

# OTC MARKETS GROUP INC.

A Delaware Corporation

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Federal EIN: 13-3941069  
NAICS: 523210  
SIC Code: 6289

## Issuer's Quarterly Report

For the quarterly period ended September 30, 2017

### ISSUER'S EQUITY SECURITIES

#### COMMON STOCK

Class A Common Stock  
\$0.01 Par Value Per Share  
14,000,000 Shares Authorized  
11,424,002 Shares Outstanding as of October 31, 2017  
**OTCQX: OTCM**

**OTC Markets Group Inc. is responsible for the content of this Quarterly 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>Item 1</b>	<b>The exact name of the issuer and the address and telephone number of the issuer's principal executive offices</b>	<b>3</b>
<b>Item 2</b>	<b>Shares outstanding</b>	<b>4</b>
<b>Item 3</b>	<b>Unaudited interim condensed consolidated financial statements</b>	<b>5</b>
<b>Item 4</b>	<b>Management's discussion and analysis</b>	<b>6</b>
<b>Item 5</b>	<b>Legal proceedings</b>	<b>24</b>
<b>Item 6</b>	<b>Defaults upon senior securities</b>	<b>24</b>
<b>Item 7</b>	<b>Other information</b>	<b>24</b>
<b>Item 8</b>	<b>Exhibits</b>	<b>24</b>
<b>Item 9</b>	<b>Certifications</b>	<b>24</b>

# **OTC MARKETS GROUP INC.**

**A Delaware Corporation**

## **QUARTERLY REPORT**

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

Information set forth in this Quarterly Report (the “Quarterly 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 the risk factors discussed under the heading “Risk Factors” in our Annual Report for the year ended December 31, 2016. 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.

### **Item 1. The exact name of the issuer and the address and telephone number of the issuer’s principal executive offices**

The name of the issuer is OTC Markets Group Inc.

#### **Company description**

OTC Markets Group Inc. (OTCQX: OTCM) operates the OTCQX® Best Market, the OTCQB® Venture Market, and the Pink® Open Market for 10,000 U.S. and global securities. Through OTC Link® ATS, we connect a diverse network of broker-dealers that provide liquidity and execution services. We enable investors to easily trade through the broker of their choice and empower companies to improve the quality of information available for 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.otciq.com](http://www.otciq.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:

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## **Item 2. Shares outstanding**

The Company is authorized to issue 14,000,000 shares of Class A common stock of \$0.01 par value.

None of OTC Markets Group's common stock has been registered under the Securities Act of 1933, as amended (the "Securities Act"), and we have no current plans to register any of our securities. Certain shares of our common stock are currently eligible for resale in the public market pursuant to the exemption from registration offered by Rule 144 under the Securities Act ("Rule 144"). The remaining outstanding shares of our common stock are "restricted securities" within the meaning of Rule 144, and may be eligible for resale in the future.

The following table shows Class A common stock share ownership as of September 30, 2017:

		September 30, 2017
(i)	Number of shares authorized	14,000,000
(ii)	Number of shares outstanding	11,414,238
(iii)	Number of shares freely tradable (public float) <sup>(1)(2)</sup>	6,810,198
(vi)	Total number of holders of record	173

(1) The number of shares freely tradable may include shares held by shareholders owning 10% 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 4.5 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.

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

Our Class A common stock trades on the OTCQX market under the symbol OTCM (CUSIP Number: 67106F108).

### ***Dividends***

The declaration of dividends by OTC Markets Group is subject to the discretion of our Board of Directors. Our Board of Directors will consider 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.

During the nine months ended September 30, 2017, our Board of Directors authorized and approved the following cash dividends:

<b>Declaration Date</b>	<b>Dividend Per Common Share</b>	<b>Record Date</b>	<b>Total Amount (in thousands)</b>	<b>Payment Date</b>
February 28, 2017	\$ 0.14	March 16, 2017	\$ 1,599	March 30, 2017
May 2, 2017	0.14	June 15, 2017	1,599	June 29, 2017
August 9, 2017	\$ 0.14	September 07, 2017	\$ 1,598	September 21, 2017

On November 8, 2017, the Board of Directors authorized and approved a special cash dividend of \$0.60 per share of Class A Common Stock and a quarterly cash dividend of \$0.14 per share of Class A common stock. The special dividend is payable on December 6, 2017 to our stockholders of record on November 22, 2017. The ex-dividend date is November 21, 2017. The quarterly dividend is payable on December 21, 2017 to our stockholders of record on December 7, 2017. The ex-dividend date is December 6, 2017.

### *Stock Buyback Program*

On February 28, 2017, the Board of Directors refreshed the Company's stock repurchase program, giving the Company authorization to repurchase up to 300,000 shares of the Company's Class A common stock. The Company is authorized to purchase shares from time to time on the open market and through block trades, in accordance with the safe harbor provision of Rule 10b-18 under the Securities Exchange Act of 1934 (the "Exchange Act").

The following table shows purchases made by the Company of the Company's Class A common stock during the nine months ended September 30, 2017.

<b>Date</b>	<b>Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Number of Shares Purchased as Part of Announced Repurchase Plan</b>	<b>Number of Shares Remaining To Be Purchased Under Announced Plan</b>
Feb 2017 <sup>(1)</sup>	59,245	\$21.00	59,245	300,000
Mar 2017	7,920	\$20.73	7,920	292,080
Apr 2017	3,906	\$21.58	3,906	288,174
Jun 2017	8,963	\$22.25	8,963	279,211
Jul 2017	19,268	\$25.09	19,268	259,943
Total	99,302	\$21.91	99,302	

(1) In February 2017, the Board of Directors refreshed the Company's stock repurchase program, authorizing the Company to repurchase up to 300,000 shares of the Class A common stock.

### **Item 3. Unaudited interim condensed consolidated financial statements**

Copies of the unaudited interim condensed consolidated financial statements of OTC Markets Group for the three and nine months ended September 30, 2017 and September 30, 2016, including the unaudited interim Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Income, Condensed Consolidated Statements of Cash Flows, Condensed Consolidated Statements of Stockholders' Equity and Notes to the Condensed Consolidated Financial Statements, are attached hereto as Exhibit 3.1 and are hereby incorporated by reference into this Quarterly Report.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). The accompanying unaudited interim condensed consolidated financial statements reflect all

adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal recurring nature. As permitted under U.S. GAAP, certain footnotes or other financial information are condensed or omitted in the unaudited interim condensed consolidated financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report for the year ended December 31, 2016. The December 31, 2016 unaudited Condensed Consolidated Balance Sheet was derived from audited consolidated financial statements contained in our Annual Report for the year ended December 31, 2016, but does not include all disclosures required by U.S. GAAP. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2017.

