

# OTC MARKETS GROUP INC.

A Delaware Corporation

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New York, NY 10013

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Federal EIN: 13-3941069  
NAICS: 523999  
SIC Code: 6289

## 2013 Annual Report

### ISSUER'S EQUITY SECURITIES

#### COMMON STOCK

Class A Common Stock  
\$0.01 Par Value Per Share  
14,000,000 Shares Authorized  
11,285,875 Shares Outstanding as of February 28, 2014  
**OTCQX: OTCM**

Class C Common Stock  
\$0.01 Par Value Per Share  
130,838 Shares Authorized  
130,838 Shares Outstanding as of February 28, 2014

**OTC Markets Group Inc. is responsible for the content of this Annual Report. The securities described in this document are not registered with, and the information contained in this report has not been filed with, or approved by, the U.S. Securities and Exchange Commission.**

## TABLE OF CONTENTS

<b>PART A. GENERAL COMPANY INFORMATION.....</b>	<b>3</b>
THE EXACT NAME OF THE ISSUER .....	3
COMPANY DESCRIPTION .....	3
THE JURISDICTION AND DATE OF THE ISSUER'S INCORPORATION OF ORGANIZATION .....	4
OTHER CORPORATE INFORMATION .....	4
<b>PART B. SHARE STRUCTURE .....</b>	<b>5</b>
THE EXACT TITLE AND CLASS OF SECURITIES OUTSTANDING .....	5
PAR OR STATED VALUE AND DESCRIPTION OF THE SECURITY .....	5
THE NUMBER OF SHARES OR TOTAL AMOUNT OF THE SECURITIES OUTSTANDING FOR EACH CLASS OF SECURITIES AUTHORIZED.....	6
ISSUER PURCHASES OF EQUITY SECURITIES .....	7
<b>PART C. BUSINESS INFORMATION .....</b>	<b>9</b>
OVERVIEW .....	9
RECENT BUSINESS DEVELOPMENTS.....	11
RECENT REGULATORY DEVELOPMENTS .....	12
PRODUCTS AND SERVICES.....	17
RISK FACTORS.....	25
2014 OUTLOOK.....	35
OTHER BUSINESS AND REGULATORY INFORMATION .....	36
<b>PART D. MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION.....</b>	<b>40</b>
THE NAME OF THE CHIEF EXECUTIVE OFFICER, MEMBERS OF THE BOARD OF DIRECTORS, AS WELL AS CONTROL PERSONS .....	40
BENEFICIAL OWNERS .....	46
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	49
<b>PART E. ISSUANCE HISTORY AND FINANCIAL INFORMATION.....</b>	<b>62</b>
LIST OF THE SECURITIES OFFERINGS AND SHARES ISSUED FOR SERVICES IN THE PAST TWO YEARS.....	62
FINANCIAL INFORMATION FOR THE ISSUER'S MOST RECENT FISCAL PERIOD AND FOR SUCH PART OF THE TWO PRECEDING FISCAL YEARS AS THE ISSUER OR ITS PREDECESSOR HAS BEEN IN EXISTENCE.....	63
<b>PART F. EXHIBITS.....</b>	<b>63</b>

# **OTC MARKETS GROUP INC.**

**A Delaware Corporation**

## **ANNUAL REPORT**

### **Cautionary Note Regarding Forward-Looking Statements**

Information set forth in this 2013 Annual Report (the “Annual Report”) contains forward-looking statements, which involve a number of risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Forward-looking statements can be identified by use of the words “expect,” “project,” “may,” “might,” “potential,” and similar terms. OTC Markets Group Inc. (“OTC Markets Group,” “we” or the “Company”) cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information. Forward-looking statements involve a number of risks, uncertainties or other factors beyond OTC Markets Group’s control. These factors include, but are not limited to, our ability to implement our strategic initiatives, economic, political and market conditions and price fluctuations, government and industry regulation, U.S. and global competition, and other factors. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

### **Part A. General Company Information**

#### **The exact name of the issuer**

The name of the issuer is OTC Markets Group Inc. On March 31, 2008, the Company’s predecessor, Pink Sheets LLC, converted from a Delaware limited liability company to a Delaware corporation and changed its name to Pink OTC Markets Inc. On January 18, 2011, the Company changed its name to OTC Markets Group Inc.

#### **Company description**

OTC Markets Group Inc. (OTCQX: OTCM) operates Open, Transparent and Connected financial marketplaces for 10,000 U.S. and global securities.

Through our OTC Link<sup>®</sup> ATS, we directly link a diverse network of broker-dealers that provide liquidity and execution services for a wide spectrum of securities. We organize these securities into three marketplaces to inform investors of opportunities and risks: OTCQX<sup>®</sup>, The Best Marketplace with Qualified Companies; OTCQB<sup>®</sup>, The Venture Stage Marketplace with Reporting Companies; and OTC Pink<sup>®</sup>, The Open Marketplace with Variable Reporting Companies.

Our information-driven platform enables investors to easily trade through the broker of their choice at the best possible price and empowers a broad range of companies to improve the quality and availability of information for their investors.

The address of the issuer is: **304 Hudson Street, 3<sup>rd</sup> Floor  
New York, NY 10013**

The telephone and facsimile is: **Telephone: (212) 896-4400  
Facsimile: (212) 868-3848**

The issuer's website: **OTC Markets Group's corporate website, [www.otcmarkets.com](http://www.otcmarkets.com), contains general information about us and our products and services. We also maintain [www.otcqx.com](http://www.otcqx.com), [www.otciq.com](http://www.otciq.com), [www.otcquote.com](http://www.otcquote.com), and [www.otcdealer.com](http://www.otcdealer.com). The information contained on such websites shall not be deemed incorporated by reference herein.**

Investor relations contact: **Wendy Fraulo, Chief Financial Officer  
304 Hudson Street, 3<sup>rd</sup> Floor  
New York, NY 10013  
Tel. (212) 220-2215  
[wendy@otcmarkets.com](mailto:wendy@otcmarkets.com)**

The name and address of the transfer agent is: **Continental Stock Transfer & Trust Company  
17 Battery Place, 8<sup>th</sup> Floor  
New York, NY 10004**

The telephone number is: **(212) 509-4000**

Continental Stock Transfer & Trust Company is registered under the Securities Exchange Act of 1934 (the "Exchange Act") and regulated by the U.S. Securities and Exchange Commission (the "SEC" or "Commission").

### **The jurisdiction and date of the issuer's incorporation or organization**

The Company traces its history back to 1904 and was known as the National Quotation Bureau. On April 14, 1997, a group led by current management purchased the Company. In July 2000, the Company changed its name to Pink Sheets LLC, and on March 31, 2008, Pink Sheets LLC converted from a Delaware limited liability company to a Delaware corporation and changed its name to Pink OTC Markets Inc. (the "Conversion"). On January 18, 2011, the Company changed its name to OTC Markets Group Inc.

### **Other corporate information**

OTC Markets Group's North American Industry Classification System ("NAICS") code is 523999 – Miscellaneous Financial Investment Activities (Stock Quotation Services) and our primary SIC Code is 6289 - Services Allied With the Exchange of Securities or Commodities, Not Elsewhere Classified (Quotation Service, Stock and Financial Reporting).

There have been no changes in control of the Company since 1997. OTC Markets Group is currently conducting operations and it is not now, nor has it at any time been, a "shell company" as that term is defined in the OTCQX U.S. Disclosure Guidelines or Rule 405 under the Securities Act of 1933, as amended (the "Securities Act").

On April 15, 2010, the Company formed a wholly owned subsidiary, Pink Link ATS LLC, a Delaware limited liability company that subsequently changed its name to OTC Link LLC. On March 5, 2012, OTC Link LLC became a broker-dealer member of the Financial Industry Regulatory Authority, Inc. ("FINRA<sup>®</sup>") and on June 1, 2012 began operating as an SEC registered Alternative Trading System ("ATS") known as OTC Link ATS.

The Company does not have any parents, subsidiaries or affiliated companies except for OTC Link LLC.

Our fiscal year ends on December 31.

Our securities are not, and have never been, listed on a national securities exchange, and have been quoted solely on OTC Link ATS since the commencement of their public trading.

Neither we nor any of our predecessors have been in bankruptcy, receivership, or any similar proceeding.

## **Part B. Share Structure**

### **The exact title and class of securities outstanding**

As of December 31, 2013, OTC Markets Group had two classes of securities outstanding: Class A Common Stock and Class C Common Stock (collectively, "Common Stock"). None of OTC Markets Group's Common Stock has been registered under the Securities Act or qualified under any state securities laws, and we have no current plans to register or qualify any of our securities. There were no preferred shares outstanding as of the reported period.

From commencement of our public trading on September 19, 2009 through January 18, 2011, the trading symbol for OTC Markets Group's Class A Common Stock assigned by FINRA was "PINK". On January 19, 2011, the Company changed its trading symbol to "OTCM". The Class C Common Stock does not have a trading symbol. As of December 31, 2013, all shares of our Class C Common Stock were held by R. Cromwell Coulson, our Chief Executive Officer, and did not have a public market.

The CUSIP numbers for OTC Markets Group's common stock prior to January 19, 2011 were: 723416103 for Class A Common Stock and 723416301 for Class C Common Stock. On January 19, 2011, the CUSIP numbers for our common stock were changed to 67106F108 for Class A Common Stock and 67106F207 for Class C Common Stock.

Our Class A Common Stock has been qualified for the OTCQX U.S. Premier<sup>®</sup> marketplace since March 11, 2010.

### **Par or stated value and description of the security**

#### **A. Par or Stated Value**

All classes of OTC Markets Group's common stock have a par value of \$0.01 per share.

#### **B. Common and Preferred Stock**

##### *Common Stock*

Each holder of shares of Common Stock is entitled to one vote for each share of Common Stock held on all matters submitted to a vote of stockholders of OTC Markets Group. The holders of Common Stock vote together as a single class. Holders of Common Stock are not entitled to any preemptive rights.

### *Class A*

Holders of Class A Common Stock are entitled to receive such dividends and other distributions as may be authorized and declared by the Board of Directors from time to time (“Dividend Rights”). Upon the voluntary or involuntary liquidation, dissolution, or winding up of OTC Markets Group, holders of Class A Common Stock are entitled to *pro rata* shares of the net assets of OTC Markets Group available for distribution in proportion to the number of Class A Common Stock held by such stockholder (“Liquidation Rights”).

### *Class C*

Holders of Class C Common Stock are not entitled to any Dividend Rights or Liquidation Rights. Each share of Class C Common Stock will automatically convert into Class A Common Stock at a ratio of one-to-one (1:1) if the price of Class A Common Stock is greater than \$19.62 per share as determined by either (i) the average price in trade reports aggregating a total of 300,000 shares consecutively reported to FINRA, provided that the Class A Common Stock has been quoted on an interdealer quotation system by at least two market makers or (ii) an Acquisition of OTC Markets Group.

### *Preferred Stock*

OTC Markets Group has not authorized any class of preferred stock.

### *Provisions in the Issuer’s charter or by-laws that would delay, defer, or prevent a change in control of the Issuer*

In our Certificate of Incorporation, we elect the application of Section 203 of the Delaware General Corporation Law, or DGCL. Section 203 of the DGCL prohibits persons deemed “interested stockholders” from engaging in a “business combination” with a Delaware corporation for three years following the date these persons become interested stockholders unless the business combination is, or the transaction in which the person became an interested stockholder was, approved by the Board of Directors or another prescribed exception applies. Generally, an “interested stockholder” is a person who, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status did own, 15% or more of a corporation’s voting stock. Generally, a “business combination” includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by our Board of Directors.

Our Certificate of Incorporation also provides that the Board of Directors may not authorize any “business combination” with a “related person” unless it (i) meets the “Fair Price” provision, which seeks to ensure that stockholders receive the highest possible price in the event of a business combination, as that provision is described in Article 10 of our Certificate of Incorporation or (ii) is approved by a majority of the outstanding shares of stock entitled to vote.

### **The number of shares or total amount of the securities outstanding for each class of securities authorized**

As of December 31, 2013, OTC Markets Group had 14,130,838 shares of Common Stock authorized, consisting of (i) 14,000,000 shares of Class A Common Stock and (ii) 130,838 shares of Class C Common Stock. There was no Class B Common Stock authorized as of December 31, 2013, and there were no preferred shares outstanding as of the reported periods.

The following tables show the amount of the securities outstanding for each class of securities authorized:

Class A Common Stock as of:

		December 31,	
		2013	2012
(i)	Number of shares authorized	14,000,000	14,000,000
(ii)	Number of shares outstanding	10,888,510	10,700,047
(iii)	Number of shares freely tradable (public float) <sup>(1)(2)</sup>	6,584,980	6,315,160
(vi)	Total number of holders of record	122	118

There are greater than 100 beneficial shareholders owning at least 100 shares of the Company's Class A Common Stock.

Notes:

- (1) The number of shares freely tradable may include shares held by shareholders owning 5% or more of our Class A Common Stock. These shareholders may be considered "affiliates" within the meaning of Rule 144, and their shares may be "control shares" subject to the volume and manner of sale restrictions under Rule 144.
- (2) Our officers and directors hold approximately 4.2 million shares of our Class A common stock, which may be "control shares" subject to the volume and manner of sale restrictions under Rule 144. These shares are excluded from the number of shares freely tradable.

Class C Common Stock as of:

		December 31,	
		2013	2012
(i)	Number of shares authorized	130,838	130,838
(ii)	Number of shares outstanding	130,838	130,838
(iii)	Number of shares freely tradable (public float)	0	0
(vi)	Total number of holders of record	1	1

**Issuer purchases of equity securities**

On August 9, 2011, the Board of Directors authorized the Company to repurchase up to 300,000 shares of the Company's Class A Common Stock, solely through purchases performed in a manner that complies with Rule 10b-18.

The following table shows purchases made by the Company of the Company's common stock during the years ended December 31, 2013, 2012 and 2011:

Date	Number of Shares Purchased	Average Price Paid Per Share	Number of Shares Purchased as Part of Announced Repurchase Plan	Number of Shares Remaining To Be Purchased Under Announced Plan
8/9/2011	N/A	N/A	N/A	300,000
11/16/2011	2,126	\$5.00	2,126	297,874
11/17/2011	24,000	\$5.00	24,000	273,874
12/29/2011	280	\$5.35	280	273,594
2/28/2012	10,000	\$6.27	10,000	263,594
8/23/2013	3,320	\$7.95	3,320	260,274

## Summary of stock option activity

The following table contains a summary of all stock option activity during 2013:

(in thousands, except W/A exercise price)	Stock options	Weighted- average exercise price
Outstanding, January 1, 2013	851	\$ 5.25
Granted	148	8.07
Exercised	( 41 )	4.44
Forfeited	( 74 )	6.22
Outstanding, December 31, 2013	884	\$ 5.68

## Summary of restricted stock award activity

In January 2012, 2013 and 2014, the Company granted to certain employees shares of its Class A Common Stock subject to the terms of Restricted Stock Agreements (“RS Agreements”) between the Company and each employee. Stock granted subject to RS Agreements is included in our calculation of shares outstanding, and holders of such stock are included in our calculation of holders of record.

The following table contains a summary of all activity relating to stock granted subject to RS Agreements during 2013:

(in thousands, except W/A fair value)	Restricted stock	Weighted- average fair value
Outstanding, January 1, 2013	250	\$ 5.99
Granted	201	7.93
Vested	( 96 )	6.34
Forfeited	( 31 )	6.91
Outstanding, December 31, 2013	324	\$ 7.00

## Public trading of Class A Common Stock

The following table sets forth for the periods indicated the high and low reported sales prices per share for our Class A Common Stock:

	High	Low
<b>2012</b>		
First Quarter	\$ 6.80	\$ 5.17
Second Quarter	6.98	6.36
Third Quarter	7.40	6.50
Fourth Quarter	9.00	7.21
<b>2013</b>		
First Quarter	\$ 8.10	\$ 7.55
Second Quarter	8.45	7.80
Third Quarter	8.39	7.64
Fourth Quarter	8.10	7.60



## Dividends

During 2012 and 2013, our Board of Directors authorized and approved the following cash dividends:

Declaration Date	Dividend Per Common Share	Record Date	Total Amount (in thousands)	Payment Date
<b>2012</b>				
February 28, 2012	\$ 0.05	March 20, 2012	\$ 532	April 5, 2012
May 8, 2012	0.05	June 19, 2012	532	July 5, 2012
July 31, 2012	0.05	September 18, 2012	533	October 4, 2012
November 8, 2012	0.05	December 6, 2012	535	December 26, 2012
November 8, 2012	0.25	November 23, 2012	2,670	December 6, 2012
<b>2013</b>				
February 26, 2013	\$ 0.06	March 15, 2013	\$ 652	March 28, 2013
May 13, 2013	0.06	June 13, 2013	652	June 27, 2013
August 6, 2013	0.06	September 12, 2013	654	September 26, 2013
November 11, 2013	0.06	December 12, 2013	653	December 26, 2013

The declaration of dividends by OTC Markets Group is subject to the discretion of our Board of Directors. Our Board of Directors will take into account such matters as general business conditions, our financial results, capital requirements, contractual, legal and regulatory restrictions on the payment of dividends and such other factors as our Board of Directors may deem relevant.

## Part C. Business Information

### Overview

At OTC Markets Group Inc. (OTCQX: OTCM) our mission is to create better informed and more efficient financial marketplaces. We pursue this mission by operating Open, Transparent and Connected financial marketplaces for 10,000 U.S. and global securities. We organize these securities into marketplaces to better inform investors of opportunities and risks: OTCQX<sup>®</sup>, The Best Marketplace with Qualified Companies, OTCQB<sup>®</sup>, The Venture Stage Marketplace with Reporting Companies, and OTC Pink<sup>®</sup>, The Open Marketplace with Variable Reporting Companies. Our marketplaces enable better informed and more efficient securities trading through any broker. Through our OTC Link ATS, we directly link a diverse network of broker-dealers that provide liquidity and execution services for a wide spectrum of securities. OTC Link ATS is operated by our wholly-owned subsidiary OTC Link LLC, a FINRA member broker-dealer regulated by the SEC as an ATS. Our data-driven technology empowers investors to easily analyze, value and trade securities through the broker of their choice at the best possible price, and enables a broad range of companies to improve the quality and availability of information for their investors.

Our information and communication services enable companies to achieve the five primary benefits of public trading: 1) Visibility; 2) Liquidity; 3) Valuation; 4) Capital; and 5) Trust. Being publicly traded provides companies with these important benefits that cannot be found by remaining private. Public trading is often a key component in creating successful and sustainable enterprises over the long-term, and provides companies with access to benefits not easily available to private companies.

Our vision is to expand the world of investment opportunities by creating the financial marketplaces of choice. By empowering intelligent investors to easily analyze, value and trade any security, through any broker, we will bring the benefits of public trading to a wide spectrum

of securities and efficiently fulfill the capital formation needs of a broad range of U.S. and global companies. Our services can be used by broker-dealers and companies to give investors an informational experience that is comparable to trading stock exchange listed securities.

OTC Link ATS offers our FINRA member broker-dealer subscribers greater discretion and control of their trade executions. OTC Link ATS's network-based, fully attributable model leads to greater choice of trading partners and more efficient trading for investors. More than 130 broker-dealer subscribers actively quote 10,000 securities on OTC Link ATS. During 2013, broker-dealer subscribers used OTC Link ATS trade messaging to negotiate trades in 435 billion shares of OTCQX, OTCQB and OTC Pink securities having a combined dollar volume of \$52 billion. The total dollar volume of trades in OTCQX, OTCQB and OTC Pink securities, including transactions negotiated outside of OTC Link ATS, increased 48% to \$201 billion. The total dollar volume of trading on the OTCQX marketplace alone increased 29% in 2013 to \$29.5 billion, which represented 15% of the total dollar volume of trading in all marketplaces during the year.

Due to the role OTC Link ATS plays in the broker-dealer trading process, we generate a significant amount of market data and security information. Our market data consists of real-time and end-of-day quotation data, as well as security master and corporate data for OTCQX, OTCQB, and OTC Pink securities.

The OTCQX marketplace is issuer-qualified, which means companies with eligible securities on OTC Link ATS that meet certain financial standards and disclosure requirements can choose to have their securities trade on the OTCQX marketplace. Companies traded on the OTCQX marketplace receive a premium package of investor information and market data services to better inform investors, clearly convey their reputations and demonstrate their regulatory compliance.

The OTCQB Venture Stage Marketplace with Reporting Companies includes only securities of companies that are current in their reporting to the SEC or another U.S. regulator.

The OTC Pink marketplace contains all other securities traded on OTC Link ATS and allows broker-dealers to efficiently provide best execution for their customers in all types of securities without requiring the involvement of the company. Companies on the OTC Pink marketplace are categorized as "OTC Pink Current Information," "OTC Pink Limited Information" or "OTC Pink No Information" based on the completeness and timeliness of the information they provide to investors. Companies seeking to improve their categorizations can use our OTC Disclosure & News Service<sup>®</sup> to make current disclosure available in accordance with our OTC Pink Basic Disclosure Guidelines.

Each of our marketplaces consists of both U.S. and global companies. Regardless of marketplace, for the protection of investors we flag companies for which there is a public interest concern as "Caveat Emptor," or buyer beware.

Companies currently traded on the OTCQB and OTC Pink marketplaces can choose to subscribe to our premium Corporate Services through subscription fees paid primarily on an annual basis. These premium investor information and market data services are designed to provide the building blocks to a better informational experience for investors by promoting price transparency, facilitating public disclosure, and enabling companies to demonstrate compliance with federal securities laws.

The following table shows the number of OTC securities traded on the OTCQX, OTCQB and OTC Pink marketplaces, for the years ended December 31, 2013, 2012 and 2011.

OTC Marketplace	Year ended December 31,		
	2013	2012	2011
OTCQX	370	400	314
OTCQB	3,143	3,401	3,625
OTC Pink	6,498	6,173	6,227
Total	10,011	9,974	10,166

## Recent Business Developments

### Enhancements to OTCQX and OTCQB Marketplaces

In 2014, we plan to introduce enhancements to the OTCQX and OTCQB premium marketplaces.

In February 2014 we published amendments to the OTCQX Rules for U.S. Companies that are intended to streamline the OTCQX process for U.S. companies. Specifically, the updated U.S. Rules modify the responsibilities of a Designated Advisor for Disclosure (“DAD”) for U.S. companies to align more closely with the responsibilities of a Principal American Liaison (“PAL”) for international companies, and require companies to release quickly to the public any news or information which might reasonably be expected to materially affect the market for their securities. At the same time, we published amendments to the OTCQX Rules for International Companies that simplify the OTCQX qualification process and make it easier for companies with American Depository Receipts (“ADRs”) trading on OTCQX to upgrade their foreign ordinary shares, or “F” shares, to OTCQX.

We plan to expand the OTCQX marketplace by creating a tailored qualification process for U.S. community and regional banks called OTCQX Banks. A new set of OTCQX Rules for U.S. Banks was published in February 2014. We believe OTCQX Banks will provide U.S. community and regional banks a cost effective public marketplace that leverages bank regulatory reporting standards and provides a shareholder-friendly trading experience through peer benchmarking and enhanced visibility.

Also in 2014, we plan to make OTCQB a better venture stage marketplace. We intend that the new OTCQB marketplace will be a premium marketplace with fee based services. OTCQB standards will require traded companies to provide additional information to investors, including management certifications with specific identification of company officers, directors and controlling shareholders; transparency of legal, accounting and investor relations advisors; confirmation of total shares outstanding and total shares authorized; and meet minimum bid price standards to remove sub penny securities. In addition to its current base of SEC reporting companies and banks, we plan to open the OTCQB marketplace to international venture stage companies that trade in the U.S. in reliance on Rule 12g3-2(b). The majority of venture stage companies listed on the TSX Venture, LSE AIM and other non-U.S. venture exchanges do not qualify for the OTCQX marketplace’s high financial standards and could benefit from the trading and transparency of the OTCQB marketplace. In the second quarter of 2014 we plan to start removing sub penny securities that fail to meet the new OTCQB standards, and apply the new OTCQB standards to current OTCQB companies 120 days after their fiscal year-end, beginning with companies that have fiscal years that end on March 31, 2014. Companies that do not meet the new OTCQB bid price standards or do not provide the annual management certifications within 120 days after their first fiscal year end subsequent to March 31, 2014 will be moved to the OTC Pink marketplace. We expect the changes to OTCQB to improve information availability for investors, better suit the needs of developing and early stage companies and

generate revenue in 2014 as companies opt to pay the annual fee to be included in the OTCQX or OTCQB premium marketplaces. Most companies have fiscal years that end on December 31, so we expect to see the majority of the impact of the new OTCQB marketplace during 2015.

### **Market Data Pricing Changes**

Effective January 1, 2014, we instituted price increases for certain of our market data licenses. This marks the first increase to our market data fees since 2009. During that time, our share of the quotes of securities on our marketplaces has risen from 74% to over 99%, and we have upgraded our data feed technology. We have also expanded the types of securities on our marketplaces and included in our data feed, including quotes in 144A securities, and plan to continue adding asset classes in the future. We expect the market data price increase to generate greater revenue from our Market Data Licensing business line during 2014.

### **Integrated Newswires**

During 2013 and early 2014, we entered into strategic agreements with three of the largest news distribution services. Under these agreements, companies may use the news distribution services to publish press releases on our OTC Disclosure & News Service, which are posted to [www.otcmarkets.com](http://www.otcmarkets.com) and other web portals. Companies that previously posted press releases separately via the OTC Disclosure & News Service and a third-party service may now use one of the integrated news distribution services as a single point of access. We expect to enter into a similar strategic agreement with at least one additional newswire integration service during 2014.

