance Graph

The following performance graph compares the cumulative total return (assuming reinvestment of dividends) of an investment of $100 in Track Data Corporation on January 1, 2001 and held through December 31, 2006 to the Nasdaq Market Index and the Industry Index for SIC Code 7375, Information Retrieval Services.

INFORMATION PROVIDED BY MEDIA HEMSCOTT IR.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of February 28, 2007, information regarding the beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of the Company's Common Stock based upon the most recent information available to the Company for (i) each person known by the Company to own beneficially more than five (5%) percent of the Company's outstanding Common Stock, (ii) each of the Company's officers and directors and (iii) all officers and directors of the Company as a group. Unless otherwise indicated, each stockholder's address is c/o the Company, 95 Rockwell Place, Brooklyn, New York 11217.

	Shares Owned Beneficially (1)	
Name	**No. of Shares**	**% of Class**
Barry Hertz (2)	4,902,775	57.1%
Martin Kaye (3)	137,680	1.6%
Stanley Stern (4)	27,953	*
Albert Drillick (5)	38,180	*
Abraham Biderman (6)	24,000	*
E. Bruce Fredrikson (7)	27,600	*
Philip Ort (6)	18,000	*
Shaya Sofer (6)	18,000	*
All Officers and Directors as a Group (eight persons)(8)	5,194,188	58.8%

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* = less than 1%

(1) Unless otherwise indicated, (i) each person has sole investment and voting power with respect to the shares indicated and (ii) the shares indicated are currently outstanding shares. For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares as of a given date which such person has the right to acquire within 60 days after such date. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above on a given date, any security which such person or persons has the right to acquire within 60 days after such date is deemed to be outstanding for the purpose of computing the percentage ownership of such person or persons, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Subject to the foregoing, the percentages are calculated based on 8,392,000 shares outstanding.

(2) Consists of 3,985,906 shares owned by Mr. Hertz, 697,880 shares owned by Trusts established in the names of Mr. Hertz's children and 18,989 shares held by a family LLC managed by Mr. Hertz who owns 8% of such LLC. Mr. Hertz disclaims beneficial interest in shares owned by the Trust and 92% of the family LLC not owned by him. Also includes 200,000 shares issuable upon the exercise of presently exercisable options under the Company's Stock Option Plans.

(3) Consists of 7,680 shares owned of record and 130,000 shares issuable upon the exercise of presently exercisable options granted under the Company's Stock Option Plans.

(4) Consists of 9,953 shares owned of record and 18,000 shares issuable upon the exercise of presently exercisable options granted under the Company's Stock Option Plans.

(5) Consist of 30,220 shares owned of record jointly with his wife, 660 shares owned by a trust in the name of his child, and 7,300 shares issuable upon the exercise of presently exercisable options granted under the Company's Stock Option Plans.

(6) Consists of shares issuable upon the exercise of presently exercisable options granted under the Company's Stock Option Plans.

(7) Consists of 5,600 shares owned of record and 22,000 shares issuable upon the exercise of presently exercisable options granted under the Company's Stock Option Plans.

(8) Consists of 4,756,888 outstanding shares and 437,300 shares issuable upon exercise of options described in footnotes 2 through 7 above.

Potential Change in Control

Mr. Hertz has pledged approximately 1.8 million shares owned by him as collateral for the Company's arbitrage trading program and 2.2 million shares in connection with certain family related accounts. A change in control could occur in the event Mr. Hertz lost control of these pledged shares.

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Equity Compensation Plan Information

All equity compensation plans have been approved by the Company's stockholders.

	At December 31, 2006
a) Number of securities to be issued upon exercise of outstanding options	686,000
b) Weighted-average exercise price of outstanding options	$5.67
c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in (a) above)	1,299,000

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The Company leases its executive office facilities in Brooklyn from a limited partnership owned by the Company’s Principal Stockholder and members of his family. The Company paid the partnership rent of $630,000 and $623,000 for the years ended December 31, 2006 and 2005, respectively. The lease provided for the Company to pay $630,000 per annum through April 1, 2006. The Company has since paid at the same rate without a lease.

In connection with the Company's arbitrage trading program, the Company's Principal Stockholder pledged approximately 1.8 million shares of his holdings of the Company's common stock as additional collateral for the arbitrage trading accounts. The Company is paying its Principal Stockholder at the rate of 2% per annum on the value of the collateral pledged. Such payments aggregated $42,000 and $44,000 for the years ended December 31, 2006 and 2005, respectively.

The Company's Principal Stockholder had a margin loan of approximately $3 million as a customer of the Company's broker-dealer that was collateralized by 2.5 million of the Company's shares owned by him. The loan was repaid in November 2005.

In 2005, the Company's Principal Stockholder sold 300,000 shares of the Company's common stock to the Company for $837,000.

In April 2006, the Company's Principal Stockholder formed a private limited partnership of which he is the general partner for the purpose of operating a hedge fund for trading in certain options strategies. The Company has no financial interest in or commitments related to, the hedge fund. The hedge fund opened a trading account with the Company's broker-dealer. The Company charged commissions to the hedge fund totaling $89,000 for the year ended December 31, 2006.

The Company has an employee savings program under which employees may make deposits and receive interest at the prime rate. As of December 31, 2006, the Company’s Chief Financial Officer (also Chief Executive Officer since March 16, 2007) had deposits in the program of $479,000 and received interest of $32,000 and $16,000 during the years ended December 31, 2006 and 2005, respectively.