## **Item 4. Management's discussion and analysis**

### **Overview**

#### *Mission, Vision and Strategy*

At OTC Markets Group our mission is to create better informed and more efficient financial markets.

Our vision is to expand the world of investment opportunities by creating the financial markets of choice. By connecting brokers, organizing markets and enabling investors to intelligently analyze, value and trade securities, we 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 strategy is to operate world-leading securities markets. We:

- Share information widely through open networks that foster greater transparency;
- Connect broker-dealers, organize markets and inform investors; and
- Deliver elegant, reliable and cost-effective subscription-based technology solutions;

for a future that is online, data-driven and social.

We operate the OTCQX Best Market, the OTCQB Venture Market and the Pink Open Market for 10,000 U.S. and global securities. Through OTC Link ATS, we connect a diverse network of broker-dealers that provide liquidity and execution services. We enable investors to easily trade through the broker of their choice and empower companies to improve the quality and availability of information for investors.

Our mission, vision and strategy drive market transparency and connectivity so brokers and investors are empowered to make intelligent choices.

#### *Our Business*

OTC Link ATS's fully attributable, network-based model offers our Financial Industry Regulatory Authority, Inc. ("FINRA") member broker-dealer subscribers greater choice of trading partners and control over their trade executions. As a Securities and Exchange Commission ("SEC") registered Alternative Trading System ("ATS") and FINRA member broker-dealer, OTC Link ATS is subject to the direct regulatory oversight of the SEC and FINRA.

Due to the role OTC Link ATS plays in the broker-dealer trading process, we generate a significant amount of market data and information about companies. Our market data consists

of real-time, delayed and end-of-day quotation and trading data, as well as security master data, company reference data and compliance data for OTCQX, OTCQB, and Pink securities.

Our market data and company information 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 and state securities laws.

The OTCQX Best Market provides transparent and trusted public trading without the complexity and cost of a national securities exchange listing. Companies that meet high financial standards, recognized corporate governance standards and timely public disclosure requirements can have their securities qualify to trade on the OTCQX Best Market. OTCQX offers an efficient public trading market for established companies to inform investors, provide consistent disclosure and demonstrate regulatory compliance within their relevant regulatory framework. The OTCQX Best Market is recognized by the SEC as an “established public market” and by twenty-seven states for purposes of those states’ respective Blue Sky regulations.

The OTCQB Venture Market provides public trading for developing companies and applies standards that promote price transparency and facilitate public disclosure. The OTCQB standards require companies to remain current in their reporting to the SEC or other applicable regulator, and to provide additional information to investors. Originally formed with SEC reporting companies and U.S. banks in mind, the OTCQB Venture Market is also open to international companies that trade in the U.S. in reliance on one of various available exemptions from SEC registration, provide the information required by Rule 12g3-2(b) under the Exchange Act, and meet the applicable OTCQB standards. OTCQB can efficiently serve the majority of companies listed on the TSX Venture, LSE AIM, Canadian Stock Exchange and other non-U.S. venture exchanges. The OTCQB Venture Market is recognized by the SEC as an “established public market” and by twenty-four states for purposes of those states’ respective Blue Sky regulations.

Securities traded on OTC Link ATS that do not meet the standards of the OTCQX Best Market or the OTCQB Venture Market are traded on the Pink Open Market. Companies on the Pink market are categorized as “Pink Current Information,” “Pink Limited Information” or “Pink No Information” based on the completeness and timeliness of the information they provide to investors. Pink companies can use our OTC Disclosure & News Service® to make current information available to their investors. The Pink Open Market is not recognized as an established public market nor is it recognized for purposes of compliance with state Blue Sky regulations.

The 10,000 securities traded on our markets span all major sectors and industries, and range in market capitalization levels from micro-cap early stage companies to multi-billion market cap established global companies.

## **Recent Business Developments**

### **Enhanced OTCQX Rules**

On January 1, 2017, previously announced enhancements to the OTCQX eligibility rules became effective for all OTCQX companies. These changes were designed to elevate the quality of the OTCQX Best Market, improve regulatory recognition of the OTCQX market, and clearly differentiate the OTCQX Best Market from the OTCQB Venture Market. The amendments increased certain financial qualification standards, introduced a continuing penny stock standard, and raised the bid price standard. The amended OTCQX Rules are designed to

establish regulatory and financial standards, and for U.S. companies, corporate governance standards based on common sense best practices. In conjunction with the rule changes, OTC Markets Group raised the annual fee for OTCQX from \$15 thousand to \$20 thousand.

Also, effective January 1, 2017, the OTCQX Rules were changed to eliminate the ongoing annual certification previously required from an OTCQX professional, third-party advisor, now known as an OTCQX Sponsor, and to eliminate the requirement that companies have their information published in a recognized securities manual.

### **Amendments to the OTCQB Standards**

On May 18, 2017 and again on July 31, 2017, the OTCQB Standards were amended to, among other things, allow companies to meet the OTCQB disclosure requirements by following OTC Markets Group's Alternative Reporting Standard and update procedures relating to Change in Control Events (as defined in the OTCQB Standards). These amendments to the OTCQB Standards were published for comment for 30 days, and both have become effective.

On October 16, 2017, we published for comment additional proposed amendments to the OTCQB Standards that will, among other things, increase the Annual Fee from \$10 thousand to \$12 thousand, add a definition of the term "Public Float" and modify the procedures for new OTCQB applicants to request exemption from the bid test requirements under the applicable OTCQB Standards. These amendments are published for comment for 30 days, and are scheduled to become effective on January 1, 2018.

### **Transfer Agent Verified Shares Program**

The number of transfer agents sharing information through our Transfer Agent Verified Shares Program continues to grow. As of November 1, 2017, there are fifteen transfer agents participating in the program, which was launched in 2016 and makes current share information verified by a company's transfer agent publicly available.

### **Acquisition of theOTC.today**

On May 30, 2017, we completed the acquisition of theOTC.today, an independent website that monitors and analyzes stock promotion campaigns. Pursuant to the transaction, we acquired valuable historical data and "know how" related to the tracking of stock promotion campaigns. This newly acquired data is being used to further strengthen our internal issuer compliance processes and enhance our compliance data product offerings. The acquisition was funded by cash on hand.

### **Global OTC ATS Data Consolidation and Connection Service**

In November 2016, Global OTC ATS, which is operated by the NYSE Group, Inc.'s Archipelago Trading Services, Inc., announced that, in reliance on an SEC granted limited exemption from the requirements of Exchange Act Rule 15c2-11 (see "*Rule 15c2-11 Limited Exemption*" in the Section on "*Recent Regulatory Developments Impacting our Business*," below), it planned to cease publishing quotes in OTC Link ATS and instead operate its own interdealer quotation system ("IDQS") in competition with OTC Link ATS.