### **Recent Regulatory Developments**

#### **Jumpstart Our Business Startups Act (“JOBS Act”)**

On April 5, 2012, President Obama signed the JOBS Act into law. The JOBS Act's stated goals include easing the burdens on capital raising for small and mid-sized companies. To achieve its purpose, the JOBS Act includes several provisions that we expect will have a significant impact on our marketplaces. These provisions include, among other things, (i) the elimination of the prohibition on general solicitation related to private offerings of securities relying on Rule 144A and Rule 506 under the Securities Act, (ii) a provision authorizing the SEC to create a new regulation under the Securities Act to permit private offerings of tradable securities for amounts up to \$50 million (the “Regulation A+ Exemption”) in addition to the current \$5 million threshold for offerings of securities relying on Regulation A, (iii) raising the shareholder threshold requiring mandatory registration under the Exchange Act from 500 holders of record to 2,000 holders of record, with a limit of 499 holders that are not “accredited investors” as that term is defined in Rule 501 under the Securities Act, (iv) creating a “crowdfunding” exemption that will allow companies to raise up to \$1 million over 12 months from an unlimited number of investors, each limited to an investment of \$10,000 or 10% of their annual income or net worth, whichever is less, and (v) increasing flexibility for broker-dealers to issue research reports on emerging growth companies.

On July 10, 2013, the SEC issued a final rule giving effect to the JOBS Act requirement to end the ban on general solicitation and general advertising in Rule 506 and Rule 144A offerings, which became effective on September 23, 2013 (the “General Solicitation Rule”). Under the General Solicitation Rule, issuers are permitted to engage in general solicitation and advertising when offering securities in a private placement in reliance on newly created Rule 506(c), provided that all of the purchasers are accredited investors and the issuer has taken reasonable steps to verify the purchasers' accredited investor status. The General Solicitation Rule also now permits issuers to use general solicitation and general advertising in Rule 144A offerings,

as long as the purchasers are limited to Qualified Institutional Buyers (“QIBs”) or any person that the issuer reasonably believes is a QIB.

Also on July 10, 2013, the SEC proposed additional consumer protection rules that would apply to private placement offerings under Rule 506, including requiring certain additional filings with the SEC, additional requirements for written solicitation materials, and increased penalties for failure to comply with the rules. On September 23, 2013, we submitted a comment letter opposing that portion of the proposed rules that would require issuers to file a Form D at least 15 days prior to engaging in an offer involving general solicitation and advertising. We believe that the Form D rules, if adopted as proposed, would discourage issuers that may wish to raise capital in a private offering at some time in the future from disclosing current information about their business that would be useful and beneficial to the investing public, for fear of inadvertently violating the advance Form D requirement. We urged the SEC to postpone further rulemaking for twelve months to permit a thoughtful analysis of the impact of the new general solicitation rules on the private placement market. Market disclosure and capital formation would be better served by requiring Form D disclosure within 15 days after the first sale of securities in an offering, which is the current rule. We also believe that the proposed one-year ban for failure to comply with the Form D requirements is overly harsh and will have a negative impact on capital formation.

On October 23, 2013, the SEC proposed crowdfunding rules that would, among other things, establish a new registered intermediary called an “information portal,” and an ongoing disclosure regime for issuers of securities that use the new crowdfunding exemption. Information portals would also be required to become FINRA members, and FINRA has proposed new rules that would regulate crowdfunding services. Securities issued pursuant to the crowdfunding rules, if adopted as proposed, would be publicly tradable 12 months after issuance.

On December 18, 2013 the SEC proposed its “Regulation A+” amendments to Regulation A under the Securities Act, providing for an expanded Regulation A small offering exemption. Currently, Regulation A permits unregistered offerings of up to \$5 million of securities annually, including no more than \$1.5 million of securities offered by security-holders of the company. The proposed Regulation A+ Exemption would expand the exemption to permit unregistered public offerings of up to \$50 million of securities annually, with up to \$15 million of securities offered by security-holders of the company. As under the current Regulation A exemption, investors under the Regulation A+ Exemption need not be accredited, there is no prohibition on general solicitation, and the securities sold would not be considered “restricted” securities under the Securities Act. However, as a condition to the expanded exemption, the SEC would require certain additional requirements, including the filing of audited financials and ongoing reporting obligations.

The adoption of the General Solicitation Rule allows broker-dealers to publicly disseminate priced quotes in Rule 144A securities, and our broker-dealer subscribers have already begun to quote a limited number of these securities on OTC Link ATS. Increased activity in Rule 144A securities, in conjunction with the end of the ban on general solicitation for Rule 506(c) securities, should increase the number of securities available to be traded on OTC Link ATS, which may have a beneficial effect on our business. The elimination of the prohibition on general solicitation for Rule 144A and Rule 506(c) securities offerings allows for increased issuer transparency, which is a core principle of our marketplaces. If adopted as proposed, the new Regulation A+ Exemption may create additional capital raising opportunities for companies with securities eligible to trade on the OTCQX, OTCQB and OTC Pink marketplaces. While we do not expect to offer “information portal” services, the crowdfunding exemption ultimately should make additional securities available for secondary trading on our marketplaces.

The proposed crowdfunding and Regulation A+ rules require ongoing disclosure requirements that differ in significant ways from the U.S. Reporting Standard required for issuers that have registered a class of securities with the SEC and the Alternative Reporting Standard used by OTCQX U.S. companies and OTC Pink companies to meet the standards for the Current Information tier. The SEC proposes to require publication of the ongoing crowdfunding and Regulation A+ disclosure on its EDGAR site, marking the first time the SEC has proposed allowing its EDGAR site to publish disclosure for companies that do not issue registered securities. In addition, the proposed Regulation A+ disclosure requirements are specifically intended to satisfy the requirements of Exchange Act Rule 15c2-11 and Rule 144(c)(2) under the Securities Act. We may consider changes to our current Disclosure Guidelines to conform to the Regulation A+ disclosure requirements, as adopted.

We will continue to follow the progress of the SEC's JOBS Act related rulemaking efforts to assess its ultimate effect on OTCQX, OTCQB and OTC Pink traded companies and our marketplaces generally. It is not possible at this time to determine the extent, if any, to which the JOBS Act will affect our financial results.

### **Decimalization**

The term "decimalization" or "decimal pricing" refers to rules that establish a minimum price variation, or tick size, of one penny in the quotation and trading of equity securities. In April 2001, complying with an SEC order, the national securities exchanges and NASDAQ implemented decimal pricing for quotations. In 2005, the SEC adopted Rule 612 of Regulation NMS, which established a minimum price variation of one penny in the quoting and trading of exchange-traded securities. In 2011, FINRA implemented minimum price variations for the trading and quoting of OTC equity securities. These rules have been criticized for their effects on the trading of securities in smaller public companies, the reduction of research activities by broker-dealers and the decline in public offerings in recent years.

The JOBS Act required the SEC to conduct a study to evaluate the impact of decimal pricing on the capital markets and the willingness of smaller companies to engage in initial public offerings. In July 2012, the SEC delivered a study of decimalization to Congress. The study concluded that the impact of decimalization on market structure and on the willingness of small companies to undertake initial public offerings is, at best, uncertain.

On February 5, 2013, the SEC invited a panel of industry experts to a roundtable discussion of proposals to increase tick sizes in the quotation and trading of some equity securities. Our CEO, R. Cromwell Coulson, participated in this discussion.

On February 11, 2014, the House of Representatives passed H.R. 3448, the "Small Capital Liquidity Reform Act of 2013." If ultimately passed into law, H.R. 3448 would amend Section 11A(c)(6) of the Exchange Act to establish a five-year pilot program to be administered by the SEC that would permit exchange listed companies with total gross revenues of less than \$750 million ("Emerging Growth Companies" or "EGCs"), and other companies selected by the SEC, with a stock price of \$1.00 or greater, to establish the minimum tick size at which their securities would be quoted from the current one cent increment up to increments of five or ten cents. In addition, the SEC would determine, in its discretion, the maximum tick size at which a participating EGC's stock would be traded. The proponents of this legislation believe that market maker revenue will increase as tick sizes widen, resulting in enhanced liquidity and market quality for small publicly traded companies, more job creation at smaller companies, and greater capital formation. H.R. 3448 impacts only exchange listed companies, however, and we believe a similar pilot program for non-exchange listed securities would benefit the companies traded on our marketplaces and would provide the SEC and Congress with valuable information on the effectiveness of increasing the minimum tick size increment. The effect on our

marketplaces of H.R. 3448, or any similar legislation or rulemaking that extends the pilot to our marketplaces, is uncertain and will depend on its final form, if it is eventually passed into law.

### **Trading Halts**

FINRA Rule 6440, among other things, permits FINRA to impose a “Foreign Regulatory Halt” when a foreign securities exchange, market, or regulatory authority halts trading for regulatory reasons in an OTC Equity Security or a security underlying an ADR that is an OTC Equity Security. On February 8, 2013, the SEC approved an amendment to FINRA Rule 6440 to expand FINRA’s authority to impose a trading and quotation halt when a foreign halt is imposed for pending news. Halts for pending news occur more frequently than halts for regulatory reasons. FINRA implemented halts in foreign securities on May 9, 2013. This amendment to FINRA Rule 6440 required some minor modifications to the OTC Link ATS systems.

### **Regulation SCI**

On March 8, 2013, the SEC proposed Regulation Systems Compliance and Integrity (“SCI”), which would apply to certain self-regulatory organizations, alternative trading systems, plan processors, and certain clearing agencies (“SCI Entities”). OTC Link ATS likely would fall within the proposed definition of an SCI Entity and be required to comply with this regulation in the event that the final regulation applies to alternative trading systems.

Proposed Regulation SCI would require SCI Entities to establish written policies and procedures reasonably designed to ensure that their systems have levels of capacity, integrity, resiliency, availability, and security adequate to maintain their operational capability and promote the maintenance of fair and orderly markets, and that they operate in the manner intended. SCI Entities would mandate participation by designated members or participants in scheduled testing of the operation of their business continuity and disaster recovery plans, including backup systems, and coordinate such testing with other SCI Entities. Regulation SCI would require SCI Entities to provide notices and reports to the SEC on a new proposed Form SCI regarding, among other things, systems disruptions, systems compliance issues, and systems intrusions (“SCI Events”), as well as material systems changes, and take corrective action upon any responsible SCI personnel becoming aware of SCI Events. Information regarding certain types of SCI Events would be disseminated to members or participants of SCI Entities. SCI Entities would be required to conduct a review of their systems by objective personnel at least annually, and to maintain certain books and records.

We expect OTC Link ATS to comply with the current requirements imposed on an ATS that, during at least 4 out of 6 consecutive months, has more than 20% of the average daily volume of any equity security reported to FINRA. Many of these requirements are incorporated in proposed Regulation SCI. However, the proposed rule also contains a number of additional requirements, such as extensive reporting requirements, internal compliance processes and coordinated testing with other SCI Entities that will be costly to implement.

We believe that proposed Regulation SCI is overbroad and burdensome, and its lofty goals are essentially unachievable with existing technology. Regulation cannot eliminate system failures. It is more productive to encourage the development of industry wide procedures for handling technology failures, trading errors and natural disasters, than to attempt to eliminate these events altogether.

On September 12, 2013, we filed a comment letter with the SEC recommending several changes to the proposed rule. We pointed out that in the market for OTCQX, OTCQB and OTC Pink securities, Regulation SCI imposes great costs without any material benefit to the investing public. SCI Entities should be required to keep good records, but the events requiring costly SEC notification should be limited.

In its current form, Regulation SCI will make system operations and modifications more expensive and time consuming for SCI Entities. The implementation of elaborate compliance procedures will hinder innovation, competition and capital formation. Some of the requirements for industry-wide testing will require complicated scheduling and coordination with other firms that will be difficult to achieve. As a result, much of the proposal is unworkable as currently drafted and we believe will likely be amended prior to adoption to better focus and streamline the regulation in response to industry concerns. The effect of Regulation SCI on our financial results will depend on its final form, if adopted.

### **Broker-Dealer Reports**

On July 30, 2013, the SEC adopted a rule requiring broker-dealer audits to be conducted in accordance with standards of the Public Company Accounting Oversight Board. This rule will become effective on June 1, 2014, and will apply to the annual audit of OTC Link LLC for the year ending December 31, 2014. We do not expect that the adoption of this rule will have a material impact on our financial results.

### **Rule Change Regarding ATS Information**

On January 17, 2014, the SEC approved a rule change to adopt a new FINRA Rule 4552 requiring reporting of weekly volume and trade information by any ATS. This information will be published by FINRA on a delayed basis. OTC Link ATS will be subject to this new reporting requirement. We are evaluating the rule's impact, but do not believe that its adoption will have a material impact on our financial results.

### **OTC Reporting Facility Migration**

FINRA has announced that it intends to migrate trade reporting for transactions in OTC equities and restricted Rule 144A equities in the OTC Reporting Facility ("ORF") to a new technology platform, effective June 2, 2014. Certain OTC Link ATS system changes will be required in order to migrate the reporting to the new platform. OTC Link ATS acts as a service bureau for ORF reporting for certain subscribers; accordingly, OTC Link ATS will be required to integrate certain system changes and obtain updated agreements. We do not believe that this migration will have any material adverse effect on OTC Link ATS's business. FINRA has also announced that on June 2, 2014, the day of the ORF migration, it plans to retire the OTCBB.com website and implement some proposed changes to their data specifications and increased costs in connection with the ORF migration. OTC Markets Group intends to submit a comment letter recommending the industry be given additional time prior to the proposed implementation of the new data specifications.

### **FINRA's QCF Proposal**

On November 13, 2009, FINRA filed with the SEC a proposed rule change to create a Quotation Consolidation Facility ("QCF") that would serve as a commercial data consolidator and disseminator for quote data in the OTC equity market (the "QCF Proposal"). Under the QCF Proposal, FINRA would provide a national best bid or offer ("NBBO") for OTC securities traded on interdealer quotation systems for inclusion in the NASDAQ UTP Level One feed.

We believe that the QCF Proposal, if adopted in its current form, could negatively impact our revenues, including revenues from our Market Data Licensing and OTC Link ATS Trading Services business lines. We currently generate a portion of our revenues by licensing the market data that we collect through our interdealer quotation system. We provide this market data, including the dissemination of an NBBO in OTC equity securities traded on OTC Link (the "OTC-BBO"), to market data redistributors, broker-dealers and other OTC market participants under subscription and enterprise license agreements.



Under the QCF Proposal, we would effectively be required to provide FINRA with our OTC-BBO and all broker-dealer quotations on our OTC Link ATS, so that FINRA could provide an NBBO for OTC securities for inclusion in the NASDAQ UTP Level One feed. Approximately 43%, 45% and 46% of our total Market Data Licensing revenues were derived from the OTC-BBO during the years ended December 31, 2013, 2012 and 2011, respectively. If the SEC approves the QCF Proposal, we expect that we will lose substantially all of this revenue.

Under the QCF Proposal, FINRA would charge its members an additional “per quote” fee of \$4.00 per month (the “FINRA Quote Fee”) for each security quoted on an interdealer quotation system such as OTC Link. The FINRA Quote Fee would likely negatively impact our OTC Link ATS Trading Services revenues, and could negatively affect the value of our market data by decreasing the amount and the breadth of that data.

On March 18, 2010, FINRA filed with the SEC a proposed amendment to the original QCF Proposal (the “QCF Amendment”). FINRA’s QCF Amendment would eliminate, at this time, the FINRA Quote Fee, while reserving the right to re-introduce a fee in a separate rule filing in the future.

OTC Markets Group is strongly opposed to FINRA’s QCF Proposal. On December 14, 2009, we submitted to the SEC a comment letter in opposition to the QCF Proposal. On March 19, 2010 and May 5, 2010, Bingham McCutchen LLP submitted similar comment letters to the SEC on our behalf regarding the QCF Proposal, and on June 3, 2010, a comment letter regarding Amendment 21 of the NMS Plan for NASDAQ securities (“Amendment 21”) questioning the appropriateness of including FINRA OTC Equity Data in the plan. On October 18, 2010, FINRA responded with a comment letter in support of Amendment 21. On December 6, 2010, Bingham McCutchen LLP submitted another comment letter on our behalf, noting flaws in FINRA’s argument and raising several additional points in opposition to Amendment 21.

During the fourth quarter of 2011, OTC Markets Group entered into agreements to have its market data distributed through the NYSE Technologies’ SuperFeed™ and NASDAQ UltraFeedSM data feeds. These data feeds allow for the provision of an NBBO for OTC securities to the same network of subscribers that would be reached through the NASDAQ UTP Level One feed.

As of March 1, 2014, the SEC has not approved the QCF Proposal or Amendment 21.

OTC Markets Group is considering a variety of options in the event that the SEC approves the QCF Proposal or Amendment 21, including bringing a legal action against the SEC and/or FINRA. A legal action relating to the QCF Proposal would be protracted and costly, which may adversely affect our operating results.

## **Products and services**

OTC Markets Group has three business lines that provide a variety of products and services, including trading technologies for FINRA member broker-dealers and market information for broker-dealers, companies, investors, and market data distributors. We believe our elegant, reliable, cost-effective subscription based services allow us to maintain our leading market position as a financial and technology services provider. Each business line has distinct services and fees, including OTC Link ATS subscription service and usage based fees, Corporate Services application and annual fees, market data distribution and licensing fees, and website advertising fees. Growth from each business line tends to promote growth in the others because the services are generally complementary in nature. We generally derive revenues pursuant to a subscription model, whereby the significant majority of our revenues are recurring in nature.

Each of our business lines, consisting of OTC Link ATS Trading Services, Market Data Licensing, and Corporate Services (formerly known as Issuer Services), is described in detail below.

### ***OTC Link ATS Trading Services***

Our wholly-owned subsidiary, OTC Link LLC, a FINRA member broker-dealer and SEC registered ATS, operates OTC Link ATS. OTC Link ATS enables FINRA member broker-dealers to display prices, attract order flow and conduct trade negotiations in equity and debt securities. We offer a suite of quotation and trade-messaging products and services, as well as the QAP<sup>®</sup> One Statement service, to broker-dealers operating as market makers, agency brokers and ATSS, including electronic communications networks (“ECNs”). Providing these services is fundamental to our business model.

Broker-dealers pay us monthly license, subscription, and connectivity fees to use OTC Link ATS. Our OTC Dealer<sup>®</sup> application provides broker-dealers a user interface to view and submit quotes and communicate with each other via OTC Link ATS. OTC Link ATS delivers trade negotiation messages electronically, allowing subscribers to execute, negotiate, or decline trade messages. Our OTC Link ATS Trading Services business line made up approximately 32% and 33% of our gross revenues for the years ended December 31, 2013 and 2012, respectively.

Our OTC Link ATS Trading Services offer a unique value proposition to broker-dealer clients in the following areas:

- **Control** – OTC Link ATS is a fully attributable network that gives broker-dealer subscribers greater control over the execution of client and proprietary orders by enabling directed trade messages and flexible access fees, OTC Link ATS allows broker dealers to deliver a better experience to their customers and improve opportunities for best execution.
- **Cost** – We provide cost-effective connectivity and communication to the trading process. Broker-dealers can leverage their substantial investment in internal systems infrastructures, originally designed to trade NASDAQ and NYSE securities, to trade OTCQX, OTCQB and OTC Pink securities. This allows broker-dealers to avoid the costs of routing orders through intermediaries that charge per share fees, such as stock exchanges or ECNs. Since broker-dealer subscribers are not charged per share or per transaction fees, the more transactions they are able to execute in OTCQX, OTCQB and OTC Pink securities, the lower their variable transactional costs. Moreover, the dynamic QAP access fee display and QAP One Statement factoring service allow our broker-dealer subscribers to efficiently and effectively operate in the access fee environment created by FINRA Rule 6450.
- **Capital** – Using their ability to control the trading process while using our OTC Link ATS Trading Services, broker-dealer subscribers have increased opportunities to efficiently provide liquidity through facilitating customer orders or trading with competitors on a proprietary basis.

OTC Dealer, together with separately priced add-on applications, shows a full Real-Time Level 2 quote montage for OTCQX, OTCQB, OTC Pink and FINRA OTC Bulletin Board traded securities, providing full access to OTC Link ATS tickers, quote montages, and multiple watch lists for those securities. For automated trading and integration with third-party Order Management Systems (“OMS”) and direct access trading systems, we offer the OTC FIX Gateway, a real-time FIX Protocol based computer-to-computer interface that allows for fully-electronic submission and receipt of quotes, orders and negotiations.

Our broker-dealer subscribers pay variable usage fees to (i) publish quotes and (ii) communicate and negotiate with counterparties on OTC Link ATS. Monthly OTC Link quote position fees are based on the number of daily priced and un-priced quote positions, with tiered pricing arrangements based on volume. Monthly OTC Link message fees are based on the daily number of priced and un-priced securities on OTC Link ATS for which trade messages are sent or received, with tiered pricing arrangements based on volume. Our daily trade messaging fee allows subscribers to send and receive an unlimited number of trade messages in a security on that day. Fees for use of the OTC Dealer application are based on the number of authorized users per subscriber and are discounted in graduated amounts in relation to total users per subscriber.

OTC Dealer also provides users access to analytics and information, including corporate action data and advanced search capabilities for broker-dealer activity, quotes, inside markets and trades, security changes, and trader open/close activity.

As of December 31, 2013, over 130 broker-dealers subscribed to our OTC Link ATS Trading Services, enabling them to post quotes and send trade messages via our OTC Link ATS.

### ***Market Data Licensing***

OTC Markets Group provides our subscribers with access to the extensive market data, company data and security information we collect through our OTC Link ATS Trading Services and Corporate Services business lines. Our market data includes real-time, end-of-day, historical quotation data, company financial data, security master data and corporate reference data for securities traded on our marketplaces. Our Market Data Licensing business line made up approximately 42% and 40% of our gross revenues for the years ended December 31, 2013 and 2012, respectively.

Investors, traders, institutions, accountants, and regulators pay us monthly license fees to access this information. We offer a suite of market data licenses, priced at per enterprise or per user subscription rates, through direct connectivity and third-party market data redistributors/OMS. Depending on the license type, subscribers may distribute the market data on an internal-only basis, to clients, or to the public. We generate a majority of our market data revenues from sales through market data redistributors, including Bloomberg, Interactive Data Corporation, and Fidessa. At December 31, 2013, 55 market data distributors were disseminating our market data to subscribers.

Our Market Data Licensing services include:

- *OTC Markets Level 1+ (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* - Real-time inside bid and offer quote prices and aggregate size information for OTCQX, OTCQB, OTC Pink, OTC Bonds and other securities on OTC Link ATS. This license includes information regarding trades negotiated by broker-dealers via OTC Link ATS.
- *OTC Markets Level 2+ (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* - Real-time individual bid and offer quote prices, size information, market participant identifiers and contact information in OTCQX, OTCQB, OTC Pink, OTC Bonds and other securities on OTC Link ATS. This license includes information regarding trades negotiated by broker-dealers via OTC Link ATS.
- *OTC Markets Real-Time Reference Prices (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* – Real-time inside bid and offer prices in OTCQX, OTCQB, OTC Pink, OTC Bonds and other securities on OTC Link ATS. Size and market participant information is not available with this license. This license includes information regarding trades negotiated by broker-dealers via OTC Link ATS.

- *OTC Markets Internal System Application (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* – Real-time quote prices, size and market participant (Level 1+ or Level 2+) data for use by a software application only.
- *OTC Markets Delayed Level 1 (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* – Delayed inside bid and offer quote prices and aggregate size information in OTCQX, OTCQB, OTC Pink, OTC Bonds and other securities on OTC Link ATS. This license includes delayed information regarding trades negotiated by broker-dealers via OTC Link ATS.
- *OTC Markets End of Day Pricing (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* – End of day bid and ask prices in OTCQX, OTCQB, OTC Pink, OTC Bonds and other securities on OTC Link ATS for regulatory reporting, audits, valuation, research and analysis.
- *OTC Markets Security & Company Data (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* – Security and company attribute data in OTCQX, OTCQB, OTC Pink, OTC Bonds and other securities on OTC Link ATS for compliance, research and analysis.

We also offer OTCQuote<sup>®</sup>, a web-based, real time, view-only quote service designed for agency traders, institutional investors, compliance officers and regulators that require visibility into market activity in OTCQX, OTCQB, OTC Pink and FINRA OTC Bulletin Board securities.

#### *Website Advertising*

The depth and breadth of market data and trading-related information offered on our websites attracts advertisers to [www.otcmarkets.com](http://www.otcmarkets.com). Financial services firms, including investment firms, online brokerage firms and fund managers, advertise on [www.otcmarkets.com](http://www.otcmarkets.com) to promote investor awareness of their products and services.

#### **Corporate Services**

OTC Markets Group offers services to companies that are designed to create better informed and more efficient trading by fostering greater availability of company disclosure, promoting price transparency, facilitating communication, demonstrating compliance and mitigating risk. We operate OTCQX, The Best Marketplace with Qualified Companies, and offer a suite of premium services including the OTC Disclosure & News Service, Real-Time Level 2 Quote Display and Blue Sky Monitoring Service. Our Corporate Services business made up approximately 26% and 27% of our gross revenues for the years ended December 31, 2013 and 2012, respectively.

The securities traded on the OTCQX marketplace are limited to qualified companies that meet our highest qualitative and quantitative financial standards and that provide current disclosure to their investors. The OTCQB Venture Stage Marketplace with Reporting Companies and the OTC Pink Open Marketplace with Variable Reporting Companies represent a diverse group of companies with a variable level of financial strength, disclosure availability, and management quality. These marketplaces span all major sectors and industries, and are characterized by market capitalization levels ranging from micro-cap start-ups to large-cap global companies.

There are three ways that issuers of securities traded on our marketplaces can provide disclosure to investors:

- U.S. Reporting Standard: Companies may register a class of their securities with the SEC and comply with SEC reporting requirements. Banks and insurance companies may report to their primary U.S. regulator.

- **Alternative Reporting Standard:** When SEC registration is not required, companies generally must make certain information publicly available to satisfy the requirements of Rule 10b-5 under the Exchange Act and Rule 144(c)(2) under the Securities Act. The Alternative Reporting Standard may be satisfied through compliance with the OTCQX U.S. Disclosure Guidelines or the OTC Pink Basic Disclosure Guidelines.
- **International Information Standard:** Rule 12g3-2(b) under the Exchange Act (“Rule 12g3-2(b)”) permits non-U.S. companies with securities listed primarily on a non-U.S. stock exchange to make publicly available to U.S. investors in English the same information that is made publicly available in their home countries as an alternative to SEC Reporting.

### *OTCQX – The Best Marketplace with Qualified Companies*

The OTCQX marketplace provides established U.S. and global companies an informed and efficient U.S. public trading market for their shares and ADRs without the cost and complexity of a stock exchange listing.

