

# OTC Markets Group Announces Second Quarter 2013 Financial Results

## Second Quarter 2013 Highlights:

- Unaudited second quarter 2013 GAAP diluted EPS of \$0.13 and second quarter 2013 Adjusted diluted EPS of \$0.25
- Second quarter operating profit margin of 22%
- Quarterly dividend of \$0.06 per share
- CEO Cromwell Coulson testified on June 12, 2013 at a hearing of the House Financial Services Subcommittee entitled “Reducing Barriers to Capital Formation”

**NEW YORK – August 7, 2013 – [OTC Markets Group Inc.](#)** (OTCQX: OTCM) operator of Open, Transparent and Connected financial marketplaces for 10,000 U.S. and global securities, today announced its financial results for the three and six month periods ended June 30, 2013.

“The Company achieved major milestones towards upgrading our data center during the second quarter of 2013, and our technology is now running on a more reliable and scalable network that can expand to a wider range of securities,” said R. Cromwell Coulson, President and Chief Executive Officer. “Trading activity on OTC Link ATS increased during the second quarter of 2013, resulting in an increase in Quote Access Payments charged by our broker-dealer subscribers and increased trade messages per active security on OTC Link ATS. Market Data Licensing continues to expand as customer demand for Level 1 data products grows, and Issuer Services added 24 new companies to the OTCQX marketplace during the second quarter of 2013, while losing 16 companies.”

“Revenue growth during the quarter was driven by an increase in market data professional Level 1 user licenses and subscription revenue from the OTCQX marketplace and premium issuer services. Slower revenue growth than in prior years, increased headcount, investment in our infrastructure and the timing of marketing and advertising projects contributed to contraction in our operating profit margin during the second quarter and first half 2013 to ~22% during both periods, although the Company is focused on long-term scalability,” said Wendy Fraulo, Chief Financial Officer.

## Second Quarter 2013 Results compared to Second Quarter 2012

### **Revenues**

Gross revenues during the second quarter of 2013 totaled \$8.9 million, an increase of \$0.1 million, or 1%. The moderate growth in OTCQX subscription revenue and Market Data Licensing subscription revenue was partially offset by decreases in OTC Link ATS subscription revenue and revenue from quote positions. In the Market Data Licensing business line, greater subscriber demand of user license subscriptions and broker-dealer enterprise licenses subscriptions contributed to the increase in revenue of \$97 thousand to \$3.6 million. Issuer Services revenues increased \$54 thousand, or 2%, to \$2.3 million primarily due to increases in OTCQX subscription revenue and premium services subscription revenue. OTC Link ATS Trading Services revenue decreased by \$47 thousand, or 2%, to \$3.0 million, which was mainly attributable to a decrease in subscription revenue from OTC Dealer licenses, FIX connection fees and OTC Link subscriptions, partially offset by an increase in revenues from QAP One Statement service fees, which was primarily related to increased trading activity on OTC Link ATS.

### ***Operating Expenses***

Operating expenses increased \$0.6 million, or 11%, to \$6.6 million, primarily related to increases in compensation and benefits costs and marketing and advertising expenses. On a year over year basis, increased headcount of 6 employees and 2013 annual compensation increases directly increased salary expense \$0.3 million, or 13%. Other employee benefits costs that increased during the second quarter of 2013 include higher medical insurance costs and tuition reimbursement costs. Marketing and advertising costs increased \$0.3 million, or 80%, related to internal and external marketing initiatives. IT infrastructure and data communications costs increased \$0.1 million, or 11%, primarily related to continued work on an updated data center.

### ***Income from Operations and Net Income***

Income from operations decreased \$0.6 million, or 23%, to \$1.9 million, and operating profit margin contracted to 22% from 29% during the same time frame. The decrease in income from operations and operating profit margin is primarily attributable to the increase in compensation and benefits expenses and marketing and advertising expenses.

Net income decreased \$31 thousand, or 2%, to \$1.4 million. The reduction in income from operations was offset by a reduction in the Company's provision from income taxes. The Company's effective tax rate decreased to 24% primarily related to a benefit from Research and Development ("R&D") tax credits for 2012 and 2013 that was recognized during the second quarter of 2013. Net income per weighted average diluted shares outstanding decreased to \$0.13 for the second quarter of 2013, as compared to \$0.14 during the second quarter of 2012.

### ***Adjusted EBITDA***

Adjusted EBITDA, which excludes non-cash stock based compensation expense, for the second quarter of 2013 decreased 16% to \$2.6 million, primarily due to an increase in compensation and benefits and marketing and advertising expenses, partially offset by a slight increase in net revenue.