On May 1, 2017, Global OTC ATS implemented its announced plan, and we began offering (i) new consolidated data services containing Global OTC ATS top of book data and (ii) connectivity allowing OTC Link ATS subscribers to access Global OTC ATS top of book quotes. The loss of Global OTC ATS as a quoting subscriber to OTC Link ATS and their position as a competitor has had a de minimis impact on revenue, and we continue to monitor the extent to which competition from Global OTC ATS will affect our financial results. The launch of our OTC Link ECN (see "*OTC Link ECN*" below) may also impact the extent to which competition from Global OTC ATS affects our financial results.



## **Strategic Alliance with the Canadian Securities Exchange**

On October 2, 2017, OTC Markets Group announced a strategic alliance with the Canadian Securities Exchange (“CSE”), a Canadian listing exchange. The new program will offer international issuers the ability to raise capital through an IPO on the CSE and subsequently develop a secondary trading market on the OTCQX and OTCQB markets. It is not yet possible to determine the extent to which the strategic alliance with CSE will affect our financial results.

## **OTC Link ECN**

OTC Link LLC filed a Form ATS with the SEC for “OTC Link ECN,” which is an Electronic Communications Network (“ECN”) that will function as a matching engine and router for certain OTC securities. OTC Link ECN is not yet operational and is expected to launch in the fourth quarter of 2017. It is not yet possible to determine the extent to which the development of OTC Link ECN will affect our financial results.

## **Strategic Alliance with Issuer Direct**

On November 1, 2017, OTC Markets Group announced a strategic alliance with Issuer Direct Corporation (“Issuer Direct”), a communications and compliance company providing services to corporate issuers. The initiative will allow companies trading on the OTCQX and OTCQB markets to access Issuer Direct’s news, compliance, investor relations and other communications tools through our OTCIQ user platform. It is not yet possible to determine the extent to which the strategic alliance with Issuer Direct will affect our financial results.

## **Recent Regulatory Developments Impacting our Business**

### **Blue Sky Secondary Trading Exemptions for OTCQX and OTCQB**

Since May 2016, OTC Markets Group has been working with the North American Securities Administrators Association (“NASAA”) and individual state regulators to achieve Blue Sky recognition for secondary trading activities on our OTCQX and OTCQB markets. State Blue Sky laws generally help investors make informed decisions by mandating that companies disclose accurate and current information when offering or marketing securities and in connection with secondary trading of previously issued securities. Regulators and brokers across the country rely on disclosure-based “manual exemptions” from individual state Blue Sky laws to permit secondary trading of securities. Forty-four U.S. states and jurisdictions maintain manual exemptions, which generally allow for secondary trading of qualifying companies as long as certain key information about the company is published in a nationally recognized securities manual or its electronic equivalent. Each state determines which manuals qualify under its rules. NASAA recently announced that it will be issuing a model rule recognizing our OTCQX and OTCQB markets under a “manual exemption.”

As of October 31, 2017, twenty-six states – Alaska, Arkansas, Colorado, Delaware, Georgia, Hawaii, Idaho (OTCQX only), Indiana, Iowa, Kansas (OTCQX only), Maine, Mississippi, Nebraska, New Jersey, New Mexico, Ohio, Oregon, Rhode Island, South Dakota, Texas, Utah, Vermont (OTCQX only), Washington, West Virginia, Wisconsin, and Wyoming – recognize our OTCQX and OTCQB markets as securities manuals. Secondary transactions in OTCQX and OTCQB securities are also exempt under existing law in Pennsylvania, giving us twenty-seven states in which our markets are qualified for secondary trading under state securities laws and regulations. Recognition has come through rule amendments, no-action letters and administrative orders. We continue to actively reach out to all other states that maintain a Blue Sky Manual Exemption and to engage NASAA to determine the best methods for recognizing the OTCQX and OTCQB markets as securities manuals based on each state’s unique regulatory environment.

We are also working with states that may be interested in recognizing OTCQX under other secondary trading exemptions. We believe recognition of our markets by state regulators and the resulting Blue Sky exemptions will make OTCQX and OTCQB more attractive to current and prospective companies. However, it is not yet possible to determine the extent to which recognition of the OTCQX and OTCQB markets under state secondary trading exemptions will affect our financial results.

### **Regulation SCI**

On November 19, 2014, the SEC adopted Regulation Systems Compliance and Integrity (“SCI”), which applies to certain self-regulatory organizations, alternative trading systems, plan processors, and certain clearing agencies (“SCI Entities”). OTC Link ATS meets the definition of an SCI Entity and, with other such entities, has been required to comply with this regulation since November 3, 2015.

Regulation SCI requires 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, promote the maintenance of fair and orderly markets, and operate in the manner intended.

Based on meeting certain trading volume thresholds in equity securities, OTC Link ATS is also required to comply with the requirements imposed by Regulation ATS. Many of these requirements are incorporated in Regulation SCI. However, Regulation SCI contains a number of additional requirements, such as extensive reporting, additional internal compliance requirements and mandated coordinated testing of core processes.

We have invested in personnel and IT resources to meet our compliance obligations and enhance our systems. Additional investments will be required to meet our ongoing compliance obligations, and we believe that these investments may be material.

### **Regulation A+**

On March 25, 2015, the SEC approved rule amendments to Regulation A under the Securities Act (“Regulation A+”), providing for an expanded Regulation A small offering exemption under Title IV of the Jumpstart Our Business Startups (“JOBS”) Act. The Regulation A+ final rules created two tiers of unregistered public offerings: Tier 1 for offerings of up to \$20 million in a 12-month period, and Tier 2 for offerings of up to \$50 million in a 12-month period. The new rules became effective on June 19, 2015.

On June 6, 2016, we filed with the SEC a Petition for Rulemaking requesting that SEC reporting companies be permitted to offer securities using Regulation A+. As enacted, Regulation A+ is not available to reporting issuers. Our Petition for Rulemaking is available for public comment on the SEC’s website, and we continue to pursue this change through regulatory and legislative channels.

On July 25, 2017, the House Financial Services Committee approved by a vote of 59-0 the “Improving Access to Capital Act” (H.R. 2864), sponsored by Representative Sinema and co-sponsored by Representative Hollingsworth, which would permit SEC reporting companies current in their reporting obligations to offer securities using Regulation A+. On September 5, 2017, the U.S. House of Representatives approved the Improving Access to Capital Act by a vote of 403-3. The bill awaits consideration by the Senate.

The continued development of the Regulation A+ market in the coming months and years will determine the extent to which Regulation A+ will affect our financial results.