To trade on the OTCQX marketplace, companies must be sponsored by a professional third-party advisor, meet minimum financial, disclosure and qualitative standards, pay annual fees, and continue to meet the requirements of our OTCQX Rules on a prospective basis. We believe that OTCQX provides an innovative solution to meet the core marketplace needs of many established U.S. and global companies. By creating the public information availability and market data connectivity for investors to intelligently analyze, value and trade OTCQX securities through any broker, OTCQX companies support fair, orderly and efficient public trading markets in their securities, increased confidence in their operations and enhanced reputations with shareholders and the general public.

The OTCQX marketplace is divided into OTCQX U.S. for U.S. companies and OTCQX International for global companies. A majority of companies on the OTCQX marketplace are on OTCQX International. The OTCQX International marketplace is targeted towards (i) large global companies that meet the listing standards of a qualified non-U.S. stock exchange in their primary market and do not see the value of taking on the burdens of meeting multiple regulatory, compliance, disclosure, and accounting standards, and (ii) global emerging growth companies that are listed on a qualified non-U.S. stock exchange and may be working towards a U.S. exchange listing, but are not yet ready to support the management resources, operational complexity and cost burdens of meeting two different regulatory, compliance, disclosure, and accounting standards.

OTCQX International companies must meet the U.S. Reporting Standard or the International Information Standard. To trade on the OTCQX U.S. marketplace, U.S. companies may meet the U.S. Reporting Standard or the Alternative Reporting Standard.

Within the OTCQX marketplace, there are elite segments separating the largest and most liquid companies (OTCQX U.S. Premier<sup>®</sup> and OTCQX International Premier<sup>®</sup>) from smaller, growth companies. Securities traded on the OTCQX marketplace are identified by an icon designating that they are qualified for trading on the OTCQX marketplace with an additional notation if they have qualified for a Premier segment.

All companies traded on the OTCQX marketplace pay a one-time application fee and annual fees each year their securities are qualified to trade on the OTCQX marketplace. These fees are fixed and do not vary based on outstanding shares, market capitalization, marketplace segment or otherwise. Companies on the OTCQX marketplace receive a suite of our premium services, including the OTC Disclosure & News Service, Real-Time Level 2 Quote Display, and Blue Sky Monitoring Service.

Companies that choose to have their securities designated as OTCQX securities do so annually, on a calendar-year basis. It has been our experience that once these companies have made a decision to trade on the OTCQX marketplace, a majority choose to remain there, although some OTCQX traded companies have moved from the OTCQX marketplace to a stock exchange listing, been acquired, merged, chosen to downgrade from the OTCQX marketplace, or have been removed from OTCQX because they failed to maintain compliance with OTCQX standards.

The professional third-party advisor for an OTCQX U.S. company is known as a Designated Advisor for Disclosure, or DAD, while companies trading on OTCQX International must appoint a Principal American Liaison, or PAL. Both DADs and PALs are sophisticated securities attorneys, FINRA-member investment banking firms, or, in the case of PALs only, ADR Depository Banks.

By relying on a professional sponsor that is independent of OTC Markets Group, the OTCQX community-based DAD and PAL qualification process has natural checks and balances. We believe that DADs and PALs have reputational and financial incentives to carry out their roles with integrity, and by sponsoring their best clients they play a critical role in building trust in the quality of the OTCQX marketplace.

As of December 31, 2013, 370 companies, comprising 38 U.S. companies and 332 international companies, had their securities traded on OTCQX.

In 2014, we plan to enhance the OTCQX marketplace. See “*Recent Business Developments — Enhancements to OTCQX and OTCQB Marketplaces.*”

#### *OTCQB – The Venture Stage Marketplace*

The OTCQB marketplace helps investors easily identify companies that report to the SEC or a U.S. banking or insurance regulator, and that are currently in compliance with their respective disclosure obligations. The OTCQB marketplace includes securities of smaller or developing companies that may currently be unable to meet the OTCQX marketplace requirements.

In 2014, we plan to make OTCQB a better venture stage marketplace. See “*Recent Business Developments — Enhancements to OTCQX and OTCQB Marketplaces.*”

#### *OTC Pink – The Open Marketplace*

OTC Markets Group places OTC Pink companies into one of three easily identifiable categories that inform investors whether a company has made adequate public information available in a timely manner: “OTC Pink Current Information”, “OTC Pink Limited Information”, and “OTC Pink No Information”. In addition, companies whose stock is the subject of a spam campaign or other public interest concern are flagged “Caveat Emptor,” or buyer beware. OTC Pink companies provide public information to be categorized as OTC Pink Current Information or OTC Pink Limited Information either through a U.S. regulator, such as the SEC or a banking regulator, a qualified non-U.S. stock exchange, or directly to OTC Markets Group through the OTC Disclosure & News Service. For companies that provide the disclosure directly under the Alternative Reporting Standard in accordance with the OTC Pink Basic Disclosure Guidelines, we require that the financial reports are audited by a Public Company Accounting Oversight Board (“PCAOB”) registered audit firm, or that the company obtain a quarterly letter from a U.S. securities attorney stating that adequate current information is publicly available under Rule 144. The OTC Pink Basic Disclosure Guidelines reduce the complexity of company disclosure by aligning with Rule 15c2-11 under the Exchange Act to give an investor the basic information a broker-dealer would need to initiate a quote in a security on the OTC Pink marketplace.

We believe that segmenting OTC Pink securities into these disclosure categories has the effect of increasing the overall level of information available to OTC broker-dealers and investors, thereby strengthening our marketplaces as a whole.

#### *OTC Disclosure & News Service*

The OTC Disclosure & News Service provides a simple and efficient way for public companies to communicate with the market and demonstrate their compliance with securities laws. Accessed through the [www.otciq.com](http://www.otciq.com) secure web-based portal, the OTC Disclosure & News Service permits companies to post financial reports, news releases, videos, investor presentations and other investor communications on [www.otcmarkets.com](http://www.otcmarkets.com), and to distribute that information to market participants. The OTC Disclosure & News Service also serves as a document retention system, as all documents submitted through the service are permanently stored and readily available to investors, regulators, and market professionals. The OTC Disclosure & News Service allows companies to ensure that their information is distributed to the broker-dealers trading their securities and to market participants, and is easily accessible. We provide a data feed including company financial reports and news releases to market data distributors, financial databases and major financial portals. Throughout 2013 and early 2014, we entered into agreements that integrated third-party newswire services such as PR Newswire, Marketwired and GlobeNewswire with the OTC Disclosure & News Service. These integrations allow companies to publish news through a third-party provider and have that news distributed through the OTC Disclosure & News Service to market participants and appear on the [www.otcmarkets.com](http://www.otcmarkets.com) website.

#### *Real-Time Level 2 Quote Display Service*

Companies may provide their investors with access to free real-time level 2 quotes for their securities on [www.otcmarkets.com](http://www.otcmarkets.com). This service also permits companies to display quotes on the investor relations portion of their corporate websites. Level 2 quotes are professional level market data, consisting of a full montage of real-time inside bid and ask quotes, a full depth-of-book quote montage, and trade data, which gives investors access to the highest level of trading transparency.

To further encourage better disclosure practices, OTC Markets Group does not offer the Real-Time Level 2 Quote Display Service to companies that are in the OTC Pink No Information tier or are flagged as Caveat Emptor. Quotes for securities of companies in the OTC Pink No Information category will be displayed with only inside quotes and trade information on a 15 minute delayed basis. Generally, there is no quote display for securities of companies flagged "Caveat Emptor;" rather, a message to investors is displayed notifying them of the Caveat Emptor designation.

#### *Blue Sky Monitoring Service*

The Blue Sky Monitoring Service provides analysis, review, and guidance to companies about compliance with each state's Blue Sky laws. OTC Markets Group and Blue Sky Data Corp. have partnered to provide the Blue Sky Monitoring Service. The service provides a determination of companies' Blue Sky status and/or available exemptions; guidance regarding additional information, filings or registrations required in states for which they are not covered by the manual or other exemptions; and distribution of a company's Blue Sky information to broker-dealers and clearing firms around the country to assist with their compliance with the various states' rules and regulations pertaining to secondary market trading. Blue Sky compliance allows brokers and investment advisers to provide professional guidance when recommending, soliciting or discussing securities with their clients or purchasing securities for managed portfolios.

## Websites

OTC Markets Group operates a number of websites, each targeting specific market participants, such as traders, companies and investors. Our websites provide a broad range of information about our marketplaces and the issuers of OTCQX, OTCQB, OTC Pink and FINRA OTC Bulletin Board securities.

- **www.otcmarkets.com** – Designed for retail and institutional investors, as well as the general public, our corporate website is the premier source of financial and corporate information for OTCQX, OTCQB, and OTC Pink securities. This website is a unique destination for free delayed and real-time quotes, trade data, financial news and reports. It also provides detailed company profile and corporate action information about OTCQX, OTCQB and OTC Pink traded companies.
- **www.otcq.com** – This website provides in-depth financial and trading market information about the domestic and international companies that have chosen to have their securities designated as OTCQX. The site provides dynamic, real-time level 2 quote and trade data for OTCQX securities, along with company-specific news releases, financial reports, and a company search capability. Our OTCQX governing documents, including the OTCQX Rules, applications and agreements, are posted on this website.
- **www.otciq.com** – This website is our secure, web-based portal for investor relations and market intelligence. It provides subscribing companies with access to the OTC Disclosure & News Service, Real-Time Level 2 Quote Display Service, the OTC Market Report, and the Blue Sky Monitoring Service.
- **www.otcquote.com** – This is a subscription-based website targeting agency traders, compliance officers, institutional investors and other financial professionals who desire access to detailed, real-time data for OTCQX, OTCQB and OTC Pink securities.
- **www.otcdealer.com** – This is the technical support and training site for OTC Dealer customers. All training and technical documentation for OTC Dealer, which includes the current versions of the user manual and the detailed specification document, is available on this website.

## Technology

Our IT infrastructure is the foundation of our business-critical applications and ensures their reliability, high-availability and scalability in order to support the expansion of our systems as well as the growth of our subscribers and performance.

The IT team works in conjunction with our business lines to deliver products and services that meet the needs of our subscribers in an elegant, reliable and cost effective manner. Performance, uptime, functional depth, and the usability of our products and services drive our technology decisions and product direction.

We consistently roll out new business functionality while simultaneously focusing on improving the scalability and stability of our systems. Capital expenditures during 2013 were concentrated on the enhancement of our primary data center and increased network resiliency. We anticipate that during 2014 we will continue to invest in building out our internal support systems, and that capital expenditures will be concentrated on the enhancement of our secondary data center.

The underlying systems are built around a common information architecture, shared database design, reusable components, best-of-breed architectural frameworks, and standard design patterns and implementation. These systems facilitate rapid deployment and introduction of new services, as well as lower overall development, operational, and maintenance costs.



Our stable of services includes quoting and trade messaging via OTC Link ATS, desktop applications for traders, incoming and outgoing market data feeds, multiple website portals, and a number of other data related products. We are able to provide all of our subscribers with a service based on a single version of our applications, with the exception of the OTC Dealer Application that resides on each trader's desktop, and do not have to maintain multiple versions of our applications. Consequently, we are able to upgrade all of the web-based services used by our subscribers at the same time with each release.

## **Contracts**

Exhibits 3 and 4 to this Annual Report provide a list of contracts important to our business, divided into two categories: material contracts and customer contracts. Negotiated contracts include Mr. Coulson's employment agreement and real estate leases on real properties used in our business. We use standardized customer contracts in each of our three business lines.

## **Legal Proceedings**

There are no current, past, pending, or threatened legal proceedings or administrative actions either by or against us that could have a material effect on our business, financial condition, or operations. We are not a party to any past or pending trading suspensions by a securities regulator.

## **Risk Factors**

*The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. If any of the following risks actually occur, our business, financial condition, or operating results could be adversely affected.*

### ***Risks Relating to our Business***

#### **Regulatory changes could have a material adverse effect on our business.**

The securities markets have faced increasing governmental and public scrutiny and significant regulatory changes in response to recent events in the financial markets. We believe that there will continue to be increased demand for more regulation and stricter oversight of the financial markets, including regulations, such as Regulation SCI, that may affect the OTC markets and our business. Regulation SCI, if adopted as proposed, would impose significant compliance burdens on our OTC Link ATS Trading Services business. We cannot predict the nature of other potential changes in regulation or their impact on our business. Our ability to comply with Regulation SCI or other new laws and regulations will, among other things, depend on our ability to establish and maintain appropriate systems and procedures, as well as our ability to attract and retain qualified personnel. Our subscribers also operate in a highly regulated industry. The SEC, FINRA or other regulatory authorities could impose regulatory changes that could adversely affect the ability of our subscribers to use our services or could result in reduced demand for our services. For example, the JOBS Act provisions regarding Emerging Growth Companies could reduce the incentive for companies to use our services. See "*Recent Regulatory Developments—Jumpstart Our Business Startups Act ("JOBS Act").*" In addition, the SEC has the ability to suspend trading in securities trading on our marketplaces. The SEC has traditionally exercised this power with respect to inactive securities or securities of companies that cease to provide any information to the market for long periods of time. SEC trading suspensions may adversely affect our business.

Our wholly-owned subsidiary, OTC Link LLC, operates OTC Link ATS and is registered with FINRA as a broker-dealer and with the SEC as an ATS. Additional changes to FINRA's

regulation of broker-dealers or the SEC's regulation of ATSS could significantly increase our costs relating to regulatory compliance or cause us to be subject to penalties for non-compliance. Subscribers to our OTC Link ATS Trading Services are also FINRA member broker-dealers. Changes in FINRA's regulation of broker-dealers may adversely impact our subscribers, causing them to terminate their use of our service or cease trading OTCQX, OTCQB and OTC Pink securities.

As discussed in "*Recent Regulatory Developments—FINRA's QCF Proposal*", the QCF Proposal, if adopted by the SEC, could have an adverse effect on our operating results, including a significant negative impact on revenues from our Market Data Licensing and OTC Link ATS Trading Services lines of business. We cannot predict whether the QCF Proposal will be adopted in its current form or in an amended form. However, if this proposal is adopted, we may decide to bring legal action against the SEC and/or FINRA. A legal action relating to the QCF Proposal could be protracted and costly and could adversely affect our operating results, whether or not we prevail in any such legal action.

We are not a stock exchange, which enables us to offer certain services that are competitive with the services offered by stock exchanges with lower complexity and less cost to subscribers. We benefit from SEC regulations that prevent U.S. stock exchanges from listing or quoting the securities of companies that are not registered with the SEC as well as securities of smaller SEC registered companies that do not meet the exchange listing standards or are not current in their reporting obligations. We would be negatively impacted by any regulatory change that would enable registered stock exchanges to compete with us for the trading of OTCQX, OTCQB and OTC Pink securities or that would limit our ability to provide our products and services.

Our Corporate Services business targets companies choosing to deregister with the SEC. In recent years, the JOBS Act and other SEC initiatives have had the effect of causing issuers of registered securities to terminate their registration. The SEC's proposed Regulation A+ and Crowdfunding rules would allow companies issuing unregistered securities under these rules to publish ongoing disclosure on the SEC's EDGAR site. See "*Recent Regulatory Developments – Jumpstart Our Business Startups Act ("JOBS Act")*." Any regulatory change that would encourage or require more companies to undertake SEC registration and reverse the deregistration trend, or provide competitive venues for publishing disclosure, would likely reduce the demand for our OTC Disclosure & News Service and our OTCQX marketplace. If U.S. stock exchanges are permitted to create listing markets, such as a specialized market for smaller companies, broker-dealers could seek to quote companies on those markets, rather than on our OTCQB marketplace. In addition, companies could seek alternative trading venues to our OTCQX marketplace, causing our business to be adversely affected.

We plan to increase the standards for participation in the OTCQB marketplace in 2014, and begin charging a fee to companies wishing to have the OTCQB marketplace designation. These changes may cause companies to elect not to participate in the OTCQB marketplace, or, conversely, may give rise to competitors offering similar services to OTCQB companies. Our planned changes to the OTCQX and OTCQB marketplaces may also result in companies choosing not to participate in our marketplaces, which may adversely affect our brand and our operating results.

#### **Computer system limitations, failures, and security breaches could harm our business.**

Our business depends on the continuing operation of our information technology and communications systems. If these systems cannot accommodate user demand or otherwise fail to perform, we could experience disruptions in service, slower response times, and delays in the introduction of new or updated products and services. Interruptions in service and delays could

reduce revenues and profits, and our brand could be damaged if people believe our system is unreliable.

We have experienced systems failures in the past, and systems failures may occur in the future. Failures could be caused by, among other things, failures at third-party vendors on which we rely, hardware or software malfunctions or defects, unusually heavy use of our systems, insufficient capacity or network bandwidth, power or telecommunications failures, natural disasters and computer viruses. We also rely on third parties for systems support. Any interruption in these third-party services could be disruptive to our business. Although we currently maintain and expect to maintain multiple computer facilities that are designed to provide redundancy and back-up to reduce the risk of system disruptions and have facilities in place that are expected to maintain service during a system disruption, such systems and facilities may prove inadequate. The steps we have taken to increase the reliability and redundancy of our systems are expensive, reduce our operating margin and may not be successful in reducing the frequency or duration of unscheduled downtime.

We have programs in place to identify and minimize our exposure to vulnerabilities and work in collaboration with the technology industry to share corrective measures with our business partners, we cannot guarantee that such events will not occur in the future. Any system issue that causes an interruption in services, decreases the responsiveness of our services or otherwise affects our services could impair our reputation, damage our brand name and negatively impact our business, financial condition and operating results.

The fast and secure transmission of highly confidential information over public and other networks is a critical element of our operations. Our networks and those of our third-party service providers may be vulnerable to unauthorized access, computer viruses, and other security problems. Individuals could wrongfully access and use our information or our subscribers' or users' information, or cause interruptions or malfunctions in our operations. Although we have implemented security measures, our security and the security of our third party providers may prove to be inadequate. If our systems fail to perform or if there are security breaches, any such failures or breaches could, among other things, damage our reputation and/or cause a loss of business, trading, quote and message volumes and revenues, any of which could adversely affect our business, financial condition and operating results.

**Systems failures elsewhere in the securities trading industry could also negatively impact us.**

In recent years, technology-related failures impacted several prominent securities industry participants. These failures may result in costly new regulations for trading systems, such as Regulation SCI, which may impact OTC Link ATS. If broker-dealer subscribers to OTC Link ATS undergo significant systems failures they may cease to use our services, and those failures may erode investor confidence in the securities trading industry, which could adversely affect our business, financial condition and operating results.

**Our business depends on our ability to keep up with the significant and rapid technological and other changes that affect our industry.**

Our future success will depend on our ability to adapt to changing technologies, to conform our products and services to evolving industry and regulatory standards and to improve the performance and reliability of our services. Any failure to adapt and evolve would harm our business.

The markets in which we operate are characterized by rapid technological development, frequent enhancements to existing products and services, the introduction of new services and products, and rapidly changing customer demands. We have made significant investments in

the development of our technology infrastructure. Although investments in technology are carefully scrutinized for value to the enterprise, there can be no assurance that we will generate an acceptable return on such investments. Ultimately, we may not realize any, or may realize only small amounts of, revenues for these technological improvements.

We operate in a business environment that has undergone, and continues to experience, significant and swift technological change. To remain competitive, we must continue to improve the functionality, scalability, capacity, accessibility, and features of the technology for each of our three lines of business, especially technology relating to OTC Link ATS. We expend considerable resources in the development and testing of new products and upgrades to existing products. Nonetheless, our business would be negatively affected by the failure of new products or upgrades to function as expected.

Keeping pace with increasing technological requirements is expensive, and we cannot be sure that we will succeed in making these improvements in a timely manner or at all. Many of our potential competitors have much greater resources that, if applied to the development of technology to compete with our marketplaces, could make it difficult for us to provide competitive products and services. If we are unable to anticipate and respond to the demand for new services, products, and technologies on a timely and cost-effective basis and to adapt to technological advancements, we may be unable to compete effectively, which could adversely affect our business, financial condition, and operating results.

**Challenging economic conditions may impact our business, financial condition and operating results.**

Our business performance is impacted by a number of factors including general economic conditions. Although access to credit markets has improved, continued slow economic growth could result in reduced demand for our products and services and would likely negatively impact the ability of our customers, lenders, and other counterparties to meet their obligations to us. In particular, we believe that a prolonged stagnant economic climate could result in continued declines in trading activity, deterioration of the economic condition of our customers, and a reduction in demand for our market data.

We are highly dependent upon the levels of trading activity in our marketplaces and the number of broker-dealers in the market, which in turn affects the number of new OTCQX companies and the demand for corporate services, the quality and demand for our market data, and the demand for our website advertising. We have no control over the broker-dealers that use our trading services or other variables affecting the demand for our products. These variables are influenced by economic, political and market conditions and factors such as business and capital market trends, terrorism and war, concerns over inflation and the level of institutional or retail confidence, and changes in government policies. Because broker-dealer revenues are related to the level of trading activity in OTCQX, OTCQB and OTC Pink securities, it is likely that a general decline in trading volumes would adversely affect our broker-dealer subscribers, which may adversely affect our business, financial condition and operating results. Further, excessive market volatility could drive investors away from the OTCQX, OTCQB and OTC Pink marketplaces and lower our revenues.

Our Market Data Licensing business may be affected by the ongoing weak economic conditions. Continued reductions in trading activity could lower the value of our market data. In addition, demand for our market data may decline due to, among other things, our market data price increases that went into effect on January 1, 2014 and a decline in employment throughout the financial services industry, which is associated with a decline in trading activity. If our price increases prove too great for certain segments of our subscribers, the result may be a decrease in revenue generated from market data. Similarly, if the employment decline were

to continue, there would be fewer users of our products and services and remaining customers may seek to reduce costs by using less of them.

The effect of a stagnant or slow growth financial climate on our Corporate Services business may cause the OTCQX marketplace to shrink or to grow less than we expect or cease its recent growth. Reductions in trading activity may result in less demand by companies for our Corporate Services, including a reduction in the number of companies who choose to have their securities designated as OTCQX.

**OTC Link ATS is subject to FINRA and SEC oversight.**

Our wholly-owned subsidiary, OTC Link LLC, is a FINRA member broker-dealer and an SEC registered ATS. OTC Link LLC operates the OTC Link ATS trading system. Regulation of OTC Link ATS as an ATS increases our costs, including the cost of providing trading services. Regulatory compliance requires substantial time and resources, which make it more costly to operate our OTC Link ATS Trading Services business. The operation of OTC Link ATS is also subject to time-consuming periodic examinations by the SEC and FINRA, which may result in monetary or other penalties.

OTC Link LLC is subject to regulatory requirements intended to ensure its general financial soundness and liquidity, which require it to comply with certain minimum capital requirements. The SEC and FINRA impose rules that require notification when a broker-dealer's net capital falls below certain predefined criteria, dictate the ratio of debt to equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. The Uniform Net Capital Rule and FINRA rules also impose certain requirements that may have the effect of limiting the ability of OTC Link LLC to distribute or withdraw capital and that require prior notice to the SEC and FINRA for certain withdrawals of capital. Any failure to comply with these broker-dealer regulations could have a material adverse effect on the operation of our business, financial condition and operating results.

**Trading automation presents challenges to our business model.**

The automation of trading has resulted in a reduction in the number of broker-dealers and users for our OTC Dealer application and other services provided by OTC Link ATS. Trading automation is expected to continue, and revenue growth in our OTC Link ATS Trading Services business line may depend on our ability to introduce new services, which may not be successful.

**The securities market business is highly competitive.**

The industry in which we operate is highly competitive. We face formidable competition in every aspect of our business. We compete with other market participants, including other SEC-registered ATS's, in a variety of ways, including the cost of products and services, the functionality, ease of use and performance of trading systems, the range of products and services offered to customers, technological innovation, and reputation. We face competition in each of our business lines. There is the possibility that new ATS's could emerge that would further increase the competition in our industry. There is also the possibility that U.S. stock exchanges could create listing venues that compete with our OTCQB and OTCQX marketplaces. (See the discussion on the risks related to "*Regulatory Changes*," above.) The planned NASDAQ Private Market, a joint venture between NASDAQ and SharePost, may also prove to be a competitor if and when it is launched. The SEC's recent Regulation A+ and Crowdfunding proposals that would allow unregistered issuers to publish disclosure on the SEC's EDGAR system, would, if adopted, compete with the OTC Disclosure & News Service. See "*Recent Regulatory Developments – Jumpstart Our Business Startups Act ("JOBS Act")*."

To continue growing, we may be forced to enter into more competitive markets. If we fail to compete successfully with existing or new OTC market participants, our business, financial condition, and operating results may be adversely affected. For additional information on the competitive environment in which we operate, see the section on “Competition” below.

**The corporate services business is highly competitive.**

The environment in which we seek to have companies trade their securities on our tiered marketplaces is highly competitive with numerous large, financially strong competitors. The leading global stock exchanges have highly developed and successful listing products and premium fee structures that can fund substantial advertising, marketing and sales efforts. The availability of global stock exchanges may limit the number of companies that are willing to consider using our premium corporate services. The fees charged for companies to join the OTCQX and OTCQB marketplaces cannot support the same level of sales, marketing and advertising efforts as NYSE, NASDAQ, London Stock Exchange or others.

**Many OTCQX companies operate in Canada and are concentrated in specific industries, and may be subject to economic factors in Canada that may cause them to no longer meet the OTCQX standards or to choose to withdraw from OTCQX.**

A significant percentage of our OTCQX companies are based in Canada, and many of those companies are engaged in the resource sector. The prolonged downturn in specific industries may continue to adversely affect the operating results of those companies, causing them to no longer meet the OTCQX standards or to choose to withdraw from OTCQX to reduce costs. A downturn in the general Canadian economy may also adversely affect the operating results of Canadian OTCQX companies, causing them to no longer meet the OTCQX standards or to choose to withdraw from, OTCQX. The voluntary or involuntary withdrawal from OTCQX by these companies could adversely affect our OTCQX brand as well as our financial position and results of operations.