The Company does not have any written policies and procedures for review, approval or ratification of any transaction required to be reported as related party transactions. The Board of Directors determines in each matter, based on their review of the transaction, whether to approve such transaction. The Board policy is to obtain approval of a majority of the indendent directors and a majority of the entire Board. Continuing transactions will be reviewed annually.

Corporate Governance

The Board of Directors has determined each of the following directors to be an “independent director” as defined in Rule 4200(a)(15) of the listing standards of the NASDAQ Stock Market: E. Bruce Fredrikson, Abraham Biderman, Phillip Ort and Shaya Sofer.

The Company has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. Serving on the Committee are Dr. E. Bruce Fredrikson, Abraham Biderman, and Philip Ort. The Board of Directors has determined that it has an audit committee financial expert serving on the audit committee, Abraham Biderman. Mr. Biderman is an independent director as defined in item 7(d)(3)(iv) of Schedule 14A.

The Board of Directors does not have a Compensation Committee or a Nominating Committee. In accordance with NASDAQ Stock Market’s Marketplace Rule 4200, a majority of “independent” directors is required to recommend and approve the compensation of executive officers.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees.
The audit fees for 2006 and 2005 were $150,000 and $110,000, respectively, for Marcum & Kliegman LLP. All services provided by independent accountants were approved by the audit committee.

Audit Related Fees.
During the fiscal years 2006 and 2005, Marcum & Kliegman LLP did not render audit related services.

Tax Fees.
Tax fees consisted of representation on tax exams and preparation of tax returns. The fees were $39,000 in 2006 and $25,000 in 2005 for Marcum & Kliegman LLP.

All Other Fees.
During the Fiscal years 2006 and 2005, Marcum & Kliegman LLP rendered no professional services other than Audit and Tax matters.

Audit Committee Pre-Approval Policies and Procedures.
The Audit Committee is directly and solely responsible for oversight, engagement and termination of any independent auditor employed by the Company for the purpose of preparing or issuing an audit report or related work.

The Committee:
Meets with the independent auditor prior to the audit and discusses the planning and staffing of the audit;

Approves in advance the engagement of the independent auditor for all audit services and non-audit services and approves the fees and other terms of any such engagement;

Obtains periodically from the independent auditor a formal written statement of the matters required to be discussed by Statement of Auditing Standards No. 61, as amended, and, in particular, describing all relationships between the auditor and the Company; and

Discusses with the auditor any disclosed relationships or services that may impact auditor objectivity and independence.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) 1. Financial Statements. See Item 8. Index to Financial Statements.

2. Financial Statement Schedules. Not applicable

3.

Exhibits	Description
3.1	Certificate of Incorporation, as amended (1)
3.2	By-Laws (1)
4.2	Specimen of Common Stock certificate (1)
10.1	1994 Stock Option Plan (1)
10.2	Form of indemnity agreement with directors (1)
10.3	Fully Disclosed Clearing Agreement with Penson Financial Services, Inc., dated October 13, 2000 (2)
10.4	1995 Stock Option Plan (3)
10.5	1995 Disinterested Directors' Stock Option Plan (4)
10.6	1996 Stock Option Plan (5)
10.7	1998 Stock Option Plan (6)
10.8	2001 Stock Option Plan (7)
10.9	2002 Stock Option Plan (8)
10.10	No Action Letter issued by Securities Exchange Commission dated June 28, 2006 to operate Track ECN (9)
23.1	Consent of Marcum & Kliegman LLP filed herewith
23.2	Consent of Grant Thornton LLP filed herewith
31	Certification of Martin Kaye pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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(1) Incorporated by reference to Exhibits 3.1, 3.2, 4.2, 10.3 and 10.4 to Form S-1 Registration Statement No. 33-78570.

(2) Incorporated by reference to Exhibit 10.3 to 10-K Annual Report for the year ended December 31, 2001

(3) Incorporated by reference to Exhibit A to Definitive Proxy for August 10, 1995, Annual Meeting of Stockholders

(4) Incorporated by reference to Exhibit B to Definitive Proxy for August 10, 1995, Annual Meeting of Stockholders

(5) Incorporated by reference to Appendix A to Definitive Proxy for November 7, 1996, Annual Meeting of Stockholders

(6) Incorporated by reference to Appendix A to Definitive Proxy for November 5, 1998, Annual Meeting of Stockholders

(7) Incorporated by reference to Appendix A to Definitive Proxy for November 1, 2001, Annual Meeting of Stockholders

(8) Incorporated by reference to Appendix A to Definitive Proxy for August 13, 2002, Annual Meeting of Stockholders

(9) Incorporated by reference to Exhibit 10.10 to 10-Q Quarterly Report for the six months ended June 30, 2006

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRACK DATA CORPORATION

By /s/ Martin Kaye

Martin Kaye, Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Martin Kaye		March 26, 2007
Martin Kaye	Chief Executive Officer, Chief Financial Officer, Secretary and Director (principal Financial and Accounting Officer)	
/s/ Stanley Stern		March 26, 2007
Stanley Stern	Director	
/s/ Albert Drillick		March 26, 2007
Albert Drillick	Director	
/s/ Abraham Biderman		March 26, 2007
Abraham Biderman	Director	
/s/ E. Bruce Fredrikson		March 26, 2007
E. Bruce Fredrikson	Director	
/s/ Philip Ort		March 26, 2007
Philip Ort	Director	
/s/ Shaya Sofer		March 26, 2007
Shaya Sofer	Director	