## **Rule 15c2-11 Limited Exemption**

On November 21, 2016, the SEC issued a limited exemption from Exchange Act Rule 15c2-11, which is the rule that governs broker-dealers entering quotes into an IDQS. Under Rule 15c2-11, a broker-dealer publishing a quote for an OTC equity security in an IDQS generally must gather and preserve certain information related to the subject company. An existing exemption from Rule 15c2-11 allows a broker to quote a security on an IDQS if it has been the subject of quotations on that same IDQS for at least 12 days within the previous 30 days, with no more than four consecutive business days without a quotation. This is known as the “piggyback” exemption.

Under the SEC’s new limited exemption, an IDQS may now accept quotes in a security that is piggyback eligible based on quotation activity on a different IDQS. OTC Link ATS meets the definition of an IDQS set forth in this limited exemption. Under the limited exemption, OTC Link ATS may now accept quotations in securities that are piggyback eligible on another IDQS, and other IDQSs may now accept quotations in securities that are piggyback eligible on OTC Link ATS.

On May 1, 2017, in reliance on the new limited exemption, Global OTC ATS ceased publishing quotes in OTC Link ATS and began operating its own IDQS (see “*Global OTC ATS Data Consolidation and Connection Services*” in the Section on “*Recent Business Developments*,” above). Other IDQSs may choose to use this limited exemption in the future. No other IDQS has yet chosen to operate using this exemption, however, the number and success of other IDQSs that attempt to use this limited exemption to compete with us will determine the extent to which it will have an impact on our financial results.

## **Trends in Our Business**

The OTCQX Best Market for established, global and growth companies and the OTCQB Venture Market for developing companies have continued to increase the visibility of and improve the trading efficiency of qualified companies’ securities and provide those companies and their investors with many of the benefits of an established public market without the cost and complexity of a national securities exchange listing.

During 2016, we introduced a number of initiatives that enable our established OTCQX companies to strengthen the information experience they provide to investors. On January 1, 2017, previously announced changes to the OTCQX eligibility rules became effective for all OTCQX companies. These changes were designed to elevate the quality of the OTCQX Best Market and assist in driving increased regulatory recognition of the OTCQX market. In conjunction with the rule changes, OTC Markets Group raised the annual fee for OTCQX from \$15 thousand to \$20 thousand.

The rule changes and price increase became effective for companies joining the OTCQX market during 2016 and for all companies on the market as of January 1, 2017. In respect of the annual subscription period beginning January 1, 2017, 26 companies, or 6.5% of the 398 companies on the market at December 31, 2016, did not meet the new eligibility criteria and were removed from the OTCQX market. Of these, 19 companies elected to have their securities designated as OTCQB securities. Another 26 companies voluntarily elected not to renew their services for the 2017 annual subscription period, resulting in a retention rate of 93%, as compared to a retention rate in respect of the 2016 subscription period of 89%.

As of September 30, 2017, 355 companies were traded on the OTCQX market compared to 387 companies as of September 30, 2016. This decline reflects the impact of a slowdown in the number of new companies added to the market during the first 3 quarters of 2016. We added 60 companies to the OTCQX market during 2016, versus 126 added during 2015. New sales

during 2016 were impacted by market conditions that were unfavorable to the formation of new companies. The decline in the ending count of companies is further impacted by an increase in the number of compliance-related downgrades, as well as an increase in the number of voluntary cancellations. The increase in compliance-related downgrades is in line with the enhanced eligibility criteria that became effective for all companies on the market on January 1, 2017. For the nine months ended September 30, 2017, 54 companies were downgraded for compliance reasons, including for reasons related to the new eligibility criteria. Of these, 26 were removed at the beginning of the 2017 annual subscription period, with the balance being removed over the course of the nine months ended September 30, 2017. Further, of the 54 compliance-related downgrades, 38 companies elected to have their shares traded on the OTCQB market. The decline also reflects an increase in the number of voluntary cancellations, including companies graduating to a full exchange listing. During the nine months ended September 30, 2017, we saw 15 companies graduate from the OTCQX market to a full exchange listing, versus 6 companies during the nine months ended September 30, 2016. The decline in OTCQX companies was partially offset by an improvement in the retention rate for the 2017 calendar year and an uptick in the number of companies added to the market in the 4<sup>th</sup> quarter of 2016 and in the first three quarters of 2017. We added 19 companies to the market during the quarter ended March 31, 2017, 21 companies during the quarter ended June 30, 2017 and 18 companies during the quarter ended September 30, 2017. This compares to 13 companies added during the first quarter of 2016, 11 companies added during the second quarter of 2016, and 16 companies added during the third quarter of 2016. For the nine months ended September 30, 2017, we have added a total of 58 companies to the OTCQX market versus 40 companies during the first nine months of 2016.

The OTCQB Venture Market provides public trading for developing companies, with standards that promote price transparency and facilitate public disclosure. As of September 30, 2017, there were 923 companies on the OTCQB Venture Market, versus 869 companies as of September 30, 2016. We have continued to see strong sales, with 53 new companies being added to the market during the quarter ended September 30, 2017, compared to 54 companies added for the quarter ended September 30, 2016. This brings the total number of companies added to the OTCQB market for the nine months ended September 30, 2017 to 192, compared to 155 companies added for the same period in 2016. We have also seen a decline in non-renewals, cancellations and compliance-related downgrades. For the nine months ended September 30, 2017, we have seen 117 compliance-related downgrades and 98 service cancellations or non-renewals, versus 158 compliance-related downgrades and 114 service cancellations or non-renewals during the same nine month period in 2016. Further, of the 98 service cancellations or non-renewals during the nine months ended September 30, 2017, 16 companies met applicable eligibility criteria and elected to upgrade to the OTCQX market, versus 7 companies during the same nine month period in 2016.

OTC Link ATS had 94 broker-dealer subscribers as of September 30, 2017, a significant decline from the 108 subscribers as of September 30, 2016. This decline reflects the continuing trend towards both consolidation and contraction in the broker-dealer industry caused by, among other factors, declining volumes in the equities markets generally, a general trend towards margin compression caused by automation and the commoditization of execution and other services in the equities markets, and the increasing costs in recent years of regulatory compliance. This reduction in the number of market participants, coupled with lower quote volumes, drove a 5% quarter over quarter decline in revenues from our OTC Link ATS.

The total dollar volume of trades in OTCQX, OTCQB and Pink securities, including transactions executed away from OTC Link ATS, increased significantly over the prior year quarter, with \$53.6 billion in volume transacted during the quarter ended September 30, 2017 as compared to \$46.7 billion transacted in the prior year quarter. However, this increase was concentrated in a small number of securities and did not significantly impact revenues because our subscribers pay a flat daily fee based on the number of securities they quote or message. We anticipate the trend of consolidation in the broker-dealer industry to continue, as evidenced by the recently completed acquisition of KCG Holdings Inc. by Virtu Financial Inc.