**OTCQX, OTCQB and OTC Pink marketplaces are not national securities exchanges and this may limit the pool of available investors for OTCQX companies and may cause some investors to choose not to invest in OTCQX, OTCQB and OTC Pink securities.**

Some investors may only invest in securities listed on a national securities exchange. Our OTCQX marketplace offers many services comparable to those offered by a national securities exchange, however under current regulations national securities exchanges have the ability to offer certain advantages to listed companies. For example, securities listed on a national securities exchange are exempt from state Blue Sky laws covering the offer or sale of securities within the state. National securities exchange also offer the ability to margin certain listed securities and the potential inclusion of listed securities in certain exchange-traded funds and indices. These differences between our marketplaces and the national securities exchanges may make companies reluctant to pursue having their securities traded on the OTCQX, OTCQB or OTC Pink marketplaces.

**Our OTCQX marketplace relies on the DAD/PAL community of third-party advisors, and the behavior of these advisors is outside of our control.**

OTCQX companies are required to work with an investment bank or securities attorney qualified as a DAD or PAL (See the discussion of the OTCQX marketplace in “*Products and Services*,” above). We rely on the DAD/PAL community to advise OTCQX companies and to work with us to ensure company compliance with the OTCQX Rules. Fraud or misconduct by members of the DAD/PAL community could erode investor confidence in OTCQX or affected OTCQX companies.

Certain DADs and PALs advise a large number of OTCQX companies. These or other DADs or PALs may decide not to provide this service or may cease to do business altogether, leaving one or more OTCQX companies without a required DAD or PAL. We would assist affected OTCQX companies to obtain services from another qualified DAD or PAL, but it is possible some companies will not be successful in finding another suitable DAD or PAL, or may choose not to work with another DAD or PAL, and may withdraw from OTCQX.

**We are subject to reliance on a decreasing number of major customers as financial institutions are acquired, merge, restructure, and dissolve.**

A majority of our OTC Link ATS Trading Services and Market Data Licensing subscribers are financial institutions. Recent conditions in the financial markets have caused our customer base to decrease as the number of financial institutions decreased, which could cause our subscriber base to shrink. If this trend continues, our relationships with our largest distribution partners or a substantial number of our financial institution customers may terminate, not renew, or be renegotiated on terms less favorable to us, resulting in adverse effects on our business.

**If we are not able to maintain and enhance OTC Markets Group's reputation and brand, our ability to expand our business will be impaired and our business and operating results will be harmed.**

Among our competitive advantages are our strong reputation and brand name. We believe that our brand identity has significantly contributed to the success of our business. We also believe that maintaining and enhancing the "OTC Markets Group" brand as an innovative provider of financial information and technology services is critical to expanding our business. Our OTCQX marketplace needs to be a trusted designation associated with established, high quality companies. Our OTCQB marketplace must become a trusted designation for venture stage companies that are current in their reporting obligations to regulators and that make verified information available to investors. Our OTC Pink marketplace brand must convey electronic trading services for broker-dealers while alerting unsophisticated investors to the potential risks of speculating in OTC Pink securities. Maintaining and enhancing our brands may require us to make substantial investments and these investments may not be successful. If we fail to promote and maintain our brands, or if we incur excessive expenses in this effort, our business, operating results, and financial condition will be materially and adversely affected. Maintaining and enhancing our brands will depend largely on our ability to be a technology leader and to continue to provide high quality products and services, which we may not do successfully.

Our reputation could be harmed by, among other things, issues related to:

- technology-related failures, including security breaches;
- misconduct or fraudulent activity by current or past employees;
- any inaccuracy of our financial statements or other public disclosure;
- any failure to comply with regulatory requirements or negative public statements by regulators;
- the inability to execute our business plan, key initiatives or new business ventures;
- the inability to continue paying dividends on our common stock;
- the inability to keep up with changing customer demand;
- any diminishment in the quality of our products and services;
- negative publicity, misconduct or fraudulent activity by OTC Link ATS subscribers;

- negative publicity surrounding us or OTCQX, OTCQB or OTC Pink companies;
- unsuccessful implementation or acceptance of new product and service offerings; and
- extreme volatility in our marketplaces.

Damage to our reputation could harm our business in many ways, including causing broker-dealers to discontinue their use of our OTC Link ATS, causing companies not to choose to trade their securities on, or to remove their securities from, OTCQX or OTCQB, causing current or potential customers to refrain from purchasing market data and causing regulators to scrutinize or impose regulations on our operations. Any of these events could adversely affect our business, financial condition and operating results.

**Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.**

Our operating results may fluctuate as a result of a number of factors, many of which are outside of our control, including economic and political market conditions, natural disasters, terrorism, war or other catastrophes, broad trends in industry and finance, price levels and volatility in the stock market, the level and volatility of interest rates, changes in government monetary or tax policy or other legislative and regulatory changes, the perceived attractiveness of the U.S. markets, and inflation. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of future performance.

Our inability to attract new subscribers or retain current subscribers would negatively impact the Company's operating results. It is possible that our operating results may fail to meet our expectations or the expectations of stock market analysts and investors. If this happens, the market price of our common stock may be adversely affected.

**We may need additional funds to maintain and grow our business, which may not be readily available.**

We depend on the availability of capital and credit to maintain and develop our business. Although we believe that we can meet our current capital requirements from internally generated funds, cash on hand and available borrowings, there are no assurances that additional capital will not be required in the future. If we do not achieve our expected operating results, we may need to reallocate our cash resources. Our failure to fund our capital or credit requirements could have an adverse effect on our business, financial condition, and operating results.

We have no outstanding borrowings under our \$1.5 million line of credit with JPMorgan Chase Bank, N.A. ("JPMorgan Chase"). See "*Liquidity and Capital Resources—Line of Credit*." In the event that we draw funds on our line of credit, we would be subject to restrictive covenants that could, among other things, restrict our ability to grant liens, incur additional indebtedness, pay dividends, sell assets, and make certain payments. Our failure to meet any of the covenants could result in an event of default. If an event of default were to occur, and we are unable to receive a waiver of default, our lenders could increase our borrowing costs, restrict our ability to obtain additional borrowings, accelerate all amounts outstanding, or enforce their interest against all collateral pledged. On the other hand, if we were to raise funds through issuing additional equity, our equity holders will suffer dilution.

If the capital and credit markets experience volatility, access to additional capital or credit may not be available on terms acceptable to us or at all.



**We are not subject to SEC reporting requirements, which may negatively impact our ability to raise capital.**

None of our common stock has been registered with the SEC under the Securities Act or the Exchange Act or qualified under any state securities laws. We do not file annual, quarterly, or current reports or proxy statements with the SEC. This limits our ability to raise capital under certain circumstances. For example, certain investors will not invest in unregistered securities, including in private offerings of securities issued by public companies that do not provide investors with registration rights.

Moreover, our securities are not listed on a national securities exchange. Many states require securities not listed on a national securities exchange to comply with state Blue Sky laws before such securities may be traded within the state. We avail ourselves of the Blue Sky “manual exemption” through our inclusion in S&P’s Corporation Records, Market Access Program and Mergent’s Mergent OTC Industrial and OTC Unlisted Manuals, and other applicable exemptions, however not all states recognize the manual exemption and there are states in which we have not qualified for an exemption.

If we decide to issue securities in a registered public offering, we will also be required to register our securities under the Exchange Act and, among other things, comply with SEC reporting requirements, which would increase our ongoing costs of operations.

**We are exposed to credit risk from third parties.**

We are exposed to credit risk from third parties, particularly in relation to our QAP One Statement service. These parties may default on their obligations to us due to bankruptcy, lack of liquidity, or other reasons. We also have credit risk related to usage fees that are billed to our subscribers in arrears. Our subscribers are generally financial institutions whose ability to satisfy their contractual obligations may be negatively impacted by, among other things, slow or stagnant financial growth. Credit losses could adversely affect our financial position and results of operations.

**Our failure to attract and retain key personnel may adversely affect our ability to conduct our business.**

Our success depends, in large part, upon our ability to attract and retain highly qualified personnel. Competition for highly qualified individuals is intense. Our ability to attract and retain highly qualified personnel will be dependent on a number of factors, including market conditions and compensation offered by our competitors. Moreover, there can be no assurance that we will be able to retain our current employees. We may have to incur costs to replace senior executive officers or other key employees who leave, and our ability to execute our business strategy could be impaired if we are unable to replace such persons in a timely manner.

We are highly dependent on the continued services of R. Cromwell Coulson, our Chief Executive Officer, and other executive officers and key employees who possess extensive knowledge and technology skills. Other than Mr. Coulson, we do not have any employment agreements. We maintain a “key person” life insurance policy on Mr. Coulson in the amount of \$5 million, but the loss of the services of Mr. Coulson or other key employees for any reason could have a material adverse effect on our business, financial condition, and operating results.

**Our intellectual property rights are valuable and any failure to protect our intellectual property rights, or allegations that we have infringed the intellectual property rights of others, could adversely affect our business, financial condition, and operating results.**

Our trademarks, trade secrets, copyrights, pending patents and all of our other intellectual property rights are important assets. Our intellectual property rights are subject to a combination of trademark laws, copyright laws, patent laws, trade secret protection, confidentiality agreements, and other contractual arrangements with our affiliates, customers, and others. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights, including with respect to our market data. Failure to protect our intellectual property adequately could harm our reputation and affect our ability to compete effectively. Further, defending our intellectual property rights may require significant financial and other resources.

Third parties may assert intellectual property rights claims against us, which may be costly to defend, could require the payment of damages, and could limit our ability to use certain of our intellectual property. Any such claims, with or without merit, could be expensive to litigate or settle, and could divert management resources and attention. Successful challenges against us could require us to modify or discontinue our use of technology or business processes or require us to purchase licenses from third parties, any of which could adversely affect our business, financial condition and operating results.

#### ***Risks Relating to an Investment in OTC Markets Group's Common Stock***

**If a more active, liquid trading market for our common stock does not develop, stockholders may be unable to sell their shares quickly or at all.**

Currently, our shares are thinly traded. Prices of thinly traded securities, such as OTC Markets Group's common stock, tend to be more volatile than those traded more actively because just a few trades may affect the market price substantially. Stockholders may not be able to sell their shares quickly or at all, or obtain an expected price, and it is especially difficult to sell shares during a slow period in the financial markets.

**The market price and trading volume of OTC Markets Group's common stock may be volatile and stockholders could lose some or all of their investment.**

A variety of market and industry factors may affect the market price of our common stock, regardless of our actual operating performance. This market volatility, as well as the factors listed below, could affect the market price of our common stock, and stockholders may lose some or all of their investment:

- quarterly variations in our results of operations or the results of operations of our competitors;
- additions or departures of key personnel;
- changes in earnings estimates, investors' perceptions, recommendations by securities analysts or failure to achieve analysts' earnings estimates;
- the inability to continue to pay quarterly dividends;
- the announcement of new products or service enhancements by us or our competitors;
- developments in the financial services industry;
- regulatory changes;
- technology failures or outages;

- harm to our brand or reputation; and
- general economic, market and political conditions and other factors.

**Our Chief Executive Officer holds over 30% of our issued and outstanding capital stock.**

As of December 31, 2013, our Chief Executive Officer, R. Cromwell Coulson, owns approximately 31% of the voting power of our outstanding capital stock. Since he owns a large percentage of our capital stock, he will have significant influence over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of the Company or our assets, for the foreseeable future. This concentrated control may limit the ability of other stockholders to influence corporate matters, and as a result we may take actions that our other stockholders do not view as beneficial. As a result, the market price of our common stock could be adversely affected.

**Provisions of our certificate of incorporation, by-laws, and Delaware law could delay or prevent a change in control of the Company and entrench current management.**

Our organizational documents contain provisions that may be deemed to have an anti-takeover effect and may delay, deter, or prevent a change of control, such as a takeover proposal that might result in a premium over the market price for our common stock. Additionally, certain of these provisions make it more difficult to bring about a change in the composition of our board of directors, which could result in entrenchment of current management.

Our certificate of incorporation and by-laws:

- authorize our board of directors to elect directors to fill a vacancy created by the expansion of the board or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- require supermajority stockholder approval to remove directors;
- do not permit stockholders to act by written consent or to call special meetings; and,
- authorize the board, in the event of a tender or other offer for our shares, to advise stockholders not to accept the offer, to create a preferred stock rights agreement and to obtain a more favorable offer from another individual or entity.

Our certificate of incorporation elects the application of Section 203 of the Delaware General Corporation Law, or DGCL. Under Section 203 of the DGCL, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Our board of directors could rely on Delaware law to prevent or delay an acquisition of the Company. See *“Provisions in the Issuer’s charter or by-laws that would delay, defer or prevent a change in control of the Issuer.”*

**2014 Outlook**

*This section is comprised primarily of forward-looking statements. See “Cautionary Note Regarding Forward-Looking Statements.”*

The Company expects to focus its 2014 strategic initiatives on three primary objectives: 1) Enhancing our Corporate Services by streamlining the OTCQX Rules for banks and U.S. companies and making OTCQB a better venture stage marketplace; 2) Increasing the breadth and depth of securities traded on OTC Link ATS and the market data distributed by our Market Data Licensing business line; and 3) Continuing to invest in our platform and people with a focus on ensuring uptime and developing new products and services.

Our Corporate Services business line plans to implement a separate set of OTCQX Rules designed specifically to create a public marketplace that meet the needs of U.S. banks. In February 2014, Corporate Services published updates to the OTCQX Rules for U.S. Companies, streamlining the requirements for SEC and non-SEC reporting U.S. companies, and to the OTCQX Rules for International Companies, removing unnecessary impediments to the OTCQX process for these companies and allowing non-U.S. companies to use the OTCQX marketplace as a key part of their U.S. Investor Relations strategy. Corporate Services is also planning to make OTCQB a better venture stage marketplace. See “*Recent Business Developments — Enhancements to OTCQX and OTCQB Marketplaces*”.

We plan to expand the breadth and types of securities traded on OTC Link ATS and focus on the widespread distribution of our market data. Our focus is to improve the trading experience for market makers by innovating and effectively deploying features to make trading on OTC Link ATS more efficient and effective for market makers. The expansion of our market data across new sectors in the financial industry will stem from new types of securities being traded on OTC Link ATS. As part of this initiative, we will continue working to ensure that our marketplace designations are correctly displayed on financial portals and networks that disseminate our market data. We implemented price increases in certain Market Data Licensing subscriptions effective January 1, 2014, which we believe will generate greater subscription revenue during 2014.

As part of our growth and development, we will continue to increase our investment in our platform and people. We plan to continue implementing significant upgrades to our IT architecture and infrastructure to ensure uptime and provide new products and services. We expect this investment in our technology to allow us to leverage our increased bandwidth to complement the growth of our core business lines, and ensure high quality service delivery and customer satisfaction. These improvements will also allow our business lines to continue to develop and enhance current services through a more scalable network. We expect that operating expense growth will be primarily concentrated in compensation and benefits and continuous upgrades to our IT infrastructure. Based on business and strategic requirements, we expect to continue to offer competitive compensation packages to attract additional employees and retain existing employees.

## **Other Business and Regulatory Information**

### **Regulation**

Our OTC Link ATS Trading Services business line is operated by our wholly-owned subsidiary, OTC Link LLC, a FINRA member broker-dealer and an SEC registered ATS. The majority of our OTC Link ATS Trading Services operations are therefore subject to regulation and periodic examinations by the SEC and FINRA.

Our operation of OTC Link LLC as an ATS has not significantly altered our existing business model or the services we provide. FINRA member broker-dealers publish quotes and transmit trade messages on our facilities, and we are not a reporting party to any trade executions that may result. FINRA rules require broker-dealers to comply with the firm quote rule (FINRA Rule 5220), which requires that a broker-dealer’s published quotes be firm and include minimum sizes, and prohibits backing away from such quotes. FINRA’s reporting rules also apply, including the requirement that broker-dealers report all transactions within 10 seconds to FINRA’s OTC Reporting Facility.

Other than having OTC Link LLC regulated by the SEC as an ATS, we do not expect to be directly regulated by the SEC in any other capacity, although we cannot be sure that this status will continue. OTC Markets Group, and our marketplaces generally, provide an alternative to

stock exchange listing for the U.S. quoting and trading of securities of companies that either choose not to be listed on a U.S. stock exchange or do not meet the relevant listing requirements. Our non-exchange status enables us to offer certain financial information and technology services that are competitive with the services offered by stock exchanges with less complexity and lower costs, but it also inhibits our ability to provide certain other services.

We believe that we have a good working relationship with the SEC, FINRA and state securities regulators. It is our policy to share information about ourselves pro-actively with regulators, and to provide records promptly in response to regulatory requests. OTC Markets Group requires each company displaying information on the OTC Disclosure & News Service to agree in writing that OTC Markets Group may provide the relevant authorities with information provided by the company and the identity of those authorized to submit information on the company's behalf.

Our services facilitate transparency and provide a repository of information regarding activities by broker-dealers and companies. We believe that the transparency and automation our products and services facilitate, as well as the information we make available to regulators, increases regulatory surveillance and oversight of market participants and improves our OTCQX, OTCQB and OTC Pink marketplaces.

There is no regulatory relationship between OTC Markets Group and companies whose securities trade on our marketplaces, and such companies are not required by U.S. securities laws to provide us with financial information or other disclosure for their securities to be traded by broker-dealers on OTC Link ATS. In our experience, companies that make financial information and disclosure widely available may see improved market efficiency and increased liquidity as a result of their transparency and engagement with investors and their wider stakeholder community of customers, employees and suppliers.

The effect of SEC regulation on our business would depend on its form. Recent regulatory developments have applied rules developed in the markets for stock exchange listed securities to the trading of OTC equity securities. Any regulatory change that would enable registered stock exchanges to compete with us in the market for OTC equity securities or, on the other hand, that would limit our ability to offer certain services, can be expected to have a material adverse effect on our business. From time to time, the SEC has considered regulatory changes that would affect broker-dealers that use our OTC Link ATS Trading Services, and it is possible that changes in the regulation of our broker-dealer customers would have a material adverse effect on our business. For example, SEC approval of FINRA's QCF Proposal could negatively impact our revenues by, among other things, (i) significantly reducing our ability to license our OTC Link NBBO and (ii) reducing our Market Data Licensing revenue. See "*Recent Regulatory Developments – FINRA's QCF Proposal.*"

Other than the JOBS Act, QCF Proposal, Regulation SCI, the Tick Size Pilot described in "*Recent Regulatory Developments,*" we are not aware of any current proposals for regulatory reform that would have a direct impact on the market for OTC equity securities, but there can be no assurance that any regulations eventually adopted will not have a material adverse effect on our business.

## **Employees**

At December 31, 2013 and 2012, OTC Markets Group had a total of 81 and 74 employees, respectively, all of whom are full-time employees. Employees are staffed in one of our three business lines – OTC Link ATS Trading Services, Market Data Licensing and Corporate Services or one of our three support units – Product Development, IT Infrastructure and Finance & Corporate Administration. The Product Development group designs, creates, enhances, and releases our various suites of products and services and maintains our websites; the IT

Infrastructure group ensures operational and system efficiencies and manages our various databases; and the Finance and Administration group is responsible for our finance, compliance, legal, corporate marketing and human resources functions.

## **Competition**

### *OTC Link ATS Trading Services*

We compete with U.S. stock exchanges such as NASDAQ and NYSE because a portion of the companies traded on OTC Link ATS may also qualify for a stock exchange listing. The SEC's regulation of stock exchanges has been in a state of flux for several years. The JOBS Act includes provisions aimed at making it easier for emerging companies to achieve a stock exchange listing. Stock exchange regulation may also be affected by stock exchange acquisitions and the potential consolidation of global stock exchanges. Any regulatory change that would better enable registered stock exchanges to compete with us for the quotation of international and other non-SEC registered equity securities or that would limit our ability to provide our services can be expected to have a material adverse effect on our business. In particular, we benefit from current SEC regulations that prevent a U.S. stock exchange from listing the securities of non-SEC registered foreign companies. We would face increased competition for the quotation of OTC equity securities if U.S. stock exchanges were permitted to list or quote non-SEC registered foreign securities.

We could also face competition from, among other things, an industry consortium that launches a competing interdealer quotation system, if we are unable to provide our clients with high quality products and services at competitive prices. At the present time, NYSE Arca and certain other registered ATS's provide execution services, rather than quotation services, and are considered our subscribers rather than our competitors, although any one of them may change their business model to offer an interdealer quotation system that directly competes with the services offered by OTC Link ATS.

### *Market Data Licensing*

We compete with third parties who provide market data to market participants, including NASDAQ and FINRA OTC Bulletin Board market data. Because the market data business is highly dependent on rapidly changing technology, to remain competitive we must constantly invest in innovative product design and development. Many of our competitors have greater financial and other resources than we do. These market data providers may offer more competitive pricing and deploy new products and business methods to our detriment. Competition may arise from, among other things, FINRA providing quote data for securities on our marketplaces through the NASDAQ UTP Level 1 data feed, in the event that the QCF Proposal is approved.

### *Corporate Services*

It is possible that the planned NASDAQ Private Market could alter its business model in an attempt to compete with our Corporate Services, or that a new market for small, non-exchange listed companies may develop as a result of the JOBS Act or otherwise. The SEC's recent Regulation A+ and Crowdfunding proposals that would allow unregistered issuers to publish disclosure on the SEC's EDGAR system, would, if adopted, compete with the OTC Disclosure & News Service. See "*Recent Regulatory Developments – Jumpstart Our Business Startups Act ("JOBS Act")*." We would face competition from any marketplace offering any of our Corporate Services for non-exchange listed company shares.

## **Dependence on One or a Few Major Customers**

OTC Markets Group's three business lines produce a diverse offering of products and services. The varied nature of our revenue streams generally prevents us from material reliance on a small number of major customers. However, our Market Data Licensing business utilizes third party data redistributors to bring our data to numerous end users and the public dissemination of our market data is somewhat concentrated among certain major redistribution partners. During both 2013 and 2012, redistribution of our market data licenses through Bloomberg LP accounted for 13% of our gross revenues.

A majority of our OTC Link ATS Trading Services and Market Data Licensing customers are financial institutions. We are subject to reliance on a decreasing number of major customers as financial institutions are acquired, merge, restructure and dissolve. If our relationship with our largest distribution partners or a substantial number of our financial institution customers is terminated, not renewed, or renegotiated on terms less favorable to us, our business could be adversely affected.

## **Trademarks, Licenses, Franchises, Concessions, Royalty Agreements, or Labor Contracts**

To protect our intellectual property rights, we rely on a combination of trademark and copyright laws, trade secret protections, confidentiality agreements, and other contractual arrangements with our clients, strategic partners, and others. The protective steps that we take may be inadequate to deter misappropriation of our proprietary information. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights, including with respect to our market data.

We own or have licensed rights to trade names, trademarks, domain names, and service marks that we use in conjunction with our operations and services. We have registered many of our most important trademarks. Our primary trademarks and trade names include "OTCQX," "OTCQB," "OTC Pink," "OTC Link," "Pink," "Pink Sheets" and "QAP". We currently have 6 pending United States trademark applications, 33 registered trademarks, and 1 pending patent. We maintain copyright protection in our branded materials.

There has been considerable controversy in recent years over ownership of market data. We vigorously defend our rights to own and license the use of market data. However, U.S. intellectual property laws continue to be the subject of significant dispute. Any change in existing law that would place in question our intellectual property rights in our market data would have a material adverse effect on this aspect of our business.

## **The Need for any Governmental Approval of the Company's Products and Services and the Status of such Approvals**

OTC Link LLC is a broker-dealer member of FINRA and an SEC registered ATS, known as OTC Link ATS. FINRA membership and SEC registration subject our OTC Link ATS Trading Services to FINRA and SEC rules. At the present time, we believe all of the products and services we will offer through OTC Link ATS fully comply with FINRA and SEC rules, but our status as an ATS and FINRA member may delay or restrict the introduction of future products and services and our ability to market them.

We work closely with securities regulators to promote rulemaking that benefits transparent and efficient OTC markets and to provide data and information to them in conjunction with enforcement activities.

In May 2013, the SEC updated its Compliance and Disclosure Interpretations stating that the OTCQX and OTCQB marketplaces are now considered "established public markets" for the

purposes of establishing a public market price when registering securities for resale in equity line financings on SEC Forms S-1 or S-3. As a result, companies may use their OTCQX or OTCQB marketplace trading to complete an equity line financing registration statement, and no longer need to have a quote on FINRA's OTC Bulletin Board to be considered to have an established public market.

### **The Nature and Extent of the Issuer's Facilities**

OTC Markets Group's corporate headquarters is located at 304 Hudson Street, New York, NY 10013, and is composed of approximately 12,500 square feet of general office space on the second floor and approximately 12,500 square feet of office, conference, meeting, and reception space that comprises the OTCQX Market Center on the third floor. We lease all of our space in this building. The lease expires in 2017 and the annual rental expense is approximately \$954 thousand.

During 2011, the Company commenced a lease agreement for our Washington, D.C. office, located at NW 100 M Street, Washington, D.C. 20003, which is approximately 4,000 square feet of general office space. The lease expires in 2016 and annual rent expense is approximately \$165 thousand.

We also contract with SunGard Availability Services, in Carlstadt, New Jersey and Philadelphia, Pennsylvania, for computer hosting and networking services, including production, back-up and disaster recovery, as well as internet and telecommunications services.

## **PART D. Management Structure and Financial Information**

### **The name of the Chief Executive Officer, members of the Board of Directors, as well as control persons**

#### **A. Officers and Directors**

##### **R. Cromwell Coulson**, President and Chief Executive Officer; Director

R. Cromwell Coulson is President, CEO and a Director of OTC Markets Group. In 1997, Cromwell led a group of investors in acquiring OTC Markets Group's predecessor business, the National Quotation Bureau (NQB). Cromwell led the transformation of what was an opaque and inefficient market into a technology-driven, Open, Transparent and Connected financial marketplace platform. Today, OTC Markets Group operates the OTCQX, OTCQB and OTC Pink marketplaces for over 10,000 securities. Prior to the acquisition of NQB, Cromwell was an institutional trader and portfolio manager specializing in distressed and value-oriented investments at Carr Securities Corporation, an OTC market maker. Cromwell received a BBA from Southern Methodist University in Dallas, TX and graduated from the Owner/President Management Program at Harvard Business School. Cromwell is 47 years of age.