### **Year to Date June 2013 Results compared to Year to Date June 2012**

#### ***Revenues***

Gross revenues increased \$161 thousand, or 1%, to \$17.6 million. Consistent with our results for the second quarter, growth in Market Data Licensing subscription revenue and OTCQX subscription revenue was partially offset by decreases in OTC Link ATS subscription revenue and revenue from quote positions. In the Market Data Licensing business line greater subscriber demand of user license subscriptions and broker-dealer enterprise license subscriptions contributed to the increase in revenue of \$141 thousand, or 2%, to \$7.2 million. Issuer Services revenues increased \$231 thousand, or 5%, to \$4.5 million primarily due to increased OTCQX subscription revenue and premium services subscription revenue from OTC Disclosure & News Service and Real Time Level 2 Quote Display. OTC Link ATS Trading Services revenue decreased by \$211 thousand, or 4%, to \$5.8 million, which was mainly attributable to a decrease in subscription revenue from OTC Dealer licenses, FIX connection fees and OTC Link subscriptions, partially offset by an increase in revenues from QAP One Statement service fees and revenue from trade messages on OTC Link ATS, which was primarily related to increased trading activity on OTC Link ATS.

#### ***Operating Expenses***

Operating expenses increased \$1.1 million, or 9%, to \$13.0 million, primarily related to expense trends consistent with our results from the second quarter such as higher headcount, increases in marketing and advertising expenses and increases in IT Infrastructure and data communications costs. Increases to compensation and benefits comprised approximately 70% of the total increase in operating

expenses. IT infrastructure and data communications costs increased \$0.2 million, or 13%, primarily related to costs from continued work on the updated data center. Marketing and advertising costs increased \$0.1 million, or 18%, due to internal and external marketing initiatives.

### ***Income from Operations and Net Income***

Income from operations decreased \$1.0 million, or 22%, to \$3.6 million and operating profit margin contracted to 22%. The decrease was primarily attributable to the increases in headcount, costs associated with the new data center, and marketing and advertising expenses.

Net income decreased \$0.1 million, or 4%, to \$2.6 million. The reduction in income from operations was partially offset by a reduction in the Company's provision from income taxes. The Company's effective tax rate decreased to 27% primarily due to a benefit from Research and Development ("R&D") tax credits for 2012 and 2013 that was recognized during the first half of 2013. Net income per weighted average diluted shares outstanding decreased to \$0.24 for the first six months of 2013, as compared to \$0.25 during the same period in 2012.

### ***Adjusted EBITDA***

Adjusted EBITDA, which excludes non-cash stock based compensation expense, for the first half of 2013 decreased 17% to \$5.0 million, primarily due to an increase in compensation and benefits and IT infrastructure and data communications expenses, partially offset by a slight increase in net revenue.

### ***Non-GAAP Financial Measures***

In addition to disclosing results prepared in accordance with GAAP, the Company also discloses certain non-GAAP results of operations, including adjusted EBITDA and adjusted diluted earnings per share that either exclude or include amounts that are described in the reconciliation table of GAAP to non-GAAP information provided at the end of this release. Non-GAAP financial measures do not replace and are not superior to the presentation of GAAP financial results, but are provided to improve overall understanding of the Company's current financial performance. Management believes that this non-GAAP information is useful to both management and investors regarding certain additional financial and business trends related to the operating results. Management uses this non-GAAP information, along with GAAP information, in evaluating its historical operating performance.

### ***Second Quarter 2013 Conference Call***

The Company will host a conference call on Thursday, August 8, 2013 at 8:00 a.m. Eastern Time, during which management will discuss the financial results in further detail. The conference call and replay of the conference call may be accessed as follows: Dial-in numbers: 1-877-407-0789 (Domestic); 1-201-689-8562 (International); Call Confirmation Number 418831. Replay Dial-in Numbers (Available until August 22, 2013): 1-877-870-5176 (Domestic); 1-858-384-5517 (International); Replay PIN Number: 418831.

A live webcast and webcast replay of the call will also be available in the Investor Relations section of the corporate web site at <http://www.otcmarkets.com/investor-relations/overview>.

For more information, contact Wendy Fraulo, Chief Financial Officer, at (212) 220-2215 or by email at [ir@otcmarkets.com](mailto:ir@otcmarkets.com).

OTC Markets Group's Quarterly Report for the three and six months ended June 30, 2013 is available publicly at [www.otcmarkets.com](http://www.otcmarkets.com).

## **About OTC Markets Group Inc.**

[OTC Markets Group Inc.](http://www.otcmarkets.com) (OTCQX: OTCM) operates Open, Transparent and Connected financial marketplaces for 10,000 U.S. and global securities. 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. We organize these securities into marketplaces to better inform investors of opportunities and risks – OTCQX®, The Best Marketplace with Qualified Companies; OTCQB®, The Venture Stage Marketplace with U.S. Reporting Companies; and OTC Pink®, The Open Marketplace with Variable Reporting Companies. Our data-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. To learn more about how we create better informed and more efficient financial marketplaces, visit [www.otcmarkets.com](http://www.otcmarkets.com).

OTC Link ATS is operated by OTC Link LLC, member FINRA/SIPC and SEC regulated ATS.