In our Market Data business line, we saw a 7.2% decline in professional users, from 22,096 professional users as of September 30, 2016 to 20,512 professional users as of September 30, 2017. On a quarter over quarter basis it is not uncommon to see low to mid-single digit increases or decreases in professional users, which can result from the conclusion of Market Data audits as well as from periodic fluctuations in the numbers reported by redistributors and the timing of such reports. From September 30, 2016 to September 30, 2017, the number of professional subscribers to the U.S. Equities Securities Information Processor ("UTP SIP") increased 1.5% to 281,125 users. We continue to have a relatively modest share of UTP SIP users at 7.3% and 8.0% of the UTP SIP total as of September 30, 2017 and 2016, respectively.

We saw a 22.1% increase in the number of non-professional users of our market data, from 11,472 users as of September 30, 2016 to 14,012 users as of September 30, 2017. This is in line with a continued increase in retail investor participation in the U.S. equities market, in particular on a self-directed basis, as well as the continued expansion of our market data distribution network with respect to retail investors. In this context, during 2016 we announced new distributor relationships with StocksToTrade.Com Inc., Just2Trade, Inc and Tiger Trade Technologies, Inc.

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. We continue to make investments both in our personnel and in our systems and infrastructure. These investments, combined with the full year impact of the more significant investments made in 2016, drove a 10% increase in our operating expenses versus the prior year quarter. We believe such investment is necessary if we are to remain competitive in business and compliant with our regulatory obligations, including our obligations under Regulation SCI (see "*Regulation SCI*" in the Section on "*Recent Regulatory Developments Impacting our Business*," above).

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

OTC Markets Group generates a majority of its revenues through contract-based, recurring subscriptions. 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 Pink markets. The market data redistributors that offer our market data to their subscribers have historically remained long-term clients. We pay redistribution fees, primarily to redistributors of our Market Data Licensing subscription licenses.

### ***OTC Link ATS***

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

For automated trading and integration with third party Order Management Systems (“OMS”) and direct access trading systems, we offer “Fixie,” a real-time FIX Protocol that allows fully-electronic submission and receipt of quotes, trade messages, and drop copy confirmations.

OTC Link ATS generates revenues by offering a suite of quotation and trade-messaging services, as well as the QAP<sup>®</sup> One Statement service, to a diverse network of broker-dealers operating as market makers, agency brokers and ATSs, including ECNs. Gross revenues from our OTC Link ATS business line accounted for approximately 18% and 19% of the Company's gross revenue during the three and nine months ended September 30, 2017, respectively, and 20% and 21% during the comparable three and nine months in 2016.

Broker-dealers pay monthly license, subscription, and connectivity fees to use OTC Link ATS. The OTC Dealer<sup>®</sup> application provides broker-dealers a user interface into OTC Link ATS. OTC Dealer, together with separately priced add-on applications, shows a full real-time level 2 quote montage, tickers, and multiple watch lists for securities quoted on OTC Link ATS. 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. 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 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 quote positions in Pink securities, with tiered pricing arrangements based on volume. Monthly OTC Link ATS message fees are based on the daily number of securities on OTC Link ATS for which trade messages are sent or received, with tiered pricing arrangements based on volume. The daily quoting and messaging fees allow subscribers to make unlimited quote updates in a single security and to send and receive an unlimited number of trade messages in a security on a given day.

#### *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 and Corporate Services business lines. Our market data includes real-time, end-of-day, historical quotation, company financial, security master, company reference and compliance data for securities traded on our markets. Gross revenues from our Market Data Licensing business line accounted for approximately 40% of the Company's gross revenue during each of the three and nine months ended September 30, 2017, and 42% during each of the comparable three and nine months in 2016.

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, extranet 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. Certain of our market data license agreements include redistribution fees and rebates. These redistribution fees and rebates represented 11% of Market Data Licensing gross revenue for each of the three and nine months ended September 30, 2017 and 2016.

Pricing information for each of our market data licenses is publicly available on our website.

We also charge for the right to display advertisements on [www.otcmarkets.com](http://www.otcmarkets.com).

### *Corporate Services*

We generate Corporate Services revenues by offering services that are designed to create better informed and more efficient markets by fostering greater availability of company disclosure, promoting price transparency, facilitating communication, and allowing companies to demonstrate their compliance with federal and state securities laws. We operate two established public markets, the OTCQX Best Market; the OTCQB Venture Market; and offer a suite of services to companies trading on all of our markets. These services include the OTC Disclosure & News Service for posting financial reports, disclosure documents and news releases, either stand-alone or through integrated third-party newswire providers; Real-Time Level 2 Quote Display, a service that companies sponsor to provide their investors with access to free real-time level 2 quotes on [www.otcmarkets.com](http://www.otcmarkets.com) and the company's website; and the Blue Sky Monitoring Service for analysis, review, and guidance about a company's compliance with each U.S. state's securities laws. Gross revenues from our Corporate Services business line accounted for approximately 42% and 41% of the Company's gross revenue during the three and nine months ended September 30, 2017, respectively, and 38% and 37% during the comparable three and nine months in 2016, respectively.

Companies that meet eligibility criteria and choose to have their securities designated as OTCQX securities do so annually, on a calendar-year basis. All companies traded on the OTCQX market pay a one-time application fee and annual fees each year. These fees are fixed and do not vary based on outstanding shares, market capitalization, market segment or otherwise. Companies on OTCQX also receive the OTC Disclosure & News Service, Real-Time Level 2 Quote Display, and Blue Sky Monitoring Service.

The OTCQB Venture Market provides public trading for innovative and entrepreneurial companies that meet the OTCQB standards. These companies receive a package of services that are designed to promote price transparency and facilitate public disclosure, and pay a one-time application fee and annual fees upon renewal. These fees are fixed and do not vary based on outstanding shares, market capitalization, market segment or otherwise.

Pink companies may subscribe separately to the OTC Disclosure & News Service, Real-Time Level 2 Quote Display, and Blue Sky Monitoring Service. Companies can choose to subscribe to these services through subscription fees primarily paid on an annual basis.

Subscriptions to each of these services are available to companies that sign up to receive free access to our [www.otciq.com](http://www.otciq.com) secure web portal.