##### **Wendy Fraulo**, Chief Financial Officer

Wendy Fraulo joined OTC Markets Group as CFO in July 2011. Wendy has over 13 years of public accounting experience. Previously, Wendy was a Senior Manager in M&A Transaction Services at Deloitte & Touche LLP, working with major private equity firms and strategic buyers and Deloitte's AERS practice, where the majority of her audit clients were large SEC registrants. Wendy holds a Bachelor of Science from Fairfield University. She is a CPA in New York, the District of Columbia, and Massachusetts and is a member of the AICPA and the New York State Society of CPA's. Wendy is 36 years of age.



**Matthew Fuchs**, Managing Director – Market Data and Strategy

Matthew Fuchs joined OTC Markets Group in 2007 to help build out the growing product development team. He has over 13 years of experience in the financial technology industry. Prior to OTC Markets Group, he served as the Director of Product Development for The National Research Exchange (NRE), an equity research start-up. Before NRE he was a Manager/Technology Consultant for Bearing Point and Arthur Andersen. Matthew received a BA from Columbia University. Matthew is 38 years of age.

**Lisabeth Heese**, Managing Director – Issuer and Information Services

Lisabeth (Liz) Heese joined OTC Markets Group in 2004 as the Director of Issuer and Information Services. Since then, she has built a team responsible for collecting and maintaining market data for over 10,000 companies; development, sales and support of company-related products and services; and monitoring company compliance with OTC Markets Group's policies and procedures. Prior to joining OTC Markets Group, Liz spent 11 years at NASDAQ, serving as a Product Manager in the Trading and Market Services Division for what is currently the FINRA OTC Bulletin Board. Liz received a BA degree from American University. Liz is 44 years of age.

**Michael Modeski**, President, OTC Link LLC

Mike Modeski joined OTC Markets Group in 2011. Mike has over 18 years of experience in the financial markets, with a focus on the OTC markets. Previously, Mike served as the Director of Broker-Dealer Execution Services and Sales at Citigroup and the Director of Execution Services at Lava Technology, a division of Citigroup. Before working at Citigroup, Mike was the Director of OTC Equities at FINRA, and held several management positions at Pershing. Mike graduated from Lehigh University with a Bachelor of Science in Finance in 1995. Mike is a member of the Board of Directors of the Security Traders Association of New York (STANY). Mike is 42 years of age.

**Timothy Ryan**, Managing Director – Sales and Business Development

Timothy Ryan has been with OTC Markets Group since 2005, where he heads up new business development and sales for the corporate clients business. Tim has been involved in building better financial marketplaces for most of his professional career. Prior to joining OTC Markets Group, Tim was with NASDAQ OMX and Bloomberg BNA focusing on new product development, marketing, and sales. Tim holds a BA from Stonehill College in Massachusetts and is a frequent speaker at conferences and seminars on topical issues related to the securities industry. Tim is 43 years of age.

**Daniel Zinn**, General Counsel

Dan Zinn joined OTC Markets Group as General Counsel and Corporate Secretary in November of 2010. Prior to joining OTC Markets Group, he was a partner at The Nelson Law Firm, LLC, outside counsel to the Company. Dan also previously worked in the corporate office of the American International Group (AIG). He received a BS degree from the Pennsylvania State University and earned his JD at the Benjamin N. Cardozo School of Law in New York City, where he served as Associate Editor of the Cardozo Law Review. Dan is a member of the American Bar Association. Dan is 36 years of age.

**Gary Baddeley**, Director

Gary Baddeley has served as CEO of TDC Entertainment, a diversified entertainment company, since 1997. TDC's core businesses are home entertainment and electronic publishing. Previously, Gary served for two years as Vice President and General Manager of a leading dance music label, Robbins Entertainment. From 1990 to 1996 Gary was an attorney at Phillips

Nizer LLP in New York City, specializing in representation of clients in the music and television industries. Gary holds a JD from New York University School of Law and a B.Sc. from Kingston University. Mr. Baddeley is 48 years of age.

**Louisa Serene Schneider**, Director

Louisa Serene Schneider is the Senior Director for the Heilbrunn Center for Graham & Dodd Investing at Columbia Business School, responsible for all operational aspects of the school's value investing activities including maintaining and developing new programs and initiatives surrounding the Graham & Dodd tradition at Columbia. Ms. Serene Schneider has taught in Columbia's Executive Education course on Value Investing since 2010. Prior to her work at Columbia, from 2000 to 2008 Ms. Serene Schneider was employed by Morgan Stanley and JPMorgan in several departments, including Mergers & Acquisitions, Fixed Income Research, and Trading. Ms. Serene Schneider received a B.S. from Dartmouth College in Political Science and French and an M.B.A. from Columbia Business School. Ms. Schneider is 37 years of age.

**Andrew Wimpfheimer**, Director

Andrew Wimpfheimer has been a private investor since 2005. Mr. Wimpfheimer served as Director of AM Capital LLC from 2002 to 2005. From 1995 to 2001, Andrew was Managing Director responsible for OTC-Non-NASDAQ Trading at Knight Securities, L.P. From 1988 to 1995 he was an equity trader for Troster Singer Inc., a division of Spear, Leeds & Kellogg, Inc. From 1985 to 1988, Andrew was employed by Spear, Leeds & Kellogg Inc., where his duties included work on the NYSE, AMEX, Futures Market and Arbitrage Department, as well as general back office work. From 1980 to 1985, Andrew was a New York Stock Exchange floor clerk, trading desk employee and back office trainee for Herzfeld & Stern LLP. Mr. Wimpfheimer received his BA from Macalester College in St. Paul, Minnesota. He attended the Taft School in Watertown, Connecticut as well as the Collegiate School in New York City. Mr. Wimpfheimer is 57 years of age.

**Neal Wolkoff**, Chairman of the Board of Directors

Neal Wolkoff is a former executive of three exchanges, and is currently a consultant and attorney focusing on futures and securities markets, exchanges, market regulation, operations and clearinghouses. From 2008 to February 2012, Mr. Wolkoff was the Chief Executive Officer of ELX Futures, L.P. From 2005 to 2008, he served as Chairman and Chief Executive Officer of the American Stock Exchange (AMEX). Prior to the AMEX, Mr. Wolkoff was an executive officer at the New York Mercantile Exchange (NYMEX) from 1981 to 2003, over time serving as Acting President, Chief Operating Officer, and Senior Vice President for Regulation and Clearing. From 1980 to 1981, Mr. Wolkoff was employed as an Honors Program Trial Attorney in the Division of Enforcement of the Commodity Futures Trading Commission. In addition to his role as a non-executive director of OTC Markets Group, Mr. Wolkoff is a non-executive director of World Gold Trust Services, the sponsor of the Exchange Traded Fund "GLD." Mr. Wolkoff is also a member of the not-for-profit board of The Golda Och Academy in West Orange, NJ. Mr. Wolkoff received a B.A. from Columbia University and a J.D. from Boston University School of Law. Neal is a member of the Bar of the State of New York. Mr. Wolkoff is 58 years of age.

***Board Memberships and Other Affiliations***

Mr. Baddeley is the president and a director of a New York cooperative corporation and a director of Downtown United Soccer Club, Inc., a New York not-for-profit corporation.

Mr. Coulson is an officer of a small New York cooperative corporation.

Mr. Wolkoff is a non-executive director of World Gold Trust Services and a member of the not-for-profit board of The Golda Och Academy in West Orange, NJ.

### **Compensation of Officers and Directors**

Beneficial share ownership of Officers and Directors as of March 1, 2014:

<b>Name and Business Address*</b>	<b>Position</b>	<b>Shares Beneficially Owned**</b>	<b>Options Outstanding</b>	<b>Vested Options Outstanding</b>	<b>Note</b>
R. Cromwell Coulson	President, Chief Executive Officer, and Director	3,423,988 Class A 130,838 Class C	-	-	(1)
Wendy Fraulo	Chief Financial Officer	52,000 Class A	30,000	12,000	(2)
Matthew Fuchs	Managing Director, Market Data and Strategy	83,992 Class A	30,000	27,000	(3)
Lisabeth Heese	Managing Director, Corporate Services	89,320 Class A	45,000	44,000	(4)
Michael Modeski	President, OTC Link LLC	100,500 Class A	50,000	20,000	(5)
Timothy Ryan	Managing Director, Sales and Business Development	93,262 Class A	46,000	41,800	(6)
Dan Zinn	General Counsel	48,500 Class A	20,000	12,000	(7)
Gary Baddeley	Director and Audit Committee Member	125,835 Class A	-	-	
Louisa Serene Schneider	Director and Audit Committee Member	13,125 Class A	-	-	
Andrew Wimpfheimer	Director and Audit Committee Chairman	392,810 Class A	-	-	(8)
Neal Wolkoff	Director and Chairman of the Board	13,125 Class A	-	-	
Officers and Directors as a Group		4,436,457 Class A 130,838 Class C	221,000	156,800	

\* All officers and directors may be contacted at OTC Markets Group's address.

\*\* Beneficial share ownership includes vested options, options scheduled to vest within 60 days of March 1, 2014 and stock owned subject to a restricted stock agreement.

- (1) Includes 370,000 Class A shares held by Mr. Coulson's wife and 24,800 total Class A shares held equally by two trusts for the benefit of Mr. Coulson's children. Mr. Coulson disclaims beneficial ownership of these securities and this report shall not be deemed an admission that Mr. Coulson is the beneficial owner of these securities for any purpose. Mr. Coulson's wife and children are beneficiaries of the Cromwell Coulson Family 2012 DE Trust, which owns 687,000 Class A shares of the Company. These shares are not included in the number of shares Mr. Coulson beneficially owns, and Mr. Coulson disclaims beneficial ownership of these securities. This report shall not be deemed an admission that Mr. Coulson is the beneficial owner of these securities for any purpose.
- (2) Ms. Fraulo's outstanding options consist of 30,000 awarded in August 2011, at an exercise price of \$5.72, 12,000 of which are vested.
- (3) Mr. Fuch's outstanding options consist of (i) 17,000 awarded in November 2007, at an exercise price of \$2.76, 17,000 of which are vested, (ii) 8,000 awarded in May 2009, at an exercise price of \$2.44, 6,000 of which are vested, and (iii) 5,000 awarded in January 2010, at an exercise price of \$5.50, 4,000 of which are vested.

- (4) Ms. Heese's outstanding options consist of (i) 40,000 awarded in November 2007, at an exercise price of \$2.76, 40,000 of which are vested, and (ii) 5,000 awarded in January 2010, at an exercise price of \$5.50, 4,000 of which are vested.
- (5) Mr. Modeski's outstanding options consist of 50,000 awarded in April 2011, at an exercise price of \$6.28, 20,000 of which are vested and an additional 10,000 of which are scheduled to vest within 60 days of March 1, 2014.
- (6) Mr. Ryan's outstanding options consist of: (i) 25,000 awarded in November 2007, at an exercise price of \$2.76, 25,000 of which are vested; (ii) 15,000 awarded in May 2009, at an exercise price of \$2.44, 12,000 of which are vested, and (iii) 6,000 awarded in January 2010, at an exercise price of \$5.50, 4,800 of which are vested.
- (7) Mr. Zinn's outstanding options consist of 20,000 awarded in November 2010, at an exercise price of \$6.88, 12,000 of which are vested.
- (8) Includes 377,810 Class A shares held by the Melinda Wimpfheimer 2012 Irrevocable Trust, of which Mr. Wimpfheimer is a beneficiary.

The following tables set forth the aggregate compensation paid by OTC Markets Group for services rendered by its Executive Officers, during the periods indicated:

## OFFICERS

Name and Position	Year Ended	Salary	Bonus	Restricted Stock Awards <sup>(1)(2)</sup>	Option Awards <sup>(3)</sup>	Restricted Stock Dollar Value	Option Dollar Value
R. Cromwell Coulson President, Chief Executive Officer, and Director	2013	\$ 532,510	\$ 60,000	10,000	-	\$ 77,500	\$ -
	2012	\$ 517,000	\$ 100,000	10,000	-	\$ 78,800	\$ -
Wendy Fraulo Chief Financial Officer	2013	\$ 212,000	\$ 80,000	10,000	-	\$ 77,500	\$ -
	2012	\$ 200,000	\$ 60,000	10,000	-	\$ 78,800	\$ -
Matthew Fuchs Managing Director, Market Data and Strategy	2013	\$ 187,408	\$ 80,000	10,000	-	\$ 77,500	\$ -
	2012	\$ 176,800	\$ 65,000	10,000	-	\$ 78,800	\$ -
Lisabeth Heese Managing Director, Corporate Services	2013	\$ 205,504	\$ 65,000	8,000	-	\$ 62,000	\$ -
	2012	\$ 197,600	\$ 55,000	8,000	-	\$ 63,040	\$ -
Michael Modeski President, OTC Link LLC	2013	\$ 281,216	\$ 145,000	18,000	-	\$ 139,500	\$ -
	2012	\$ 270,400	\$ 100,000	12,500	-	\$ 98,500	\$ -
Timothy Ryan Managing Director, Sales and Business Development	2013	\$ 234,000	\$ 116,160 <sup>(4)</sup>	12,500	-	\$ 96,875	\$ -
	2012	\$ 208,000	\$ 158,919 <sup>(5)</sup>	12,500	-	\$ 98,500	\$ -
Dan Zinn General Counsel	2013	\$ 212,000	\$ 80,000	10,000	-	\$ 77,500	\$ -
	2012	\$ 200,000	\$ 60,000	10,000	-	\$ 78,800	\$ -

### Notes:

- (1) All restricted stock awards are Class A Common Stock. The 2013 and 2012 restricted stock awards consisted of shares of unvested stock, which vest equally over five years.
- (2) The fair market value of the Class A Common Stock was \$7.75 at the award date for shares related to the year 2013, and \$7.88 at the award date for shares awarded related to the year 2012.
- (3) The option awards are convertible into Class A Common stock and vest in equal annual installments over five years. The fair market value was determined by using the Black-Scholes valuation method at the time of issuance.

- (4) Mr. Ryan's cash bonus included \$41,160 of sales commissions related to the Company's Corporate Services Sales Commission Plan.
- (5) Mr. Ryan's cash bonus included \$83,919 of sales commissions related to the Company's Corporate Services Sales Commission Plan.

## DIRECTORS

Name	Year Ended	Director's Fees <sup>(1)</sup>	Share Awards <sup>(2)</sup>	Share Value <sup>(3)</sup>	Note
Gary Baddeley	2013	\$ 22,500	7,500	\$ 61,125	
	2012	\$ 22,500	7,500	\$ 52,650	
Louisa Serene Schneider	2013	\$ 22,500	7,500	\$ 61,125	
	2012	\$ 3,750	5,625	\$ 41,063	
Sigurdur Petur Snorrason (ceased serving as Director) (4)	2013	\$ 11,250	-	\$ -	(5)
	2012	\$ 15,000	7,500	\$ 52,650	
Andrew Wimpfheimer	2013	\$ 25,000	7,500	\$ 61,125	
	2012	\$ 25,000	7,500	\$ 52,650	
Neal Wolkoff	2013	\$ 15,000	7,500	\$ 61,125	
	2012	\$ 3,750	5,625	\$ 41,063	

### Notes:

- (1) Represents fees of \$3,750 for each of four regularly scheduled meetings of the Board of Directors during 2013 and 2012. In each of 2013 and 2012, an additional \$7,500 was paid to Mr. Baddeley and Ms. Schneider as members of the audit committee and an additional \$10,000 was paid to Mr. Wimpfheimer as chairman of the audit committee.
- (2) All share awards are of Class A Common Stock that vest in equal quarterly installments over the 12 months immediately subsequent to the date of grant.
- (3) The fair market value of the Class A Common Stock was \$8.15 per share for the 2013 share award. The fair market value of the Class A Common Stock issued to Messrs. Baddeley, Snorrason and Wimpfheimer in July 2012 was \$7.02 per share, and the fair market value of the Class A Common Stock issued to Ms. Schneider and Mr. Wolkoff in November 2012 was \$7.30 per share.
- (4) Mr. Snorrason did not stand for reelection to the Board of Directors in September 2013 and ceased serving as a Director on November 6, 2013.
- (5) Mr. Snorrason served as an independent consultant to OTC Markets Group during 2013 and 2012 and was paid \$63,293 and \$88,024, respectively.

## B. Legal/Disciplinary History

None of the officers, directors, promoters, or control persons of OTC Markets Group has, in the past five years, been the subject of any of the following:

- A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
- Any bankruptcy petition filed by or against any business of which such person was a general partner, or executive officer either at the time of the bankruptcy or within two years prior to that time;
- The entry of an order, judgment or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined,

barred, suspended, or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

- A finding or judgment by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
- The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

### C. Disclosure of Family Relationship

None.

### D. Disclosure of Related Party Transactions

Sigurdur Petur Snorrason is the principal owner of Stora Eplid ehf. and was a board member of OTC Markets Group until November 6, 2013. Stora Eplid ehf. has a verbal consulting agreement with OTC Markets Group to provide, on an as-needed basis, expertise related to trading system design and specifications. We paid Stora Eplid ehf. \$63 thousand in 2013 and \$88 thousand in 2012 for its services.

### E. Disclosure of Conflicts of Interest

None.

### Beneficial Owners

As of December 31, 2013, the following shareholders beneficially own 5% or more of OTC Markets Group's Common Stock:

Name and Address of Shareholder	Membership Class	Number of Shares Owned	Ownership Percentage of Class Outstanding	Note
R. Cromwell Coulson 304 Hudson Street, 3rd Floor New York, NY 10013	Class A	3,423,988	31.4%	(1)
	Class C	130,838	100.0%	
Cromwell Coulson Family 2012 DE Trust	Class A	687,000	6.3%	
Claudia Carucci	Class A	562,582	5.2%	

- (1) Includes 370,000 Class A shares held by Mr. Coulson's wife and 24,800 total Class A shares held equally by two trusts for the benefit of Mr. Coulson's children. Mr. Coulson disclaims beneficial ownership of these securities and this report shall not be deemed an admission that Mr. Coulson is the beneficial owner of these securities for any purpose. Mr. Coulson's wife and children are beneficiaries of the Cromwell Coulson Family 2012 DE Trust, which owns 687,000 Class A shares of the Company. These shares are not included in the number of shares Mr. Coulson beneficially owns, and Mr. Coulson disclaims beneficial ownership of these securities. This report shall not be deemed an admission that Mr. Coulson is the beneficial owner of these securities for any purpose.

OTC Markets Group is not aware of any additional beneficial shareholders owning 5% or more of our Common Stock. It is possible that there are one or more additional beneficial holders of a significant percentage of our Common Stock, however the federal securities laws do not require a beneficial shareholder of 5% or more of our Common Stock to disclose that information publicly or to the Company. The table above is based on the best information available to the Company.

**The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure**

1. Investment Banker: None
2. Promoters: None
3. Disclosure Counsel: The Nelson Law Firm, LLC  
One North Broadway, Suite 712  
White Plains, NY 10601  
Tel: (914) 220-1900  
Fax: (914) 220-1911  
www.thenelsonlawfirm.com  
Email: sjnelson@nelsonlf.com
4. Auditor: Deloitte & Touche LLP  
30 Rockefeller Plaza  
New York, NY 10112  
Tel: (212) 492-4000  
Fax: (212) 489-1687  
www.deloitte.com

Preparation of OTC Markets Group's consolidated financial statements is the responsibility of OTC Markets Group management. Deloitte & Touche LLP is responsible for expressing an opinion on the consolidated financial statements for the year ended December 31, 2013, based on their audit.

Deloitte & Touche LLP has confirmed to us that the firm is licensed to practice public accounting in the states in which we conduct our business. Deloitte & Touche LLP is registered with the PCAOB.

5. Public Relations Consultant: None
6. Investor Relations Consultant: None
7. Corporate Secretary: Daniel Zinn, General Counsel
8. Any Other Advisor: None

## Selected Financial Data

The selected financial data set forth below should be read in conjunction with our consolidated financial statements, the notes to financial statements, and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” included in this Annual Report.

The statement of income data for the years ended December 31, 2013, 2012, 2011, 2010 and 2009 as well as the balance sheet data at December 31, 2013, 2012, 2011, 2010 and 2009 are derived from our audited consolidated financial statements.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
OTC Link ATS Trading services	\$ 11,437	\$ 11,640	\$ 11,773	\$ 11,378	\$ 10,911
Market data licensing	14,741	14,081	13,680	12,093	10,323
Corporate services	9,331	9,305	7,498	4,568	2,798
Gross revenues	35,509	35,026	32,951	28,039	24,032
Net revenues	33,640	33,184	30,763	25,871	22,088
Total operating expenses	25,342	24,228	23,657	20,740	16,355
Income from operations	8,298	8,956	7,106	5,131	5,733
Net income	\$ 5,631	\$ 5,477	\$ 4,852	\$ 2,935	\$ 3,506
Net income per share					
Basic	\$ 0.51	\$ 0.51	\$ 0.46	\$ 0.28	\$ 0.34
Diluted	\$ 0.51	\$ 0.51	\$ 0.45	\$ 0.28	\$ 0.33
Weighted-average shares outstanding					
Basic	10,677,340	10,539,142	10,473,811	10,419,555	10,253,024
Diluted	10,763,773	10,608,516	10,540,818	10,529,508	10,454,517

(in thousands)	December 31,				
	2013	2012	2011	2010	2009
Cash and cash equivalents	\$ 18,936	\$ 13,611	\$ 10,170	\$ 6,703	\$ 5,385
Working capital	\$ 14,679	\$ 10,125	\$ 8,827	\$ 5,720	\$ 5,392
Total long-term liabilities	\$ 974	\$ 1,176	\$ 1,598	\$ 1,016	\$ 2,179
Total stockholders' equity	\$ 18,704	\$ 14,515	\$ 12,872	\$ 9,260	\$ 7,713

Note: For purposes of comparative presentation, website advertising revenues for all prior years have been reclassified to the Market Data Licensing business line from the Corporate Services business line.



## **Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion and analysis of financial condition and results of operations of OTC Markets Group Inc. (“OTC Markets Group”) in conjunction with our consolidated financial statements and notes thereto that are attached as Exhibit 1.1 to this Annual Report. In addition to historical information, this discussion contains forward-looking statements which involve a number of risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Forward-looking statements can be identified by use of the words “expect,” “project,” “may,” “might,” “potential,” and similar terms. OTC Markets Group cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information. Forward-looking statements involve a number of risks, uncertainties or other factors beyond OTC Markets Group’s control. These factors include, but are not limited to, our ability to implement our strategic initiatives, economic, political and market conditions and price fluctuations, government and industry regulation, U.S. and global competition, and other factors. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under the heading “Risk Factors” in this Annual Report. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.*

### **Overview**

At OTC Markets Group Inc. (OTCQX: OTCM) our mission is to create better informed and more efficient financial marketplaces. We pursue this mission by operating Open, Transparent and Connected financial marketplaces for 10,000 U.S. and global securities. We organize these securities into marketplaces to better inform investors of opportunities and risks: OTCQX<sup>®</sup>, The Best Marketplace with Qualified Companies, OTCQB<sup>®</sup>, The Venture Stage Marketplace with Reporting Companies, and OTC Pink<sup>®</sup>, The Open Marketplace with Variable Reporting Companies. Our marketplaces enable better informed and more efficient securities trading through any broker. Through our OTC Link<sup>®</sup> ATS, we directly link a diverse network of broker-dealers that provide liquidity and execution services for a wide spectrum of securities. OTC Link ATS is operated by our wholly-owned subsidiary OTC Link LLC, a Financial Industry Regulatory Authority (“FINRA”) member broker-dealer regulated by the Securities and Exchange Commission (“SEC”) as an Alternative Trading System (“ATS”). Our data-driven technology empowers investors to easily analyze, value and trade securities through the broker of their choice at the best possible price, and enables a broad range of companies to improve the quality and availability of information for their investors.

Our information and communication services enable companies to achieve the five primary benefits of public trading: 1) Visibility; 2) Liquidity; 3) Valuation; 4) Capital; and 5) Trust. Being publicly traded provides companies with these important benefits that cannot be found by remaining private. Public trading is often a key component in creating successful and sustainable enterprises over the long-term, and provides companies with access to benefits not easily available to private companies.

Our vision is to expand the world of investment opportunities by creating the financial marketplaces of choice. By empowering intelligent investors to easily analyze, value and trade any security, through any broker, we will bring the benefits of public trading to a wide spectrum of securities and efficiently fulfill the capital formation needs of a broad range of U.S. and global companies. Our services can be used by broker-dealers and companies to give investors an informational experience that is comparable to trading stock exchange listed securities.

OTC Link ATS offers our FINRA member broker-dealer subscribers greater discretion and control of their trade executions. OTC Link ATS's network-based, fully attributable model leads to greater choice of trading partners and more efficient trading for investors. As an SEC registered ATS and FINRA member, OTC Link ATS is subject to the direct regulatory oversight of the SEC and FINRA.

More than 130 broker-dealer subscribers actively quote 10,000 securities on OTC Link ATS. During 2013, broker-dealer subscribers used OTC Link ATS trade messaging to negotiate trades in 435 billion shares of OTCQX, OTCQB and OTC Pink securities having a combined dollar volume of \$52 billion. The total dollar volume of trades in OTCQX, OTCQB and OTC Pink securities, including transactions negotiated outside of OTC Link ATS, increased 48% to \$201 billion. The total dollar volume of trading on the OTCQX marketplace alone increased 29% to \$29.5 billion, which represented 15% of the total dollar volume of trading in all marketplaces during the year.

Due to the role OTC Link ATS plays in the broker-dealer trading process, we generate a significant amount of market data and security information. Our market data consists of real-time and end-of-day quotation and trading data, as well as security master and corporate data for OTCQX, OTCQB, and OTC Pink securities.

The OTCQX marketplace is limited to eligible securities on OTC Link ATS that meet certain financial standards and disclosure requirements and choose to have their securities trade on the OTCQX marketplace. Companies traded on the OTCQX marketplace receive a premium package of investor information and market data services to inform investors, clearly convey their reputations and demonstrate their regulatory compliance.