**OTC MARKETS GROUP INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except earnings per share and number of shares)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
OTC Link ATS Trading	\$ 2,955	\$ 3,002	\$ 5,805	\$ 6,016
Market data licensing	3,647	3,550	7,214	7,073
Issuer services	2,332	2,278	4,540	4,309
<b>Gross revenues</b>	<b>8,934</b>	<b>8,830</b>	<b>17,559</b>	<b>17,398</b>
Redistribution fees and rebates	( 449 )	( 409 )	( 924 )	( 893 )
<b>Net revenues</b>	<b>8,485</b>	<b>8,421</b>	<b>16,635</b>	<b>16,505</b>
<b>Operating expenses</b>				
Compensation and benefits	\$ 3,632	\$ 3,293	\$ 7,316	\$ 6,523
IT Infrastructure and data communications	921	830	1,835	1,627
Professional and consulting services	550	590	1,059	1,098
Marketing and advertising	605	336	947	805
Occupancy costs	338	335	679	688
Depreciation and amortization	443	420	873	829
General, administrative and other	104	153	321	339
Total operating expenses	6,593	5,957	13,030	11,909
<b>Income from operations</b>	<b>1,892</b>	<b>2,464</b>	<b>3,605</b>	<b>4,596</b>
<b>Other income/(expense)</b>				
Interest income	-	4	-	11
Miscellaneous income (expense)	( 3 )	-	( 7 )	( 2 )
<b>Income before provision for income taxes</b>	<b>1,889</b>	<b>2,468</b>	<b>3,598</b>	<b>4,605</b>
Provision for income taxes	456	1,004	965	1,861
<b>Net Income</b>	<b>\$ 1,433</b>	<b>\$ 1,464</b>	<b>\$ 2,633</b>	<b>\$ 2,744</b>
<b>Net income per share</b>				
Basic	\$ 0.13	\$ 0.14	\$ 0.24	\$ 0.26
Diluted	\$ 0.13	\$ 0.14	\$ 0.24	\$ 0.26
Basic weighted average shares outstanding	10,659,225	10,529,313	10,657,198	10,522,857
Diluted weighted average shares outstanding	10,659,225	10,529,313	10,731,421	10,575,416

We use non-GAAP financial measures of operating performance. Non-GAAP measures do not replace and are not superior to the presentation of our GAAP financial results but are provided to improve overall understanding of our current financial performance and our prospects for the future.

**Non-GAAP Reconciliation**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Net Income</b>	<b>\$ 1,433</b>	<b>\$ 1,464</b>	<b>\$ 2,633</b>	<b>\$ 2,744</b>
Excluding:				
Provision for income taxes	456	1,004	965	1,861
Interest, net	-	(4)	-	(11)
Depreciation and amortization	443	420	873	829
Stock-based compensation expense	274	259	568	476
<b>Adjusted EBITDA</b>	<b>\$ 2,606</b>	<b>\$ 3,143</b>	<b>\$ 5,039</b>	<b>\$ 5,899</b>
Adjusted diluted earnings per share	\$ 0.25	\$ 0.30	\$ 0.47	\$ 0.56

**OTC MARKETS GROUP INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands, except number of shares)

(Unaudited)

	<u>June 30,</u> <u>2012</u>	<u>December 31,</u> <u>2012</u>
<b>Assets</b>		
Current assets		
Cash	\$ 12,286	\$ 13,611
Accounts receivable, net of allowance for doubtful accounts of \$200 and \$221	5,117	6,481
Prepaid income taxes	1,749	345
Prepaid expenses and other current assets	755	744
Deferred tax assets, net	321	203
<b>Total current assets</b>	<u>20,228</u>	<u>21,384</u>
Property and equipment, net	4,560	5,066
Goodwill	251	251
Intangible assets, net	40	40
Security deposits	209	209
<b>Total Assets</b>	<u>\$ 25,288</u>	<u>\$ 26,950</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities		
Accounts payable	\$ 785	\$ 721
Accrued expenses and other	2,206	2,868
Deferred revenue	4,812	7,670
<b>Total current liabilities</b>	7,803	11,259
Deferred rent	705	786
Deferred tax liabilities, net	-	113
Income tax reserve	315	277
<b>Total Liabilities</b>	<u>8,823</u>	<u>12,435</u>
<b>Stockholders' equity</b>		
Common stock - par value \$0.01 per share		
Class A - 14,000,000 authorized, 10,981,578 issued, 10,867,003 outstanding at June 30, 2013; 10,814,622 issued, 10,700,047 outstanding at December 31, 2012	108	108
Class C - 130,838 shares authorized, issued and outstanding at June 30, 2013 and December 31, 2012	1	1
Additional paid-in capital	6,669	6,050
Retained earnings	10,280	8,951
Treasury stock - 114,575 shares at June 30, 2013 and December 31, 2012	( 595 )	( 595 )
<b>Total Stockholders' Equity</b>	<u>16,463</u>	<u>14,515</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 25,288</u>	<u>\$ 26,950</u>