## Key Metrics

The table below presents key metrics for our OTC Link ATS, Corporate Services and Market Data Licensing business lines for the three and nine months ended September 30, 2017 and 2016.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>OTC Link ATS</b>				
Number of securities quoted <sup>(1)</sup>	9,991	9,644	9,991	9,644
Number of active market participants <sup>(1)</sup>	94	108	94	108
New Form 211 filings	123	89	314	272
<i>Dollar volume traded (in thousands):</i>				
OTCQX	\$ 10,882,429	\$ 9,149,376	\$ 33,553,444	\$ 26,637,201
OTCQB	3,959,940	1,806,997	15,663,604	6,065,754
Pink	38,709,173	35,696,793	115,872,018	102,969,869
Total	\$ 53,551,542	\$ 46,653,166	\$ 165,089,066	\$ 135,672,824
<i>Dollar volume per security (in thousands):</i>				
OTCQX	\$ 26,223	\$ 20,423	\$ 80,852	\$ 59,458
OTCQB	4,037	1,926	15,967	6,467
Pink	4,349	4,328	13,018	\$ 12,484
<b>Corporate Services</b>				
Graduates to a national securities exchange	12	8	37	27
<i>Number of securities: <sup>(1)</sup></i>				
OTCQX	415	448	415	448
OTCQB	981	938	981	938
Pink	8,901	8,248	8,901	8,248
Total	10,297	9,634	10,297	9,634
<i>Number of corporate clients: <sup>(1)</sup></i>				
OTCQX	355	387	355	387
OTCQB	923	869	923	869
Pink	727	693	727	693
Total	2,005	1,949	2,005	1,949
<b>Market Data Licensing</b>				
Market data professional users <sup>(1)</sup>	20,512	22,096	20,512	22,096
Market data non-professional users <sup>(1)</sup>	14,012	11,472	14,012	11,472

(1) Figures presented are at period end.



## Financial Results

Our three business lines – OTC Link ATS, Market Data Licensing and Corporate Services – provide a wide variety of services to broker-dealers, corporate clients, investors, market data distributors and regulators. We believe our elegant, reliable and 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, Market Data Licensing distribution and licensing fees and Corporate Services application and annual fees. Growth from each business line promotes growth in the others because our services are complementary in nature.

### Consolidated Results from Operations

#### Three Months Ended September 30, 2017 Versus Three Months Ended September 30, 2016

The table below presents comparative information from the Company's consolidated income statements for the three months ended September 30, 2017 and 2016.

(in thousands, except shares and per share data)	Three Months Ended September 30,		% change
	2017	2016	
Gross revenues	\$ 13,622	\$ 12,613	8%
Net revenues	13,038	12,056	8%
Operating expenses	8,448	7,657	10%
Income from operations	4,590	4,399	4%
Operating profit margin	35%	36%	
Income before provision for income taxes	4,595	4,410	4%
Net income	\$ 3,488	\$ 3,006	16%
Diluted earnings per share	\$ 0.29	\$ 0.26	12%
Weighted-average shares outstanding, diluted	11,593,890	11,428,716	1%

### Revenues

The following table shows OTC Markets Group's gross revenues by business line and consolidated net revenues for the three months ended September 30, 2017 and 2016.

(in thousands)	Three Months Ended September 30,		% change
	2017	2016	
OTC Link ATS	\$ 2,413	\$ 2,530	(5%)
Market data licensing	5,505	5,274	4%
Corporate services	5,704	4,809	19%
Gross revenues	13,622	12,613	8%
Redistribution fees and rebates	(584)	(557)	5%
Net revenues	\$ 13,038	\$ 12,056	8%

Gross revenues during the three months ended September 30, 2017 increased \$1.0 million, or 8%, to \$13.6 million, compared to \$12.6 million during the same prior year period. The increase was primarily driven by a 19%, or \$895 thousand, increase in revenues from Corporate Services.

The changes in gross revenues for the three months ended September 30, 2017, as compared to the same prior year period, are further described below:

- OTC Link ATS revenues decreased \$117 thousand, or 5%, to \$2.4 million for the three months ended September 30, 2017. The decrease was primarily due to the continued decline in the number of market participants, resulting in a \$115 thousand, or 10%, decrease in combined subscription revenue from OTC Dealer, licenses and FIX connections. The decrease was further impacted by a 5% decrease in the number of priced quotes and an 11% decrease in unpriced quotes, resulting in a \$41 thousand, or 7%, decrease in quote position revenue. These decreases were partially offset by a \$27 thousand, or 4%, increase in revenue from messages, a result of a 17% increase in average daily message volume, and a \$22 thousand, or 31%, increase in our QAP One Service Fee, a result of higher trading volumes.
- Market Data Licensing revenues increased \$231 thousand, or 4%, to \$5.5 million for the three months ended September 30, 2017. The increase was primarily driven by \$93 thousand, or 78%, increase in revenue from data service products primarily due to an increase in the number of clients receiving our compliance data products to 13 from 10 as of September 30, 2017 and 2016, respectively, the addition of the compliance analytics file in March 2017, with 4 active clients as of September 30, 2017, and price increases effective January 1, 2017. The increase was further driven by significant growth in the number of non-professional users consuming our data, resulting in a \$84 thousand, or 27%, increase in revenues from non-professional user licenses. Revenues from internal system licenses increased \$67 thousand, or 31%, a result of price increases effective January 1, 2017 and an increase in the number of clients. These increases were partially offset by a \$154 thousand, or 5%, decrease in revenues derived from professional user licenses related to a 7.2% decrease in the number of professional users consuming our market data, a result of periodic fluctuations in usage numbers reported by our redistributors and the timing of same.
- Corporate Services revenues increased \$895 thousand, or 19%, to \$5.7 million for the three months ended September 30, 2017. The increase was driven by a \$458 thousand, or 21%, increase in OTCQB revenue, a result of the addition of 192 new OTCQB companies during 2017 and an overall increase in the customer base to 923 from 869 as of September 30, 2017 and 2016, respectively. OTCQX subscription revenue increased \$284 thousand, or 18%, to \$1.8 million, a result of price increases introduced for existing subscribers effective with the 2017 annual subscription period, as well as the impact of addition of 58 new OTCQX clients during 2017. The increase was partially offset by a decrease in the total number of OTCQX companies to 355 from 387 as of September 30, 2017 and 2016, respectively. The decrease is composed of 12% decline in international subscribers and 2% decrease in the number of domestic subscribers.

## Operating Expenses

The following table shows OTC Markets Group's consolidated operating expenses for the three months ended September 30, 2017 and 2016.

(in thousands)	Three Months Ended September 30,		% change
	2017	2016	
Compensation and benefits	\$ 5,250	\$ 4,665	13%
IT Infrastructure and information services	1,499	1,378	9%
Professional and consulting fees	560	439	28%
Marketing and advertising	190	175	9%
Occupancy costs	469	442	6%
Depreciation and amortization	300	387	(22%)
General, administrative and other	180	171	5%
Total operating expenses	<u>\$ 8,448</u>	<u>\$ 7,657</u>	10%

Operating expenses increased \$791 thousand, or 10%, to \$8.4 million during the three months ended September 30, 2017 as compared to the same prior year period.