The OTCQB Venture Stage Marketplace with Reporting Companies includes only securities of companies that are current in their reporting to the SEC or another U.S. regulator.

The OTC Pink marketplace contains all other securities traded on OTC Link ATS, and allows broker-dealers to efficiently provide best execution for their customers in all types of securities without requiring the involvement of the company. Companies on the OTC Pink marketplace are categorized as "OTC Pink Current Information," "OTC Pink Limited Information" or "OTC Pink No Information" based on the completeness and timeliness of the information they provide to investors. Companies seeking to improve their categorizations can use our OTC Disclosure & News Service to make current disclosure available in accordance with our OTC Pink Basic Disclosure Guidelines.

Each of our marketplaces consists of both U.S. and global companies. Regardless of marketplace, for the protection of investors we flag companies for which there is a public interest concern as "Caveat Emptor," or buyer beware.

Companies currently traded on the OTCQB and OTC Pink marketplaces can choose to subscribe to our premium Corporate Services through subscription fees paid primarily on an annual basis. These premium investor information and market data services are designed to provide the building blocks to a better informational experience for investors by promoting price transparency, facilitating public disclosure, and enabling companies to demonstrate compliance with federal securities laws.

### **Trends in Our Business**

Our revenue streams are influenced by macroeconomic events and conditions affecting the broader global financial markets and in particular the U.S. equity markets, including investor sentiment and outlook, the regulatory environment, the risk/return and volatility factors of equity

securities versus other financial investments and assets, and rapidly changing technologies in the capital markets.

We have placed increased emphasis on ensuring that our OTCQX, OTCQB and OTC Pink marketplaces are properly disseminated by financial information portals. We have seen an upswing in recognition and acknowledgement of these marketplaces, and the types of companies traded on each marketplace, which we expect in the long-term will add to the value of our market data and result in increased revenues in both our Market Data Licensing and Corporate Services (formerly known as Issuer Services) business lines.

OTCQX, The Best Marketplace with Qualified Companies, has continued to increase the visibility of qualified companies' securities. Since June 2013, there has been a decrease in the number of OTCQX companies on a year over year basis, which is a change from the growth the marketplace experienced during 2011 and 2012. In the third quarter 2013, this trend began to result in a decrease in OTCQX related revenue that continued for the remainder of 2013. The companies leaving OTCQX have been concentrated in the resource sector, particularly in Canada and Australia, which have historically been the primary sources of OTCQX companies. We believe the slower growth of new OTCQX companies is related to the downturn in the resource sector as well as the higher OTCQX standards instituted during 2013, which prevented securities defined as "Penny Stocks" under SEC rules from joining the OTCQX marketplace. We continue to engage qualified companies for the OTCQX marketplace and work with companies that do not meet the OTCQX standards to use our suite of premium services to better inform investors.

In 2014 we plan to introduce enhancements to the OTCQX and OTCQB premium marketplaces. In February 2014 we published amendments to the OTCQX Rules for U.S. Companies that are intended to streamline the OTCQX process for U.S. companies. Specifically, the updated U.S. Rules modify the responsibilities of a DAD for U.S. companies to align more closely with the responsibilities of a PAL for international companies, and require companies to release quickly to the public any news or information which might reasonably be expected to materially affect the market for their securities. At the same time, we published amendments to the OTCQX Rules for International Companies that simplify the OTCQX qualification process and make it easier for companies with ADRs trading on OTCQX to upgrade their foreign ordinary shares, or "F" shares, to OTCQX.

We plan to expand the OTCQX marketplace by creating a tailored qualification process for U.S. community and regional banks, called OTCQX Banks. A new set of OTCQX Rules for U.S. Banks was published in February 2014. We believe OTCQX Banks will provide U.S. community and regional banks a cost effective marketplace that leverages bank regulatory reporting standards and provides a shareholder-friendly trading experience through peer benchmarking and enhanced visibility.

We also plan to make OTCQB a better venture stage marketplace. We intend that the new OTCQB marketplace will become a premium marketplace with fee based services. OTCQB standards will require traded companies to provide additional information to investors, including management certifications with specific identification of company officers, directors and controlling shareholders; transparency of legal, accounting and investor relations advisors; and confirmation of total shares outstanding and total shares authorized; and to meet minimum bid price standards to remove sub penny securities from the OTCQB marketplace. In addition to its current base of SEC reporting companies and banks, we plan to open the OTCQB marketplace to international venture stage companies that trade in the U.S. in reliance on Rule 12g3-2(b) and meet the applicable OTCQB standards. The majority of venture stage companies listed on the TSX Venture, LSE AIM and other non-U.S. venture exchanges do not meet the OTCQX

marketplace's high financial standards and could benefit from the trading and transparency of the OTCQB marketplace. In the second quarter of 2014 we plan to start removing sub-penny securities that fail to meet the new OTCQB standards, and apply the new OTCQB standards to current OTCQB companies 120 days after their fiscal year-end, beginning with companies that have fiscal years that end on March 31, 2014. Companies that do not meet the new OTCQB bid price standards or do not provide the annual management certifications within 120 days after their first fiscal year end subsequent to March 31, 2014 will be moved to the OTC Pink marketplace. We expect the changes to OTCQB to improve information availability for investors, better suit the needs of developing and early stage companies and generate revenue in 2014 as companies opt to pay the annual fee to be included in the OTCQX or OTCQB premium marketplaces. Most OTCQB companies have fiscal years that end on December 31, so we expect to see the majority of the impact of the new OTCQB marketplace during 2015.

The portion of our OTC Link ATS Trading Services subscription revenue derived from the OTC Dealer application and add-on services continues to decline, a result of our subscriber base continuing to trend towards more electronic trading while less automated trading firms continue to experience significant competitive pressure. We expect these trends to continue and plan to focus on expanding the functionality of services offered to broker-dealer subscribers on our OTC Link ATS and increasing the breadth and depth of securities traded on our marketplaces. Trade executions were generally higher during 2013 as compared to 2012, which contributed to the increase in revenue from Quote Access Payment ("QAP<sup>®</sup>") One Statement service fees during 2013. Our market data continues to be consumed by a wider audience as we expand our distribution network and end-user base. Growth in enterprise license subscriptions had the most significant impact on the total revenue increase in our Market Data Licensing business line during 2013. During the third quarter of 2013, the Company began conducting audits of market data usage reported by certain redistributors. It is not possible at this time to determine the extent, if any, to which future audit recoveries may impact the results of our Market Data Licensing business line. We implemented price increases in certain Market Data Licensing subscriptions effective January 1, 2014, which we believe will generate greater subscription revenue during 2014.

We evaluate both the current and future period impact of increased costs related to our headcount and IT infrastructure and recognize the importance of attracting and retaining the talent required to develop our service offerings and manage our infrastructure, which are necessary to grow revenues in each of our business lines. The technology improvements we made during 2013 will allow our business lines to continue to develop and enhance services through a more reliable and scalable network. The Company will focus on the enhancement of the secondary data center and improved network resiliency during 2014.

### **How OTC Markets Group Generates Revenues**

OTC Markets Group generates a majority of its revenues through a subscription model. As a result, the majority of our revenues are contract based and recurring in nature. For example, once a broker-dealer decides to trade using OTC Link ATS, that broker-dealer typically continues to subscribe to our services, with variable monthly user and usage levels, until it ceases to be active in trading securities on the OTCQX, OTCQB and OTC Pink marketplaces. The market data redistributors that offer our market data to their subscribers, including our largest redistributors, have historically remained long-term clients. We pay redistribution fees, the majority of which are paid to redistributors of our Market Data Licensing subscription licenses.

### *OTC Link ATS Trading Services*

Our OTC Link ATS Trading Services business is operated by our wholly-owned subsidiary, OTC Link LLC.

OTC Link LLC operates OTC Link ATS, an SEC registered ATS that empowers broker-dealer subscribers to provide investors with a superior trading experience. OTC Link ATS directly links a diverse network of leading U.S. broker-dealers providing liquidity and execution services in a wide spectrum of U.S. and global securities. OTC Link ATS's real-time price transparency and connectivity offers broker-dealers control of trades and choice of counterparties so they can efficiently provide best execution, attract order flow and comply with FINRA and SEC regulations.

OTC Link ATS Trading Services generates revenues by offering a suite of quotation and trade-messaging services, as well as the QAP One Statement access fee solution service, to a diverse network of broker-dealers operating as market makers, agency brokers and ATSS, including Electronic Communication Networks. Gross revenues from our OTC Link ATS Trading Services business line accounted for approximately 32% and 33% of the Company's gross revenue during 2013 and 2012, respectively.

Broker-dealers pay monthly license, subscription, and connectivity fees to use OTC Link ATS. Our OTC Dealer<sup>®</sup> application provides broker-dealers a user interface into OTC Link ATS. OTC Link ATS delivers quote and trade messages electronically, which allows broker-dealer subscribers to execute, negotiate or decline trade messages and automate their liquidity and execution services for investors.

OTC Dealer, together with separately priced add-on applications, shows a Real-Time Level 2 quote montage for securities traded on the OTCQX, OTCQB and OTC Pink marketplaces inclusive of quotes on the FINRA OTC Bulletin Board. OTC Dealer provides full access to OTC Link ATS tickers, quote montages, and multiple watch lists for those securities. For automated trading and integration with third party order management systems ("OMS") and direct access trading systems, we offer the OTC FIX Gateway, a real-time Financial Information eXchange ("FIX") Protocol that allows fully-electronic submission and receipt of quotes, trade messages, and drop copy confirmations.

OTC Link ATS's FINRA member broker-dealer subscribers pay per security usage fees to (i) publish quotes and (ii) communicate and negotiate with counterparties on OTC Link ATS. Monthly OTC Link ATS position fees are based on the number of daily priced and unpriced quote positions, with tiered pricing arrangements based on volume. Monthly OTC Link ATS message fees are based on the daily number of priced and unpriced securities on OTC Link ATS for which trade messages are sent or received, with tiered pricing arrangements based on volume. The daily messaging fee allows subscribers to send and receive an unlimited number of trade messages in a security on that day.

Fees for use of the OTC Dealer application are per user with tiered pricing arrangements and are discounted in graduated amounts as a function of total users per subscriber. OTC Dealer also provides users access to analysis and information, including corporate action data and advanced search capabilities for broker-dealer activity, quotes, inside markets and trades, security changes, and trader open/close activity.

### *Market Data Licensing*

We generate Market Data Licensing revenues by providing our subscribers with access to the extensive market data, company data and security information collected through our OTC Link ATS Trading Services and Corporate Services business lines. We provide market data for

securities traded on our marketplaces, including real-time data, end-of-day data, historical quotation data, company financial data, security master data and company reference data. Gross revenues from our Market Data Licensing business line accounted for approximately 42% and 40% of the Company's gross revenue during 2013 and 2012, respectively.

A variety of users, including investors, traders, institutions, accountants and regulators, pay us monthly license fees to access this information. We offer a suite of market data licenses, priced at per enterprise or per user rates, through direct connectivity and third party market data redistributors/OMS. Depending on the license type, subscribers may distribute the market data on an internal-only basis, to clients, or to the public. We generate a majority of our market data revenues from sales through market data redistributors, including Bloomberg and Interactive Data Corporation. Certain of our market data license agreements include redistribution fees and rebates, which represented 13% of Market Data Licensing gross revenue for both 2013 and 2012.

Our Market Data Licensing services include:

- *OTC Markets Level 1+ (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* - Real-time inside bid and offer quote prices and aggregate size information for OTCQX, OTCQB, OTC Pink, OTC Bonds and other securities on OTC Link ATS. This license includes information regarding trades negotiated by broker-dealers via OTC Link ATS.
- *OTC Markets Level 2+ (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* - Real-time individual bid and offer quote prices, size information, market participant identifiers and contact information in OTCQX, OTCQB, OTC Pink, OTC Bonds and other securities on OTC Link ATS. This license includes information regarding trades negotiated by broker-dealers via OTC Link ATS.
- *OTC Markets Real-Time Reference Prices (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* – Real-time inside bid and offer quote prices in OTCQX, OTCQB, OTC Pink, OTC Bonds and other securities on OTC Link ATS. Size and market participant information is not available with this license. This license includes information regarding trades negotiated by broker-dealers via OTC Link ATS.
- *OTC Markets Internal System Application (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* – Real-time quote prices, size and market participant (Level 1+ or Level 2+) data for use by a software application only.
- *OTC Markets Delayed Level 1 (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* – Delayed inside bid and offer quote prices and aggregate size information in OTCQX, OTCQB, OTC Pink, OTC Bonds and other securities on OTC Link ATS. This license includes delayed information regarding trades negotiated by broker-dealers via OTC Link ATS.
- *OTC Markets End of Day Pricing (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* – End of day bid and ask quote prices in OTCQX, OTCQB, OTC Pink, OTC Bonds and other securities on OTC Link ATS for regulatory reporting, audits, valuation, research and analysis.
- *OTC Markets Security & Company Data (OTCQX, OTCQB, OTC Pink, OTC Bonds) License* – Security and Company attribute data in OTCQX, OTCQB, OTC Pink, OTC Bonds and other securities on OTC Link ATS for compliance, research and analysis.

We also offer OTCQuote<sup>®</sup>; a web-based, real-time, view-only quote service designed for agency traders, institutional investors, compliance officers and regulators that need to stay abreast of market activity in OTCQX, OTCQB, OTC Pink and FINRA OTC Bulletin Board securities.

### *Website Advertising*

We charge for the right to display advertisements on [www.otcmarkets.com](http://www.otcmarkets.com). During 2013, our website advertising revenues were included within our Market Data Licensing business line. Prior to January 1, 2013, these revenues were included in the Corporate Services business line. For purposes of comparative presentation, website advertising revenues for 2012 have been reclassified to the Market Data Licensing business line.

### *Corporate Services*

We generate Corporate Services revenues by offering companies services that are designed to create better informed and more efficient trading by fostering greater availability of company disclosure, promoting price transparency, facilitating communication, demonstrating compliance and mitigating risk. We operate OTCQX, The Best Marketplace with Qualified Companies, and offer a suite of premium services, including the OTC Disclosure & News Service<sup>®</sup> for posting financial reports, disclosure documents and news releases; Real-Time Level 2 Quote Display, a service that companies sponsor to make Level 2 quotes available for free to investors on [www.otcmarkets.com](http://www.otcmarkets.com) and the company's website; and Blue Sky Monitoring Service for analysis, review, and guidance to companies about compliance with each U.S. state's securities laws. Gross revenues from our Corporate Services business line accounted for approximately 26% and 27% of the Company's gross revenue during 2013 and 2012, respectively.

The OTCQX marketplace offers companies a choice of disclosure standards to make their financial and operating information publicly available in the most efficient manner

- U.S. Reporting Standard: Companies may register a class of their securities with the SEC and comply with SEC reporting requirements. Banks and insurance companies may report to their primary U.S. regulator.
- Alternative Reporting Standard: When SEC registration is not required, companies generally must make certain information publicly available to satisfy the requirements of Rule 10b-5 under the Exchange Act and Rule 144(c)(2) under the Securities Act. The Alternative Reporting Standard may be satisfied through compliance with the OTCQX U.S. Disclosure Guidelines or the OTC Pink Basic Disclosure Guidelines.
- International Information Standard: Rule 12g3-2(b) under the Exchange Act ("Rule 12g3-2(b)") permits non-U.S. companies with securities listed primarily on a non-U.S. stock exchange to make publicly available to U.S. investors in English the same information that is made publicly available in their home countries as an alternative to SEC Reporting.

To have their securities traded on the OTCQX marketplace, companies must be sponsored by a professional third-party advisor, meet minimum financial, disclosure and qualitative standards, pay annual fees, and continue to meet the requirements of our OTCQX Rules on a prospective basis. All companies traded on the OTCQX marketplace pay a one-time application fee and annual fees each year their securities are qualified to trade on the OTCQX marketplace. These fees are fixed and do not vary based on outstanding shares, market capitalization or otherwise. Companies on the OTCQX marketplace receive a suite of our premium services, including the OTC Disclosure & News Service, Real-Time Level 2 Quote Display, and Blue Sky Monitoring Service. Companies that choose to have their securities qualified for trading on the OTCQX marketplace do so annually, on a calendar-year basis.

OTC Pink companies that do not meet the OTCQX marketplace standards, or choose not to meet them, may subscribe separately to our premium services: the OTC Disclosure & News Service, the Real-Time Level 2 Quote Display Service, and the Blue Sky Monitoring Service.

Beginning in 2014, the OTCQB marketplace will be required to pay a one-time application fee and annual fees each year their securities are qualified to trade on the OTCQB marketplace. Each of these premium services is available to companies that sign up to receive free access to our [www.otcqb.com](http://www.otcqb.com) secure web portal.

### **Financial Highlights**

For the year ended December 31, 2013, OTC Markets Group reported gross revenues and income from operations of \$35.5 million and \$8.3 million, respectively. This compares to gross revenues and income from operations of \$35.0 million and \$9.0 million, respectively, for the year ended December 31, 2012.

Gross revenues increased \$483 thousand, primarily driven by the Market Data Licensing business line generating higher enterprise subscription revenue, user subscription revenue and a market data audit recovery. These increases were partially offset by a 2% decrease in revenue from OTC Link ATS Trading Services due to a decrease in subscription revenue and revenue from quote positions, and flat revenue from Corporate Services due to a decline in OTCQX subscription revenue.

Income from operations decreased \$658 thousand and operating profit margin contracted to 25% in 2013 from 27% in 2012. The decrease in income from operations and operating profit margin was primarily due to higher operating expenses related to increased salary expenses, increased costs associated with our updated data center and the lower revenue growth rate during 2013.

### **Financial Results**

Our three business lines – OTC Link ATS Trading Services, Market Data Licensing and Corporate Services – provide a wide variety of services to broker-dealers, companies, investors, market data distributors and regulators. We believe our elegant, reliable, cost-effective subscription based services allow us to maintain our leading market position as a financial and technology services provider. Each business line has distinct services and fees, including OTC Link ATS subscription service and usage based fees, Corporate Services application and annual fees, market data distribution and licensing fees, and website advertising fees. Growth from each business line promotes growth in the others because all of the services are complementary in nature.



## Consolidated Results From Operations

### Year Ended December 31, 2013 Versus Year Ended December 31, 2012

The table below presents comparative information from the Company's consolidated income statements for the years ended December 31, 2013 and 2012, with the percentage change year over year.

(in thousands)	Year Ended December 31,		2013 vs 2012
	2013	2012	% change
Gross revenues	\$ 35,509	\$ 35,026	1%
Net revenues	33,640	33,184	1%
Operating expenses	25,342	24,228	5%
Income from operations	8,298	8,956	(7%)
<i>Operating profit margin</i>	25%	27%	
Income before provision for income taxes	8,296	8,986	(8%)
Net income	\$ 5,631	\$ 5,477	3%
Diluted earnings per share	\$ 0.51	\$ 0.51	1%
Weighted-average shares outstanding, diluted	10,763,773	10,608,516	1%

### Revenues

The following table shows OTC Markets Group's gross revenue by business line and consolidated net revenue for the years ended December 31, 2013 and 2012, with the percentage change year over year.

Effective January 1, 2013, website advertising revenue was included in total Market Data Licensing revenue. For purposes of comparative presentation in our financial results, website advertising revenues for 2012 have been reclassified to the Market Data Licensing business line from the Corporate Services business line.

(in thousands)	Year Ended December 31,		2013 vs 2012
	2013	2012	% change
OTC Link ATS Trading services	\$ 11,437	\$ 11,640	(2%)
Market data licensing	14,741	14,081	5%
Corporate services	9,331	9,305	-
Gross revenues	35,509	35,026	1%
Redistribution fees and rebates	( 1,869 )	( 1,842 )	1%
Net revenues	\$ 33,640	\$ 33,184	1%

Gross revenues increased \$483 thousand, or 1%, to \$35.5 million during 2013 from \$35.0 million during 2012.

The changes in gross revenue during 2013, as compared to the similar period in 2012, are further described below:

- Gross revenue from OTC Link ATS Trading Services decreased \$203 thousand, or 2%, to \$11.4 million. Subscription revenue from OTC Dealer licenses, FIX connection fees and OTC Link ATS subscriptions decreased \$406 thousand, or 10%, and revenue from quote positions decreased \$165 thousand, or 4%, primarily due to a decline in the number of broker-dealers and OTC Dealer users active on OTC Link ATS. These decreases were partially offset by increased trading via OTC Link ATS that generated a

\$122 thousand, or 5%, increase in revenue from trade messages and a \$297 thousand, or 85%, increase in revenue from QAP service fees during 2013.

- Market Data Licensing revenue increased \$660 thousand, or 5%, to \$14.7 million during 2013. Enterprise license subscription revenue, which includes broker dealer enterprise licenses, internal system licenses, derived data licenses and real-time delayed licenses, increased \$321 thousand, or 18%. Revenue from user license subscriptions, which includes professional and non-professional user licenses, increased \$292 thousand, or 3%. In addition, the Company recorded a market data audit recovery of \$114 thousand during the third quarter of 2013. These increases and the audit recovery were partially offset by a \$103 thousand, or 20%, decrease in access fees due to a change in the connectivity service offerings.
- Corporate Services gross revenue of \$9.3 million was flat during 2013. Revenue from OTCQX subscriptions decreased \$149 thousand, or 2%, primarily due to a lower number of OTCQX companies during the second half of 2013. Revenue from premium service subscriptions, such as OTC Disclosure & News Service and Real Time Level 2 Quote Display, increased \$175 thousand, or 6%, during 2013. As a result of fewer new companies joining the OTCQX marketplace, due in part to higher qualification standards that prevented companies with “penny stocks” from joining OTCQX, and subscribing to premium services, as well as attrition in the current subscriber base that was concentrated in the resource sector, particularly in Canada and Australia, the Corporate Services growth curve flattened on a year-over-year basis.

### **Operating Expenses**

The following table shows OTC Markets Group’s consolidated operating expenses for 2013 and 2012, with the percentage change year over year.

(in thousands)	Year Ended December 31,		2013 vs 2012
	2013	2012	% change
Compensation and benefits	\$ 14,339	\$ 12,908	11%
IT Infrastructure and information services	3,757	3,318	13%
Professional and consulting fees	1,937	2,387	(19%)
Marketing and advertising	1,633	1,743	(6%)
Occupancy costs	1,429	1,411	1%
Depreciation and amortization	1,642	1,622	1%
General, administrative and other	605	839	(28%)
Total operating expenses	<u>\$ 25,342</u>	<u>\$ 24,228</u>	5%

As illustrated in the table above, operating expenses increased \$1.1 million, or 5%, to \$25.3 million in 2013.

The changes in operating expenses during 2013, as compared to the similar period in 2012, are further described below:

- Compensation and benefits costs increased \$1.4 million, or 11%, to \$14.3 million during 2013. The increase was primarily related to an increase of 7 employees to 81 as of December 31, 2013 and annual compensation increases that increased salary expense \$941 thousand, or 11%. In addition to salary expenses, other employee benefits contributing to the higher overall compensation expense during 2013 include higher medical insurance costs and annual discretionary bonuses, partially offset by a decrease

in commission expense. As a percentage of gross revenues, compensation and benefits costs increased to 40% during 2013, as compared to 37% during 2012.

- IT Infrastructure and information service costs increased \$439 thousand, or 13%, during 2013, primarily due to increases in data center costs and hardware maintenance costs associated with our updated data center.
- Marketing and advertising costs decreased \$110 thousand, or 6%, during 2013, primarily related to a reduction in website and Search Engine Optimization (SEO) expenses of \$129 thousand, or 44%. A reduction of internal and external marketing and sales initiatives contributed to a decrease of \$84 thousand, or 22%, in marketing materials and media costs. This decrease was partially offset by an increase in outside agency fees and travel expenses associated with Corporate Services customer outreach.
- Professional and consulting fees decreased \$450 thousand, or 19%, primarily related to a reduction in IT consultant fees of \$417 thousand, or 66%, and lower payroll service fees of \$185 thousand, or 59%. These decreases were partially offset by a net increase of \$107 thousand related to general consulting fees, including increases of \$231 thousand, or 70%, in the expense related to the vesting of equity awards granted to the Board of Directors and costs of recruiters and technical specialists, and a decrease of \$124 thousand, or 23%, from other professional advisors.
- General and administrative expenses decreased \$235 thousand, or 28%, primarily related to a reduction in bad debt expense due to an improvement in collection efforts.

### ***Income from operations***

Income from operations decreased \$658 thousand, or 7%, to \$8.3 million during 2013 from \$9.0 million during 2012, and operating profit margin contracted to 25% in 2013 from 27% in 2012. The decrease in income from operations and operating profit margin was primarily attributable to the increases in headcount and costs associated with our updated data center, which were partially offset by increases in Market Data Licensing subscription revenue.

### ***Net Income***

Net income of \$5.6 million increased \$154 thousand, or 3%, during 2013, primarily due to a \$844 thousand reduction in the Company's provision for income taxes, partially offset by a \$658 thousand decrease in income from operations. The Company's effective income tax rate during 2013 declined to 32%, from 39% in 2012, primarily related to a benefit from R&D tax credits for the 2012 and 2013 tax years that were both recognized during 2013 because the applicable tax law for 2012 was enacted in 2013.

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

Our liquidity is primarily derived from our working capital and cash flows from operations. We require cash to support our current operating levels, fund strategic growth initiatives, develop new services and enhance existing services, make capital expenditures and pay federal, state and local corporate taxes. In the near term, we expect that our operations will provide sufficient cash to fund our strategic initiatives. We have no outstanding debt and \$1.5 million available for business operations under our line of credit, which gives us additional flexibility in managing our cash flows.

To date, the cost and availability of our funding has not been adversely affected by the variable economic conditions and illiquid credit markets, and we do not expect it to be materially impacted in the near future.

The following table summarizes our cash available for operations, which consists of cash as of December 31, 2013 and 2012 and sources and uses of cash flows during 2013 and 2012, with the percentage change year over year.

(in thousands)	December 31,		2013 vs 2012
	2013	2012	% change
Cash available for operations	\$ 18,936	\$ 13,611	39%

  

	Year Ended December 31,		2013 vs 2012
	2013	2012	% change
Cash provided by operating activities	\$ 8,328	\$ 8,707	(4%)
Cash used in investing activities	( 472 )	( 49 )	863%
Cash used in financing activities	( 2,531 )	( 5,217 )	(51%)

### ***Cash available for operations***

Cash available for operations increased by \$5.3 million to \$18.9 million as of December 31, 2013, as compared to \$13.6 million at December 31, 2012. The Company generated \$8.3 million of cash from operations during the year ended December 31, 2013, which were used in part to fund our dividend payments of \$2.6 million and our investments in infrastructure of \$477 thousand.

### ***Cash provided by operating activities***

Cash provided by operating activities for the years ended December 31, 2013 and December 31, 2012 consisted of net income of \$5.6 million and \$5.5 million, respectively, plus certain non-cash items, such as depreciation, amortization, share-based compensation and provision for doubtful accounts. Cash flows from operations were lower during 2013 as compared to 2012, primarily due to lower income from operations, the timing of the accounts receivables collections and recognition of deferred revenue.

### ***Cash used in investing activities***

Cash used in investing activities for the year ended December 31, 2013 was \$472 thousand, primarily comprised of purchases of new and replacement hardware, networking, and communications equipment. Cash used in investing activities for the year ended December 31, 2012 of \$49 thousand was comprised of property and equipment purchases of \$1.3 million offset by proceeds from the sales of short-term investments of \$1.3 million.

### ***Cash used in financing activities***

Cash used in financing activities during the years ended December 31, 2013 and 2012 were primarily related to the payment of dividends. During 2013, the Company paid four regular dividends of \$2.6 million. During 2012, the Company paid five regular dividends of \$2.5 million, which included the dividend declared during the fourth quarter of 2011, and a special dividend of \$2.7 million. The remaining financing cash outflows during 2013 and 2012 were primarily related to the purchase of treasury stock.

### ***Capital resources and working capital***

OTC Markets Group's working capital at December 31, 2013 was \$14.7 million, which increased \$4.6 million, or 45%, from \$10.1 million at December 31, 2012. Working capital includes certain non-operating assets and liabilities, such as prepaid income taxes, deferred tax assets and liabilities and income taxes payable. The improvement in working capital during the year ended December 31, 2013 was primarily attributable to the Company's increase in revenue and

improvement in days of sales outstanding. The payment of a special dividend during the fourth quarter of 2012 resulted in a lower cash balance as of December 31, 2012.

***Line of Credit***

OTC Markets Group maintains a commercial banking relationship with JPMorgan Chase. On July 7, 2012, the Company entered into a line of credit with JPMorgan Chase (the “Line of Credit”) that made up to \$1.5 million available for business operations. The Line of Credit was extended through June 30, 2014. We have not drawn funds on the Line of Credit. Under the terms of the Line of Credit, we agreed to fulfill certain affirmative and negative covenants and other specified terms. At December 31, 2013, the Company was in compliance with all of the covenants and other terms of the Line of Credit.

***Operating Leases***

We have entered into operating lease agreements for our offices and recognize rent expense on a straight-line basis over the term of the lease. See “*Nature and extent of the issuer’s facilities.*”

***Off-Balance Sheet Arrangements***

None.

## Part E. Issuance History and Financial Information

### List of the securities offerings and shares issued for services in the past two years

#### CLASS A COMMON STOCK AND OPTIONS ISSUED

The following table sets forth information concerning the equity securities issued during the fiscal years 2012 and 2013:

Month of Grant	Award Type	Awards Issued	Weighted Average Exercise or Grant Price	Grant Class
<b>2012</b>				
January	Restricted Stock	151,778	\$5.80	Employee
January	Option Grant	20,000	\$6.38	Employee
February	Option Grant	21,000	\$6.87	Employee
March	Restricted Stock	10,000	\$6.20	Employee
April	Option Grant	31,000	\$7.26	Employee
July	Restricted Stock	22,500	\$7.02	Director
July	Option Grant	52,000	\$7.72	Employee
September	Option Grant	14,000	\$8.09	Employee
October	Option Grant	6,000	\$8.64	Employee
November	Restricted Stock	11,250	\$7.30	Director
November	Option Grant	15,000	\$8.03	Employee
December	Option Grant	19,000	\$8.31	Employee
<b>2013</b>				
January	Restricted Stock	163,274	\$7.88	Employee
January	Option Grant	16,000	\$7.90	Employee
March	Option Grant	15,500	\$8.00	Employee
April	Option Grant	6,000	\$8.15	Employee
May	Option Grant	29,500	\$8.20	Employee
June	Option Grant	49,500	\$8.10	Employee
July	Option Grant	12,500	\$8.39	Employee
August	Restricted Stock	37,500	\$8.15	Director
August	Option Grant	4,000	\$7.75	Employee
September	Option Grant	15,500	\$7.75	Employee

#### Notes:

- All awards are of Class A Common Stock.
- All option grants are issued pursuant to the Company's 2009 Equity Incentive Plan and vest 20% each year the employee remains employed with OTC Markets Group.
- Shares issued pursuant to a restricted stock award contain a legend stating that the shares have not been registered under the Securities Act or any state securities laws and setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.
- Shares issued to Directors were part of each Director's annual compensation.

**Financial information for the issuer's most recent fiscal period and for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence**

Copies of the audited Consolidated Financial Statements of OTC Markets Group as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011, including the Consolidated Balance Sheets, Consolidated Statements of Income and Other Comprehensive Income, Consolidated Statements of Stockholders' Equity, Consolidated Statements of Cash Flows, and Notes to the Consolidated Financial Statements, are attached hereto as Exhibit 1.1. The attached Consolidated Financial Statements and the notes thereto are hereby incorporated by reference into this Annual Report.

**Part F. Exhibits**

**1 Consolidated Financial Statements**

- 1.1 Financial information for the years ended December 31, 2013, December 31, 2012 and December 31, 2011

**2 Issuer's Certifications**

- 2.1 Certification of principal executive officer
- 2.2 Certification of principal financial officer

**3 Material Contracts**

- 3.2 Lease Agreement by and between Pink Sheets LLC and The Rector, Church-Wardens and Vestrymen of Trinity Church in the City of New York for space at 304 Hudson Street, New York, NY (incorporated herein by reference to Exhibit 3.2 to the Initial Disclosure Statement filed on September 15, 2009)
- 3.3 Lease Agreement by and between OTC Markets Group Inc. and NW 100 M Street LLC for space at NW 100 M Street, Washington, D.C. (incorporated by reference to Exhibit 3.5 to the 2010 Annual Report filed on March 31, 2011)
- 3.4 Employment Agreement dated as of May 1, 2011 by and between OTC Markets Group Inc. and R. Cromwell Coulson (Chief Executive Officer) (incorporated by reference to Exhibit 3.6 to the 2011 Annual Report filed on March 26, 2012.)
- 3.5 "Key Man" Life Insurance Policy for R. Cromwell Coulson (incorporated herein by reference to Exhibit 3.5 to the Initial Disclosure Statement filed on September 15, 2009)
- 3.6 Comprehensive Services Agreement dated as of October 24, 2012 between ADP, Inc. and OTC Markets Group Inc. (incorporated herein by reference to Exhibit 3.8 to the 2012 Annual Report filed on March 12, 2013)

**4 Customer Contracts**

*The following documents may be found on our website at [www.otcmarkets.com](http://www.otcmarkets.com)*

- 4.1 OTC Link BD Subscriber Agreement
- 4.2 OTCQuote.com Subscriber Agreement
- 4.3 Market Data Distribution Agreement
- 4.4 Market Data Subscription Agreement
- 4.5 OTCQX Application for U.S. Companies

- 4.6 OTCQX Agreement for U.S. Companies
- 4.7 OTCQX Application for U.S. Banks
- 4.8 OTCQX Agreement for U.S. Banks
- 4.9 OTCQX Application for International Companies
- 4.10 OTCQX Agreement for International Companies
- 4.11 OTCIQ Agreement
- 4.12 Application to Serve as an Attorney DAD or PAL or Investment Bank DAD or PAL
- 4.13 Agreement to Serve as an Attorney DAD or PAL or Investment Bank DAD or PAL
- 4.14 Application to Serve as a Corporate Broker
- 4.15 Agreement to Serve as a Corporate Broker
- 4.16 Issuer Appointment of Attorney Designated Advisor for Disclosure; Issuer Appointment of Attorney Principal American Liaison; Issuer Appointment of Investment Bank Designated Advisor for Disclosure; Issuer Appointment of Investment Bank Principal American Liaison; Issuer Appointment of ADR Depository Principal American Liaison
- 4.17 Advertising Agreement

## **5 Certificate of Incorporation and By-laws**

- 5.1 Certificate of Incorporation (incorporated herein by reference to Exhibit 5.1 to the Initial Disclosure Statement filed on September 15, 2009)
- 5.2 By-laws (incorporated herein by reference to Exhibit 5.1 to the Initial Disclosure Statement filed on September 15, 2009)

## **6 Equity Incentive Plans**

- 6.1 2009 Equity Incentive Plan (incorporated herein by reference to Exhibit 6.1 to the 2009 Annual Report filed on March 31, 2010)



## INDEPENDENT AUDITORS' REPORT

Tel: 1 212 492 4000  
Fax: 1 212 489 1687  
[www.deloitte.com](http://www.deloitte.com)

To the Board of Directors and Stockholders of  
OTC Markets Group Inc.:

We have audited the accompanying consolidated financial statements of OTC Markets Group Inc. and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income and other comprehensive income, cash flows and changes in stockholders' equity for the three years in the period then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the three years in the period then ended in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

March 5, 2014

## EXHIBIT 1.1

**OTC MARKETS GROUP INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except number of shares)

	December 31,	
	2013	2012
<b>Assets</b>		
Current assets		
Cash	\$ 18,936	\$ 13,611
Accounts receivable, net of allowance for doubtful accounts of \$130 and \$221	4,980	6,481
Prepaid income taxes	179	345
Prepaid expenses and other current assets	711	744
Deferred tax assets	173	203
<b>Total current assets</b>	<b>24,979</b>	<b>21,384</b>
Property and equipment, net	4,184	5,066
Non-current deferred tax assets, net	314	-
Goodwill	251	251
Intangible assets, net	40	40
Security deposits	210	209
<b>Total Assets</b>	<b>\$ 29,978</b>	<b>\$ 26,950</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities		
Accounts payable	\$ 509	\$ 721
Accrued expenses and other current liabilities	3,400	2,868
Deferred revenue	6,391	7,670
<b>Total current liabilities</b>	<b>10,300</b>	<b>11,259</b>
Deferred rent	608	786
Deferred tax liabilities, net	-	113
Income tax reserve	366	277
<b>Total Liabilities</b>	<b>11,274</b>	<b>12,435</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity</b>		
Common stock - par value \$0.01 per share		
Class A - 14,000,000 authorized, 11,006,405 issued, 10,888,510 outstanding at		
December 31, 2013; 10,814,622 issued, 10,700,047 outstanding at December 31, 2012	110	108
Class C - 130,838 shares authorized, issued and outstanding at December 31, 2013		
and December 31, 2012	1	1
Additional paid-in capital	7,243	6,050
Retained earnings	11,971	8,951
Treasury stock - 117,895 shares at December 31, 2013 and 114,575 shares at December 31, 2012	( 621 )	( 595 )
<b>Total Stockholders' Equity</b>	<b>18,704</b>	<b>14,515</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 29,978</b>	<b>\$ 26,950</b>

See accompanying notes to consolidated financial statements

**OTC MARKETS GROUP INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME**  
(in thousands, except earnings per share)

	Year Ended December 31,		
	2013	2012	2011
<b>Gross revenues</b>	\$ 35,509	\$ 35,026	\$ 32,951
Redistribution fees and rebates	( 1,869 )	( 1,842 )	( 2,188 )
<b>Net revenues</b>	<u>33,640</u>	<u>33,184</u>	<u>30,763</u>
<b>Operating expenses</b>			
Compensation and benefits	14,339	12,908	12,117
IT Infrastructure and information services	3,757	3,318	3,469
Professional and consulting fees	1,937	2,387	2,377
Marketing and advertising	1,633	1,743	1,804
Occupancy costs	1,429	1,411	1,540
Depreciation and amortization	1,642	1,622	1,358
General, administrative and other	605	839	992
Total operating expenses	<u>25,342</u>	<u>24,228</u>	<u>23,657</u>
<b>Income from operations</b>	<u>8,298</u>	<u>8,956</u>	<u>7,106</u>
<b>Other income (expense)</b>			
Interest income	2	14	39
Other (expense) income	( 4 )	16	( 154 )
<b>Income before provision for income taxes</b>	<u>8,296</u>	<u>8,986</u>	<u>6,991</u>
Provision for income taxes	2,665	3,509	2,139
<b>Net Income</b>	<u>\$ 5,631</u>	<u>\$ 5,477</u>	<u>\$ 4,852</u>
<b>Other comprehensive income:</b>			
Unrealized holding gain (loss) on securities arising during period	-	6	( 6 )
<b>Total comprehensive income</b>	<u>\$ 5,631</u>	<u>\$ 5,483</u>	<u>\$ 4,846</u>
<b>Net income per share</b>			
Basic	\$ 0.51	\$ 0.51	\$ 0.46
Diluted	\$ 0.51	\$ 0.51	\$ 0.45

See accompanying notes to consolidated financial statements

**OTC MARKETS GROUP INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(in thousands, except per share data)

	Total	Par Value - \$0.01		Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss
		Class A	Class C				
<b>Balance, January 1, 2011</b>	<u>\$ 9,260</u>	<u>\$ 104</u>	<u>\$ 1</u>	<u>\$ 4,455</u>	<u>\$ 5,100</u>	<u>\$ (400)</u>	<u>\$ -</u>
<b>Comprehensive income:</b>							
Net income	4,852	-	-	-	4,852	-	-
Unrealized loss on marketable securities	(6)	-	-	-	-	-	(6)
<b>Total comprehensive income</b>	<u>4,846</u>						
Stock-based compensation	555	-	-	555	-	-	-
Issuance of restricted and common shares, net	(40)	2	-	(42)	-	-	-
Tax benefit on stock-based compensation expense	59	-	-	59	-	-	-
Dividends	(1,676)	-	-	-	(1,676)	-	-
Repurchase of common stock for treasury stock	(132)	-	-	-	-	(132)	-
<b>Balance, December 31, 2011</b>	<u>\$ 12,872</u>	<u>\$ 106</u>	<u>\$ 1</u>	<u>\$ 5,027</u>	<u>\$ 8,276</u>	<u>\$ (532)</u>	<u>\$ (6)</u>
<b>Comprehensive income:</b>							
Net income	5,477	-	-	-	5,477	-	-
Unrealized gain on marketable securities	6	-	-	-	-	-	6
<b>Total comprehensive income</b>	<u>5,483</u>						
Stock-based compensation	956	-	-	956	-	-	-
Issuance of restricted and common shares, net	(9)	2	-	(11)	-	-	-
Tax benefit on stock-based compensation expense	78	-	-	78	-	-	-
Dividends	(4,802)	-	-	-	(4,802)	-	-
Repurchase of common stock for treasury stock	(63)	-	-	-	-	(63)	-
<b>Balance, December 31, 2012</b>	<u>\$ 14,515</u>	<u>\$ 108</u>	<u>\$ 1</u>	<u>\$ 6,050</u>	<u>\$ 8,951</u>	<u>\$ (595)</u>	<u>\$ -</u>
<b>Comprehensive income:</b>							
Net income	5,631	-	-	-	5,631	-	-
<b>Total comprehensive income</b>	<u>5,631</u>						
Stock-based compensation	1,089	-	-	1,089	-	-	-
Issuance of restricted and common shares, net	28	2	-	26	-	-	-
Tax benefit on stock-based compensation expense	78	-	-	78	-	-	-
Dividends	(2,611)	-	-	-	(2,611)	-	-
Repurchase of common stock for treasury stock	(26)	-	-	-	-	(26)	-
<b>Balance, December 31, 2013</b>	<u>\$ 18,704</u>	<u>\$ 110</u>	<u>\$ 1</u>	<u>\$ 7,243</u>	<u>\$ 11,971</u>	<u>\$ (621)</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements

**OTC MARKETS GROUP INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	2013	2012	2011
<b>Cash flows from operating activities</b>			
Net income	\$ 5,631	\$ 5,477	\$ 4,852
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,642	1,622	1,358
Provision for bad debts	88	219	393
Stock-based compensation	1,089	958	555
Excess tax benefits related to stock-based compensation	( 78 )	( 78 )	( 59 )
Deferred rent	( 141 )	( 122 )	215
Deferred income taxes	( 397 )	( 272 )	241
Loss on disposal of fixed assets	7	3	105
Other non-cash items	-	6	-
Changes in working capital:			
Accounts receivable	1,413	494	( 2,258 )
Prepaid expenses and other current assets	33	( 327 )	( 36 )
Prepaid income taxes	166	( 38 )	275
Accounts payable	( 212 )	( 110 )	242
Accrued expenses and other current liabilities	199	( 216 )	895
Income tax payable	78	78	-
Income tax reserve	89	( 29 )	( 7 )
Deferred revenue	( 1,279 )	1,042	2,329
<b>Cash provided by operating activities</b>	<b>8,328</b>	<b>8,707</b>	<b>9,100</b>
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	( 477 )	( 1,346 )	( 2,426 )
Proceeds from sale of equipment	6	-	-
Purchases of short-term investments	-	-	( 3,105 )
Sales of short-term investments	-	1,297	1,802
Security deposits	( 1 )	-	( 28 )
<b>Cash used in investing activities</b>	<b>( 472 )</b>	<b>( 49 )</b>	<b>( 3,757 )</b>
<b>Cash flows from financing activities</b>			
Dividends paid	( 2,611 )	( 5,221 )	( 1,671 )
Proceeds from the exercise of stock options	59	83	47
Withholding taxes paid related to cashless exercise of stock options	( 31 )	( 94 )	( 87 )
Excess tax benefits related to stock-based compensation	78	78	59
Purchase of treasury stock	( 26 )	( 63 )	( 132 )
Payments on term loans	-	-	( 92 )
<b>Cash used in financing activities</b>	<b>( 2,531 )</b>	<b>( 5,217 )</b>	<b>( 1,876 )</b>
Net increase in cash	5,325	3,441	3,467
Cash at beginning of period	13,611	10,170	6,703
Cash at end of period	<u>\$ 18,936</u>	<u>\$ 13,611</u>	<u>\$ 10,170</u>
<b>Cash paid during period for:</b>			
Income taxes	\$ 2,730	\$ 3,839	\$ 1,768
<b>Non-cash investing and financing activities:</b>			
Accrued dividends	\$ -	\$ -	\$ 419
Property and equipment included in accounts payable or accrued expenses	\$ 296	\$ 202	\$ 96

See accompanying notes to consolidated financial statements

**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements**  
(in thousands, except per share information)

**NOTE 1. DESCRIPTION OF BUSINESS**

*Overview*

OTC Markets Group Inc. (“OTC Markets Group” or the “Company”) (OTCQX: OTCM) operates Open, Transparent and Connected marketplaces for 10,000 U.S. and global securities with a mission to create better informed and more efficient financial marketplaces. OTC Link<sup>®</sup> ATS directly links a diverse network of broker-dealers that provide liquidity and execution services for a wide spectrum of securities. The Company’s marketplaces enable better informed and more efficient securities trading through any broker. OTC Link ATS is operated by our wholly-owned subsidiary OTC Link LLC, a Financial Industry Regulatory Authority, Inc. (“FINRA<sup>®</sup>”) member broker-dealer regulated by the Securities and Exchange Commission (“SEC”) as an Alternative Trading System (“ATS”). These securities are organized into marketplaces to better inform investors of opportunities and risks: OTCQX<sup>®</sup>, The Best Marketplace with Qualified Companies, OTCQB<sup>®</sup>, The Venture Stage Marketplace with Reporting Companies, and OTC Pink<sup>®</sup>, The Open Marketplace with Variable Reporting Companies. The Company’s data-driven technology empowers investors to easily analyze, value and trade securities through the broker of their choice at the best possible price, and enables a broad range of companies to improve the quality and availability of information for their investors.

The Company has three business lines: OTC Link ATS Trading Services, Market Data Licensing and Corporate Services (formerly known as Issuer Services).

- OTC Link ATS Trading Services – OTC Link ATS provides electronic communication and connectivity technology to its Financial Industry Regulatory Authority (“FINRA”) member broker-dealer subscribers.
- Market Data Licensing – As a central source of real-time and historical market data, company financial data, security master data and corporate reference data for securities traded on the OTCQX, OTCQB and OTC Pink marketplaces, OTC Markets Group provides investors, traders, institutions, and regulators with a suite of enterprise and user market data licenses, offered via direct connectivity or through third party market data redistributors or order management systems.
- Corporate Services – OTC Markets Group offers companies the OTCQX marketplace and premium services that are designed to create a better informational experience for investors by facilitating public disclosure and communication with investors, promoting greater transparency and allowing companies to demonstrate regulatory compliance and mitigate market risk. The premium services offered to companies include the OTC Disclosure & News Service, Real-Time Level 2 Quote Display and Blue Sky Monitoring Service.

Corporate Form

Prior to March 31, 2008, the Company was organized and operated as a limited liability company under the name Pink Sheets LLC (the “LLC”). On March 31, 2008, the LLC was converted, via a “formless conversion” under Section 265 of the Delaware General Corporation Law, from a Delaware limited liability company to a Delaware corporation named Pink OTC Markets Inc. On January 18, 2011, Pink OTC Markets Inc. changed its name to OTC Markets Group Inc. The Company is a “C” Corporation for federal, state, and local income tax purposes.

**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) and include the accounts of the Company and its wholly-owned subsidiary, OTC Link LLC. All intercompany transactions have been eliminated in consolidation. Management assessed the segment reporting standards, analyzed how the chief operating decision maker (the Chief Executive Officer) manages the businesses and the availability of discrete financial information, and concluded that the Company’s three business lines aggregate to one reportable segment.

*Use of Estimates*

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Estimates included in the consolidated financial statements include allowance for doubtful accounts, accrued expenses, stock-based compensation expense and provision for income taxes. Actual results could differ from those estimates.

*Revenue Recognition*

The Company generates a majority of its revenues from each of its three business lines through contracts based on a subscription model. Subscribers typically purchase a variety of services when commencing a contract. Therefore, the majority of the Company’s contracts constitute an arrangement with multiple deliverables. Management has determined that most services can be accounted for separately because these services have value to subscribers on a standalone basis and there is vendor specific objective and reliable evidence of selling price for each deliverable. The sale prices for all services are based on contracted price list, which is the Company’s determination of the best estimate that the item would be sold for in a stand-alone transaction with a subscriber. Services that are bundled are recognized ratably over the subscription period. Revenue is recognized net of any taxes collected from customers and subsequently remitted to governmental authorities.

The OTC Link ATS Trading Services business line collects monthly license, subscription and connectivity fees to use OTC Link ATS. License fees for use of the proprietary OTC Dealer application are based on the number of authorized users per subscriber and are calculated based on a tiered pricing arrangement. The unrealized portion of monthly invoiced subscription fees are recorded as deferred revenue on the consolidated balance sheets. Broker-dealers also pay usage fees, based on a tiered pricing arrangement, to publish quotes and deliver trade negotiation messages electronically to counterparties on OTC Link ATS. These fees are recognized over the service period and as transactions occur. OTC Link pays rebates to Order Management System resellers of OTC Link ATS services, which are recorded as a reduction of gross revenues.

Market Data Licensing revenue is generated from charging subscribers to access OTCQX, OTCQB and OTC Pink market data and security information collected through OTC Link ATS. Investors, traders, institutions, and others pay monthly license fees to access the Company’s market data. The majority of Market Data Licensing revenues result from sales through major market data redistributors, who earn redistribution fees for the resale of the Company’s proprietary information that are recorded as a reduction of gross revenues. These fees are recognized as services are provided. OTC Markets Group records revenues from certain

**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

market data license subscription agreements on a pro rata basis over the term of the subscription agreement; the unrealized portion is recorded as deferred revenue on the consolidated balance sheets.

The Corporate Services business line generates revenue from the OTCQX marketplace and other premium services. Fees paid by companies to trade on the OTCQX marketplace are recognized on a pro rata basis over the calendar year in which the services are provided. Fees for the premium services offered by the Company's Corporate Services business line are recognized on a straight-line basis over the service period. The unrealized portion of invoiced subscription fees are recorded as deferred revenue on the consolidated balance sheets.

OTC Markets Group charges for the right to display advertisements on [www.otcmarkets.com](http://www.otcmarkets.com). Advertising fees are recognized based on the reported number of impressions to the advertiser's website or another pass through traffic based measurement noted in the contract. Fees are recognized as services are rendered.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents are comprised of the Company's cash and short-term investments with an original maturity of three months or less; the carrying amount of which approximates fair value. The Company maintains cash in bank deposit accounts which, at times, may exceed federally insured limits.

*Allowance for Doubtful Accounts*

The allowance for doubtful accounts is maintained at a level that management believes to be sufficient to absorb probable losses among all subscribers across all business lines. The allowance is based on several factors, including a continuous assessment of the collectability of subscriber accounts. When it is known that a specific customer will not meet its financial obligations, management will reduce the receivable balance to the amount that is expected to be collected.

*Property and Equipment*

Property and equipment are stated at cost and depreciated over the estimated useful lives of the assets (generally ranging from two to five years) utilizing the straight-line method. Leasehold improvements are amortized using the straight-line method over the term of the lease or the estimated useful lives of the assets, whichever is shorter.

Certain software development costs, including modifications or upgrades to the internal-use software, are capitalized to the extent they allow the software to perform a task previously not performed. These costs are amortized on a straight-line basis over the software's estimated useful life, which is generally three years. OTC Markets Group does not capitalize costs related to the development of software marketed to external subscribers.

Expenditures for maintenance, repairs, and renewals are expensed as incurred, unless they materially add to the value of the property or appreciably extend its useful life. Gains or losses are recorded from a sale or retirement of property and equipment at the time of disposal.

*Long-lived Asset Impairments*

OTC Markets Group reviews long-lived assets, including property, plant and equipment and amortizable intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the asset may not be fully recoverable. An impairment loss is recognized when the estimated discounted future cash flows expected to be



**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

generated from the use of the asset, including disposition, is less than the carrying amount of the assets.