The changes in operating expenses for the three months ended September 30, 2017, as compared to the same prior year period, are further described below:

- Compensation and benefits expenses increased \$585 thousand, or 13%, to \$5.3 million during the three months ended September 30, 2017, primarily related to annual compensation increases, higher 2017 cash and stock awards and increased headcount, which had a combined effect of increasing salary, bonus and payroll tax expenses by \$402 thousand, or 10%. The increase was further impacted by \$68 thousand, or 166%, increase in commission resulting from expansion of the sales team and a new commission plan, which took effect January 1, 2017, as well as an increase in the total number of sales eligible for sales commission. As a percentage of gross revenues, compensation and benefits costs increased to 39% during the three months ended September 30, 2017, compared to 37% during the same prior year period.
- IT Infrastructure and information services expenses increased \$121 thousand, or 9%, to \$1.5 million during the three months ended September 30, 2017, primarily related to improvements to the monitoring, security and support of our applications and systems and connectivity charges necessary for seamless connection to NYSE market.
- Professional and consulting fees increased \$121 thousand, or 28%, to \$560 thousand during the three months ended September 30, 2017, largely due to a \$75 thousand, or 39%, increase in consulting fees primarily related to one-time tax related advisory work and a \$48 thousand, or 61%, increase in legal fees primarily related to regulatory advice and contract review. The increase was partially offset by a \$16 thousand, or 57%, decrease in payroll related fees.
- Depreciation and amortization decreased \$87 thousand, or 22%, to \$300 thousand during the three months ended September 30, 2017, primarily related to leasehold improvements, which were fully depreciated during the second quarter of 2017.

## Income from Operations

Income from operations increased \$191 thousand, or 4%, to \$4.6 million for the three months ended September 30, 2017, as compared to \$4.4 million in the same prior year period, and operating profit margin decreased to 35% from 36% during the same prior year period. The

growth in Corporate Services revenue was the largest contributor to the increase in operating income with the resultant increase in income from operations being partially offset by increases in compensation and benefits, professional and consulting fees and IT infrastructure and information services costs.

### **Net Income**

Net income for the three months ended September 30, 2017 increased \$482 thousand, or 16%, to \$3.5 million due to the increase in income from operations of \$191 thousand, or 4%, as well as a decrease in the Company's effective tax rate from 32% to 24% as a result of the recognition of Domestic Production Activities Deduction ("DPAD") tax benefits for fiscal years 2013 through 2016, the application to New York State sourced earnings of a lower Corporate Income Tax rate resulting from meeting the criteria of a Qualified Emerging Technologies Company ("QETC"), and the adoption of ASU 2016-09. See Note 2—*Summary of Significant Accounting Policies* for detailed information on adoption of ASU 2016-09.

### **Nine Months Ended September 30, 2017 Versus Nine Months Ended September 30, 2016**

The table below presents comparative information from the Company's consolidated income statements for the nine months ended September 30, 2017 and 2016.

(in thousands, except shares and per share data)	Nine Months Ended September 30,		% change
	2017	2016	
Gross revenues	\$ 40,768	\$ 38,003	7%
Net revenues	38,934	36,270	7%
Operating expenses	25,281	23,955	6%
Income from operations	13,653	12,315	11%
Operating profit margin	35%	34%	
Income before provision for income taxes	13,694	12,321	11%
Net income	\$ 9,644	\$ 7,836	23%
Diluted earnings per share	\$ 0.81	\$ 0.67	21%
Weighted-average shares outstanding, diluted	11,542,704	11,426,468	1%

### **Revenues**

The following table shows OTC Markets Group's gross revenues by business line and consolidated net revenues for the nine months ended September 30, 2017 and 2016.

(in thousands)	Nine Months Ended September 30,		% change
	2017	2016	
OTC Link ATS	\$ 7,529	\$ 7,942	(5%)
Market data licensing	16,477	15,836	4%
Corporate services	16,762	14,225	18%
Gross revenues	40,768	38,003	7%
Redistribution fees and rebates	(1,834)	(1,733)	6%
Net revenues	\$ 38,934	\$ 36,270	7%

Gross revenues during the nine months ended September 30, 2017 increased \$2.8 million, or 7%, to \$40.8 million, compared to \$38.0 million during the same prior year period. The increase was primarily due to a \$2.5 million, or 18%, increase in revenues from Corporate Services and a \$641 thousand, or 4%, increase in Market Data revenues, partially offset by a \$413 thousand, or 5%, decrease in revenues from OTC Link ATS.

The changes in gross revenues for the nine months ended September 30, 2017, as compared to the same prior year period, are further described below:

- OTC Link ATS revenues decreased \$413 thousand, or 5%, to \$7.5 million for the nine months ended September 30, 2017. The decrease was primarily due to the continued contraction in the number of market participants, which resulted in a \$364 thousand, or 10%, decrease in combined subscription revenue from OTC Dealer, licenses and FIX connections. The decrease was further impacted by a 5% decrease in the number of priced quotes and a 11% decrease in unpriced quotes resulting in a \$123 thousand, or 7%, decrease in quote position revenue. These decreases were partially offset by a \$89 thousand, or 38%, increase in revenue from our QAP One Service Fee, a result of higher trading volume on our platform.
- Market Data Licensing revenues increased \$641 thousand, or 4%, to \$16.5 million for the nine months ended September 30, 2017. The increase was primarily due to a \$282 thousand, or 31%, increase in revenues from non-professional users resulting from a significant increase in the number of non-professional users consuming our data. An increase in revenue from data services of \$232 thousand, or 63%, was primarily related to an increase in the number of compliance data file clients to 13 from 10 as of September 30, 2017 and 2016, respectively, as well as the introduction of the compliance analytics product in March 2017 with 4 enterprises consuming the file as of September 30, 2017. The increase was further driven by price increases for certain data license products, which took effect January 1, 2017. Revenues from internal systems licenses increased \$198 thousand, or 31%, primarily related to price increases effective January 1, 2017 and an increase in the number of clients. Revenue from advertising increased \$148 thousand, or 71%, a result of a new arrangement that has driven increased sales usage. These increases were partially offset by a \$300 thousand, or 3%, decrease in revenues from professional user licenses, primarily related to a decrease in the number of users subscribing to our professional level 1 data.
- Corporate Services revenues increased \$2.5 million, or 18%, to \$16.8 million for the nine months ended September 30, 2017. The increase was primarily due to \$1 million, or 15%, increase in OTCQB revenues. The increase was driven by the full period revenue impact of the addition of 227 new companies to the market during 2016 as well as the addition of 192 new OTCQB companies and 74 returning OTCQB companies during the nine months ended September 30, 2017, partially offset by 46 non-renewals, 22 graduates, 15 OTCQX upgrades and 131 compliance downgrades. The increase was further impacted by the increase in the ending number of OTCQB subscribers to 923 from 869 as of September 30, 2017 and 2016, respectively. OTCQX revenues increased \$870 thousand, or 19%, to \$5.5 million, primarily due to a 25% increase in the fee charged for existing OTCQX companies, the full period impact of the 2016 additions and the impact of the 58 new companies added to the market during the nine months ended September 30, 2017. The increase was partially offset by a 2% decrease in the number of OTCQX U.S. Tier companies and 12% decrease in the number of OTCQX International Tier companies, resulting in a contraction in the total number of OTCQX companies from 387 to 355 as of September 30, 2016 and 2017, respectively. The increase was further affected by an increase of \$518 thousand, or 22%, in revenues from our OTC Disclosure & News Service, primarily related to the full period impact of price increases that took effect February 1, 2016 and the expansion in the number of clients to 671 from 663 at September 30, 2017 and 2016, respectively.