*Goodwill and Indefinite-Lived Intangible Asset Impairment*

OTC Markets Group reviews the carrying amounts of both goodwill and indefinite-lived intangible assets for impairment annually and more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. When testing for impairment, the Company first assesses qualitative factors, such as operating results, business plans, anticipated future cash flows, industry data, and other potential risks to the projected financial results, to determine whether it is more likely than not that the fair value of the asset is less than the carrying amount. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Quantitative testing is only performed if the qualitative assessment concludes it is more likely than not that the fair value of the asset is less than its carrying amount.

For goodwill, the quantitative impairment test is a two-step process performed at the reporting unit level. First the fair value of the reporting unit is estimated and compared to its corresponding carrying amount, including goodwill. If the first step indicates that the carrying amount exceeds the fair value, then the second step is completed to determine the amount of goodwill impairment that should be recorded, if any. In the second step, the implied fair value of the reporting unit's goodwill is determined in a manner similar to a purchase price allocation. If the implied fair value of the goodwill is less than the carrying amount, an impairment is recorded in the amount of the difference.

For indefinite-lived intangible assets, the impairment test is similar to the first step of the goodwill test discussed previously. An impairment is recorded for any excess of carrying amount over the estimated fair value.

There are inherent uncertainties related to these impairment tests which require management judgment in applying them including the evaluation of qualitative factors and estimates of future business results.

*Stock-based Compensation*

The Company measures share-based awards given to employees at the grant-day fair value of the equity award and records stock-based compensation expense over the related service period. OTC Markets Group estimates an expected forfeiture rate while recognizing the expense associated with these awards. Refer to Note 11, "*Stock-based Compensation*" for further information.

*Comprehensive Income*

Other comprehensive income includes changes in unrealized gains and losses on available-for-sale securities.

*Fair Value Measurement*

The Company accounts for certain financial instruments at fair value in accordance with the provisions of the standard for fair value measurement, which utilizes a three-tier hierarchy to determine the fair value of financial assets and liabilities based on the quality of observable inputs and enhances disclosure requirements for fair value measurement. The three tiers are:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets and liabilities in an active market
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace

## OTC MARKETS GROUP INC.

### Notes to Consolidated Financial Statements (continued) (in thousands, except per share information)

- Level 3 – Unobservable inputs that are supported by little or no market activity

The fair value of a financial instrument is the amount that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

Assets and liabilities on the consolidated balance sheet that are measured at carrying value, which approximates fair value due to the short term nature of these balances, include cash, prepaid expenses, accrued expenses and deferred revenue.

#### *Income Taxes*

The Company accounts for income taxes under the provisions of Accounting Standards Codification (“ASC”) Topic 740, Income Taxes, which generally requires the recognition of deferred tax assets and liabilities for the expected future tax benefits or consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting carrying values and the tax basis of assets and liabilities and are measured by applying enacted tax rates and laws for the taxable years in which those differences are expected to reverse.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the Consolidated Financial Statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon settlement with the relevant tax authority.

#### *Recently Issued Accounting Standards*

In July 2013, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update that clarifies the guidance for financial statement presentation of an unrecognized tax benefit when a net operating loss (“NOL”) carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments require that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as a reduction to a deferred tax asset for a NOL carryforward, a similar tax loss, or a tax credit carryforward. To the extent a NOL carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This update is effective prospectively for interim periods and fiscal years beginning after December 15, 2013, with early adoption permitted. The Company does not believe that the adoption of this standard will have a material impact on the consolidated financial statements.

### **NOTE 3. CONCENTRATIONS AND UNCERTAINTIES**

During the years ended December 31, 2013, 2012 and 2011, market data revenues earned through one market data distributor amounted to approximately 13%, 13% and 14% of the Company’s gross revenues, respectively. Additionally, at December 31, 2013 and 2012, accounts receivable from that same subscriber amounted to 20% and 15%, respectively, of the Company’s accounts receivable.

**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

During both 2013 and 2012, revenues earned from Canadian companies amounted to approximately 11% of the Company's gross revenues. Amounts earned during 2011 from Canadian companies were under 10% of the Company's gross revenues.

In November 2009, FINRA filed with the Securities and Exchange Commission ("SEC") a proposed rule change to create a Quotation Consolidation Facility ("QCF") that would serve as a commercial data consolidator and disseminator for quote data in the OTC equity market (the "QCF Proposal"), which, if approved, would reduce the Company's ability to generate revenues from market data licensing. Market data licensing represented approximately 42%, 40% and 42% of the Company's revenues for the years ended December 31, 2013, 2012 and 2011, and if the QCF Proposal had been adopted it would have negatively impacted approximately 43%, 45% and 46% of the Company's 2013, 2012 and 2011 market data licensing revenues, respectively.

**NOTE 4. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

(in thousands)	December 31,		Estimated useful life (years)
	2013	2012	
Computer software	\$ 728	\$ 602	2 - 3
Computer equipment	3,336	2,818	3 - 5
Furniture and fixtures	1,078	986	5 - 7
Leasehold improvements	4,321	4,321	Term of lease
Total property and equipment	9,463	8,727	
Accumulated depreciation and amortization	( 5,279 )	( 3,661 )	
<b>Total property and equipment, net</b>	<b>\$ 4,184</b>	<b>\$ 5,066</b>	

Depreciation and amortization on property and equipment, included in the consolidated statements of income and other comprehensive income, amounted to \$1.6 million, \$1.6 million and \$1.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

**NOTE 5. GOODWILL AND INTANGIBLE ASSETS**

Intangible assets consisted of the following:

(in thousands)	December 31,		Estimated useful life (years)
	2013	2012	
Goodwill	\$ 251	\$ 251	Indefinite
<b>Intangible assets:</b>			
Subscription services	150	150	8-15
Distributor relations	27	27	15
Intellectual property	40	40	Indefinite
Total intangible assets	217	217	
Accumulated amortization	( 177 )	( 177 )	
<b>Intangible assets, net</b>	<b>\$ 40</b>	<b>\$ 40</b>	

No amortization of finite-lived intangible assets was recognized for the years ended December 31, 2013 and 2012 as the assets were fully amortized as of December 31, 2011. For the year ended December 31, 2011, amortization expense of finite-lived intangible assets, included in the consolidated statements of income and comprehensive income, amounted to \$48. No impairment charges were recorded to goodwill or intangible assets for the years ended December 31, 2013, 2012 and 2011.

**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

**NOTE 6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities consisted of the following:

(in thousands)	December 31,	
	2013	2012
Payroll and employee withholdings	\$ 2,376	\$ 2,074
Deferred compensation	114	123
Accrued operating expenses	732	530
Deferred rent	178	141
<b>Total accrued expenses and other</b>	<b>\$ 3,400</b>	<b>\$ 2,868</b>

Payroll and employee withholdings primarily consisted of accrued discretionary bonuses, discretionary employer 401(k) contributions, accrued vacation and accrued sales commissions.

**NOTE 7. STOCK-BASED COMPENSATION**

OTC Markets Group grants stock options and restricted stock awards (“RSAs”) to employees. The grant date fair value of each stock option is estimated using the Black-Scholes option pricing model and is then amortized into compensation expense on a straight-line basis over the requisite service period, which is generally the vesting period. The grant date fair value of each RSA is based on the closing stock price on the day prior to the grant date. For share-based awards granted prior to the establishment of a public market in the Company’s Common Stock on September 16, 2009, determining the fair value of share-based awards at the grant date required more significant judgments to determine the expected volatility rate.

A summary of the Company’s option activity for the year ended December 31, 2013 is as follows:

(in thousands, except W/A exercise price)	Stock options	Weighted-average exercise price	Aggregate intrinsic value	Remaining contractual term (years)
Outstanding, January 1, 2013	851	\$ 5.25	\$ 1,999	7.39
Granted	148	8.07	-	9.12
Exercised	( 41 )	4.44	152	5.75
Forfeited	( 74 )	6.22	116	N/A
Outstanding, December 31, 2013	884	\$ 5.68	\$ 1,897	6.78
Exercisable, December 31, 2013	454	\$ 4.32	\$ 1,559	5.47

The Company recognized compensation expense related to stock options, net of estimated forfeitures, of \$333, \$400 and \$334 for the years ended December 31, 2013, 2012 and 2011, respectively. During 2013, management estimated forfeiture rates of 5% for stock options granted to management and 17% for stock options granted to other employees. Such charges are included in compensation and benefits expense on the consolidated statements of income.

At December 31, 2013, unrecognized compensation cost related to non-vested awards totaled \$904, which will be recognized over approximately 3.3 years.

**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

The weighted-average assumptions used in the Black-Scholes option pricing model for 2013, 2012 and 2011 are as follows:

	Year ended December 31,		
	2013	2012	2011
Risk free interest rate	1.59%	1.04%	1.94%
Expected life in years	6.50	6.50	6.50
Expected volatility	59%	53%	54%
Expected annual dividend per share	2.67%	2.67%	2.42%
Weighted average fair value of options granted	\$ 3.61	\$ 2.61	\$ 3.43

A summary of the Company's non-vested stock option activity for the year ended December 31, 2013 is as follows:

(in thousands, except W/A fair value)	Number of options	Weighted- average fair value	Remaining contractual life
Unvested balance at January 1, 2013	477	\$ 2.55	8.48
Granted	148	3.61	9.12
Modified	-	-	
Forfeited	( 68 )	2.49	N/A
Vested	( 126 )	2.55	N/A
Non-vested options at December 31, 2013	431	\$ 2.93	8.15

A summary of the Company's restricted stock award activity for the year ended December 31, 2013 is as follows:

(in thousands, except W/A fair value)	Restricted stock	Weighted- average fair value	Aggregate intrinsic value
Outstanding, January 1, 2013	250	\$ 5.99	\$ 1,888
Granted	201	7.93	1,556
Vested	( 96 )	6.34	N/A
Forfeited	( 31 )	6.91	241
Outstanding, December 31, 2013	324	\$ 7.00	\$ 2,510

The Company recognized compensation expense, net of estimated forfeitures, of \$512, \$394 and \$175 for the years ended December 31, 2013, 2012 and 2011, respectively. During 2013, management has estimated forfeiture rates of 1% for RSAs granted to management and 8% for RSA's granted to other employees. In addition, the Company also recognized professional fees of \$244, \$164 and \$46 for the years ended December 31, 2013, 2012 and 2011, respectively, related to the issuance of restricted stock awards to the Board of Directors.

**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

A summary of the Company's non-vested RSA activity for the year ended December 31, 2013 is as follows:

(in thousands, except W/A fair value)	Number of RSAs	Weighted- average fair value	Remaining contractual life
Unvested balance at January 1, 2013	250	\$ 5.99	8.81
Granted	201	7.93	9.18
Modified	-	-	
Forfeited	( 31 )	6.91	N/A
Vested	( 96 )	6.34	N/A
Non-vested RSAs at December 31, 2013	324	\$ 7.00	8.55

At December 31, 2013, unrecognized compensation cost related to non-vested awards totaled \$1,662, which will be recognized over approximately 3.1 years.

**NOTE 8. DEBT**

OTC Markets Group maintains a commercial banking relationship with JPMorgan Chase. On July 7, 2012, the Company entered into a line of credit agreement with JPMorgan Chase (the "Line of Credit") that made up to \$1.5 million available for business operations through June 30, 2014. Since inception, we have not drawn funds on the Line of Credit. Under the terms of the Line of Credit, we agreed to fulfill certain affirmative and negative covenants and other specified terms. At December 31, 2013 the Company was in compliance with all of the Covenants and other terms of the Line of Credit.

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

*Operating leases*

The Company has two non-cancelable operating leases. One is for the office space at 304 Hudson Street, New York, NY that was amended in August 2008 and expires on June 30, 2017 and the other is for office space at 100 M Street SE, Washington D.C. that commenced in July 2011 and expires on June 30, 2016. The New York lease provides for contingent rental payments consisting of a proportionate share of any increases in real estate taxes. The amendment to the office space in New York provided for additional space with an eight-month rent holiday on the additional space. The Washington D.C. lease included a tenant allowance that was fully utilized and recorded in the deferred rent balance in the third quarter of 2011. Both leases contain rent escalation provisions. Rental expense is recognized on a straight-line basis over the term of the lease, and the difference between the actual rent paid and the expense charged is reflected as an increase or decrease to deferred rent.

As of December 31, 2013, future minimum lease payments under the leases are as follows:

Fiscal year	Payments due
2014	1,298
2015	1,336
2016	1,289
2017	616
2018	-
<b>Total</b>	<b>\$ 4,539</b>

**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

Occupancy expense included in the consolidated statements of income and other comprehensive income was \$1.4 million, \$1.4 million and \$1.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

At December 31, 2013, the Company had an open letter of credit of approximately \$180, which secures its obligation under the New York City office lease. The letter of credit is collateralized by a certificate of deposit and all other assets, as defined in the security agreement. Total security deposits on the Company's office leases were \$210 and \$209 as of December 31, 2013 and 2012, respectively.

*Legal Matters*

There are no current, past, pending or threatened legal proceedings or administrative actions either by or against OTC Markets Group that could have a material effect on its business, financial condition or operations. OTC Markets Group is not a party to any past or pending trading suspensions by a securities regulator.

**NOTE 10. EMPLOYEE BENEFIT PLAN**

The Company has a 401(k) Plan for all eligible employees. Subject to federal contribution limits, the Plan permits each participant to contribute up to 15% of the participant's annual compensation and allows the Company to make discretionary contributions. In 2008, the Company established an "Employer Non-Elective Discretionary Contribution" feature for its 401(k) Plan. The Company elected to contribute \$253, \$224 and \$187 for the annual periods ended December 31, 2013, 2012 and 2011, respectively.

**NOTE 11. STOCKHOLDERS' EQUITY**

*Common Stock*

The Company has two classes of common stock: Class A and Class C (collectively, "Common Stock") outstanding. Holders of Class A Common Stock, which include holders of unvested RSA's, are entitled to receive such dividends and other distributions in cash, stock of any corporation or property of the Company as may be authorized and declared by the Board of Directors from time to time out of the assets or funds of the Company legally available for the payment of dividends ("Dividend Rights"). Upon the voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of Class A Common Stock are entitled to a pro rata share of the net assets of the Company available for distribution in proportion to the number of shares of Class A Common Stock held by each ("Liquidation Rights").

Holders of Class C Common Stock are not entitled to any Dividend Rights or Liquidation Rights. Each share of Class C Common Stock will automatically convert into Class A Common Stock at a ratio of one-to-one if the price of Class A Common Stock is greater than \$19.62 per share as determined by either (i) the average price in trade reports aggregating a total of 300,000 shares reported to FINRA under Rule 6600, provided that the Class A Common Stock has been quoted upon an interdealer quotation system by at least two market makers, or (ii) an Acquisition of the Company.

The Company is authorized to issue an aggregate of 14,130,838 shares of Common Stock at \$0.01 par value, comprised of: 14,000,000 Class A shares and 130,838 Class C shares. As of December 31, 2013 there were a total of 11,137,243 shares issued and 11,019,348 shares outstanding; the latter was comprised of 10,888,510 Class A shares and 130,838 Class C shares. As of December 31, 2012 there were a total of 10,945,460 shares issued and

**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

10,830,885 shares outstanding; the latter was comprised of 10,700,047 Class A shares and 130,838 Class C shares.

*Treasury stock*

In August 2011, the Board of Directors authorized the Company to repurchase up to 300,000 shares of Class A Common Stock in compliance with Rule 10b-18 under the Exchange Act.

On August 23, 2013, the Company repurchased 3,320 shares of Class A Common Stock at a price of \$7.95 per share. On February 28, 2012, the Company repurchased 10,000 shares of Class A Common Stock at a price of \$6.27 per share. During the year ended December 31, 2011, the Company repurchased 26,406 shares of Class A Common Stock, at prices that ranged from \$5.00 - \$5.35 per share; 26,126 shares were purchased in November 2011 and 280 shares were purchased in December 2011. All repurchased shares are held in treasury.

*Dividends*

During the years ended December 31, 2013, 2012 and 2011, the Company paid cash dividends of \$0.06, \$0.05 and \$0.04, respectively, per share of Class A common stock on a quarterly basis. The Company also paid a special dividend of \$0.25 per share of Class A common stock during the fourth quarter of 2012.

*Equity Incentive Plan*

The Company's Equity Incentive Plan (the "Plan"), as approved by the Board of Directors on June 2, 2009, provides for the grant of incentive stock options, non-statutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares, and bonus shares, and governs options awarded (Refer to Note 7 "Stock-Based Compensation"). In each of November 2013 and 2012, the Board of Directors authorized the increase in the number of shares available for issuance under the Plan by 200,000 shares.

**NOTE 12. INCOME TAXES**

The components of the provision for income taxes consist of the following:

(in thousands)	Year Ended December 31,		
	2013	2012	2011
<b>Current:</b>			
Federal	\$ 2,339	\$ 2,940	\$ 1,456
State and local	723	840	442
<b>Total current</b>	<b>\$ 3,062</b>	<b>\$ 3,780</b>	<b>\$ 1,898</b>
<b>Deferred:</b>			
Federal	\$ ( 366 )	\$ ( 222 )	\$ 467
State and local	( 31 )	( 49 )	( 226 )
<b>Total deferred</b>	<b>\$ ( 397 )</b>	<b>\$ ( 271 )</b>	<b>\$ 241</b>
<b>Provision for income taxes</b>	<b>\$ 2,665</b>	<b>\$ 3,509</b>	<b>\$ 2,139</b>



**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

The following table presents the key reconciling items from the federal statutory rate of 34% to the Company's effective income tax rate of 32%, 39% and 31% for fiscal years 2013, 2012 and 2011, respectively.

(in thousands)	Year Ended December 31,		
	2013	2012	2011
State and local income taxes	5%	6%	2%
R&D tax credits	(7%)	-	(3%)
Results of 2008 IRS audit	-	-	(2%)
All other, net	-	(1%)	-
	<u>(2%)</u>	<u>5%</u>	<u>(3%)</u>

The significant components of the Company's deferred tax assets and liabilities are as follows:

(in thousands)	Year Ended December 31,	
	2013	2012
<b>Current deferred tax assets:</b>		
Allowance for doubtful accounts	\$ 51	\$ 88
Deferred rent	70	56
Deferred compensation	45	49
Other reserves	7	10
<b>Current deferred tax assets:</b>	<b>173</b>	<b>203</b>
<b>Non-current deferred tax assets:</b>		
Share-based compensation	\$ 702	\$ 547
Deferred rent	238	312
Deferred tax asset on income tax reserve	114	86
Other reserves	6	29
<b>Non-current deferred tax assets</b>	<b>1,060</b>	<b>974</b>
<b>Non-current deferred tax liabilities:</b>		
Property and equipment	( 746 )	( 1,055 )
Other reserves	-	( 32 )
<b>Non-current deferred tax liabilities</b>	<b>( 746 )</b>	<b>( 1,087 )</b>
<b>Net, non-current deferred tax assets (liabilities)</b>	<b>\$ 314</b>	<b>\$ ( 113 )</b>

As required by the uncertain tax position guidance in ASC Topic 740, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon settlement with the relevant tax authority. In connection with the assessment of certain tax positions, a reconciliation of the gross unrecognized tax liabilities for the years ended December 31, 2013 and 2012 is as follows:

(in thousands)	Year Ended December 31,	
	2013	2012
<b>Beginning balance</b>	\$ 226	\$ 252
Increases based on tax positions taken during the current period	63	66
Increases (decreases) based on tax position taken during a prior period	5	( 92 )
<b>Ending balance</b>	<b>\$ 294</b>	<b>\$ 226</b>

It is not reasonably possible that any unrecognized tax benefits related to state nexus will reverse within the next twelve months due to expected settlements with taxing authorities. The

**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

total amount of uncertain tax positions, that if recognized would impact the Company's effective tax rate as of December 31, 2013, is \$253.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of tax expense. The Company increased the amount of interest and penalties due on income tax reserves by \$22 during the year ended December 31, 2013 and reduced the amount of interest and penalties due on income tax reserves by \$4 and \$30 during the years ended December 31, 2012 and 2011, respectively. As of December 31, 2013 and 2012, the Company had \$72 and \$50 of interest and penalties accrued, respectively.

The Company is subject to income taxes in the U.S. federal jurisdiction and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The 2010, 2011 and 2012 tax years remain subject to examination by the Internal Revenue Service (IRS) and 2009, 2010, 2011 and 2012 tax years remain subject to examination by various state taxing authorities. The Company does not believe that the outcome of any examination will have a material impact on its financial statements.

**NOTE 13. NET INCOME PER SHARE**

The Company calculates earnings per share pursuant to the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends. RSAs granted to employees (Refer to Note 7 "Stock-Based Compensation") participate in dividends on the same basis as common shares and such dividends are nonforfeitable by the holder. As a result, these RSAs meet the definition of a participating security.

The tables below present the calculations of earnings per share under the two class method:

*Basic Earnings per common share*

(in thousands, except shares and per share data)	Year Ended December 31,		
	2013	2012	2011
Net income available to common shareholders	\$ 5,631	\$ 5,477	\$ 4,852
Less: Undistributed earnings allocated to unvested RSAs	( 87 )	( 3 )	( 40 )
Less: Dividend equivalents on unvested RSAs	( 78 )	( 113 )	( 21 )
Net Income allocated to common shareholders	\$ 5,466	\$ 5,361	\$ 4,791
Shares of common stock and common stock equivalents			
Weighted-average common shares outstanding	10,677,340	10,539,142	10,473,811
Basic earnings per share	\$ 0.51	\$ 0.51	\$ 0.46

**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

*Diluted Earnings per common share*

(in thousands, except shares and per share data)	Year Ended December 31,		
	2013	2012	2011
Net income available to common shareholders	\$ 5,631	\$ 5,477	\$ 4,852
Less: Undistributed earnings allocated to unvested RSAs	( 86 )	( 3 )	( 40 )
Less: Dividend equivalents on unvested RSAs	( 78 )	( 113 )	( 21 )
Net Income allocated to common shareholders	<u>\$ 5,467</u>	<u>\$ 5,361</u>	<u>\$ 4,791</u>
<b>Shares of common stock and common stock equivalents</b>			
Weighted-average common shares outstanding	10,677,340	10,539,142	10,473,811
Dilutive effect of employee stock options and restricted stock units	86,433	69,374	67,007
Weighted-average shares used in diluted computation	<u>10,763,773</u>	<u>10,608,516</u>	<u>10,540,818</u>
Diluted earnings per share	\$ 0.51	\$ 0.51	\$ 0.45

As of December 31, 2013, 2012 and 2011, 324, 250 and 134 restricted stock awards, respectively, and stock options to purchase 884, 851 and 820 shares of common stock, respectively, were outstanding. For the years ended December 31, 2013, 2012 and 2011, 171, 106 and 359 awards, respectively, were excluded from the diluted earnings per share computation because their effect would have been anti-dilutive.

**NOTE 14. QUARTERLY FINANCIAL DATA (unaudited)**

The following represents OTC Markets Group's unaudited quarterly results for the years ended December 31, 2013 and 2012. These quarterly results were prepared in accordance with GAAP and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results. These adjustments are of a normal recurring nature.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
<b>2013</b>				
Net revenues	\$ 8,150	\$ 8,485	\$ 8,483	\$ 8,523
Operating Income	1,712	1,892	2,260	2,433
Net Income	1,199	1,433	1,432	1,566
Basic earnings per share	\$ 0.11	\$ 0.13	\$ 0.13	\$ 0.14
Diluted earnings per share	\$ 0.11	\$ 0.13	\$ 0.13	\$ 0.14
<b>2012</b>				
Net revenues	\$ 8,084	\$ 8,421	\$ 8,229	\$ 8,450
Operating Income	2,132	2,464	1,866	2,494
Net Income	1,280	1,464	1,154	1,579
Basic earnings per share	\$ 0.12	\$ 0.14	\$ 0.11	\$ 0.14
Diluted earnings per share	\$ 0.12	\$ 0.14	\$ 0.11	\$ 0.14

**NOTE 15. RELATED PARTY TRANSACTIONS**

A consulting firm, of which a member of the Company's Board of Directors is the principal owner, has a verbal consulting agreement with OTC Markets Group to provide expertise related to trading system design and specifications on an as-needed basis. During 2013, 2012 and 2011, the Company paid the consulting firm \$63, \$88 and \$80, respectively.

**OTC MARKETS GROUP INC.**  
**Notes to Consolidated Financial Statements (continued)**  
(in thousands, except per share information)

**NOTE 16. SUBSEQUENT EVENTS**

For purposes of disclosure in the financial statements, the Company has evaluated subsequent events through March 5, 2014, the date the financial statements were available to be issued.

In January 2014, the Company granted approximately 162 RSAs to certain employees subject to the terms of Restricted Stock Agreements between the Company and each employee.

On February 24, 2014, the Board of Directors authorized and approved a quarterly cash dividend of \$0.06 per share of Class A common stock.

**NOTE 17. REGULATORY AUTHORITIES**

OTC Link LLC is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 as amended (the "Exchange Act"). Rule 15c3-1 requires the maintenance of net capital, as defined, which shall be the greater of \$5 or 6 $\frac{2}{3}$ % of aggregate indebtedness, as defined. OTC Link LLC's regulatory net capital as of December 31, 2013 and 2012 was \$5,541 and \$3,249, respectively, which exceeded the minimum net capital requirement by \$5,420 and \$3,078, respectively.

**EXHIBIT 2.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE**

I, R. Cromwell Coulson, Chief Executive of OTC Markets Group Inc., certify that:

1. I have reviewed this Annual Report of OTC Markets Group Inc.;
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Annual Report.

/s/ R. Cromwell Coulson  
R. Cromwell Coulson  
Chief Executive Officer

March 5, 2014  
Date

**EXHIBIT 2.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, Wendy E. Fraulo, Chief Financial Officer of OTC Markets Group Inc., certify that:

1. I have reviewed this Annual Report of OTC Markets Group Inc.;
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this Annual Report.

/s/ Wendy E. Fraulo  
Wendy E. Fraulo  
Chief Financial Officer

March 5, 2014  
Date