## Operating Expenses

The following table shows OTC Markets Group's consolidated operating expenses for the nine months ended September 30, 2017 and 2016.

(in thousands)	Nine Months Ended September 30,		% change
	2017	2016	
Compensation and benefits	\$ 16,060	\$ 14,870	8%
IT Infrastructure and information services	4,330	4,093	6%
Professional and consulting fees	1,308	1,376	(5%)
Marketing and advertising	659	639	3%
Occupancy costs	1,315	1,213	8%
Depreciation and amortization	1,094	1,215	(10%)
General, administrative and other	515	549	(6%)
Total operating expenses	\$ 25,281	\$ 23,955	6%

Operating expenses increased \$1.3 million, or 6%, to \$25.3 million during the nine months ended September 30, 2017, as compared to the same prior year period.

The changes in operating expenses for the nine months ended September 30, 2017, as compared to the same prior year period, are further described below:

- Compensation and benefits expenses increased \$1.2 million, or 8%, to \$16.1 million during the nine months ended September 30, 2017 due to annual salary increases, increased headcount and higher accruals for 2017 cash and stock awards, which had the effect of increasing salary, bonus and payroll tax expenses by \$809 thousand, or 7%. An increase of \$186 thousand, or 16%, related to stock-based compensation was a result of the higher value of 2016 grants awarded in January 2017, the cumulative effect of the increasing grant value of prior year awards vesting and higher headcount. The increases were further impacted by a \$117 thousand, or 52%, increase in commission expense resulting from a new commission plan, which took effect January 2017, as well as an increase in the number of commissionable sales. As a percentage of gross revenues, compensation and benefits costs remained flat at 39% during the nine months ended September 30, 2017 and 2016, respectively.
- IT Infrastructure and information services expenses increased \$237 thousand, or 6%, to \$4.3 million during the nine months ended September 30, 2017, primarily related to a \$217 thousand, or 12%, increase in information services primarily related to the full period impact of the addition in May 2016 of the Morningstar ratings service for OTCQX companies and increased use of the press release arrangement by our corporate clients. The remaining difference is due to improvements to the monitoring, security and support of our applications and systems.
- Professional and consulting fees decreased \$68 thousand, or 5%, to \$1.3 million during the nine months ended September 30, 2017, primarily due to a \$108 thousand, or 63%, decrease in recruiting expenses related to the timing of new hires and \$51 thousand, or 61%, decrease in fees paid for payroll processing services. The decreases were partially offset by a \$109 thousand, or 48%, increase in legal fees.
- Occupancy fees increased \$102 thousand, or 8%, to \$1.3 million during the nine months ended September 30, 2017, primarily due to price increases related to the extension of existing leases for our New York and Washington D.C. office space.

- General, administrative and other fees decreased \$34 thousand, or 6%, to \$515 thousand during the nine months ended September 30, 2017, primarily related to fees for certain advertising expenses that did not recur in 2017. The decrease was partially offset by an increase in bad debt related to a specific reserve for former OTC Link ATS clients that exited the market.

### ***Income from Operations***

Income from operations increased \$1.4 million, or 11%, to \$13.7 million for the nine months ended September 30, 2017, as compared to \$12.3 million during the same prior year period, and operating profit margin increased to 35% from 34% during the same prior year period. The increase in income from operations and the increase in operating margin was a result of the increase in gross revenues, partially offset by an increase in operating expenses.

### ***Net Income***

Net income for the nine months ended September 30, 2017 increased \$1.8 million, or 23%, to \$9.6 million primarily due to a \$1.3 million increase in income from operations. The Company's effective tax rate for the nine months ended September 30, 2017 decreased to 30% from 36% due to recognition of Domestic Production Activities Deduction ("DPAD") tax benefits from amending tax returns for fiscal years 2013 through 2015, earning taxed at lower rate in New York State resulting from meeting the criteria of a Qualifying Emerging Technology Company ("QETC"), and the adoption of ASU 2016-09. See Note 2—*Summary of Significant Accounting Policies* for detailed information on adoption of ASU 2016-09.

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

Cash available for operations decreased \$431 thousand to \$24.6 million as of September 30, 2017, as compared to \$25.0 million as of December 31, 2016. The Company generated \$7.6 million of cash from operations during the nine months ended September 30, 2017, which was used to fund our dividend payments of \$4.8 million, our stock repurchases of \$2.2 million and investments in IT equipment and intangible assets of \$686 thousand.

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

Cash provided by operating activities for the nine months ended September 30, 2017 was \$7.6 million, as compared to \$7.2 million during the same prior year period. Cash provided by operating activities was higher during the nine months ended September 30, 2017 primarily due to increases in net income between periods, partially offset by fluctuations in working capital, resulting from increases in prepaid expenses and decreases in accrued expenses and other current liabilities.

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

Cash used in investing activities during the nine months ended September 30, 2017 was \$668 thousand, as compared to \$177 thousand during the same prior year period. The cash used in the nine months ended September 30, 2017 was primarily related to the acquisition of theOTC.today and purchases of IT equipment.

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

Cash used in financing activities during the nine months ended September 30, 2017 was \$7.4 million, as compared to \$5.8 million during the same prior year period. The cash used in both periods was primarily related to dividends paid to holders of our Class A common stock and purchases of treasury stock. The increased use of cash in the current period was related to an increase in purchases of treasury stock versus the prior year.

***Capital resources and working capital***

OTC Markets Group's working capital at September 30, 2017 was \$16.8 million, an increase of \$3.9 million, or 30%, from \$12.9 million at December 31, 2016. Working capital includes certain non-operating assets and liabilities, such as prepaid income taxes, deferred tax assets and liabilities, and income taxes payable. The increase in working capital during the nine months ended September 30, 2017 was primarily attributable to cash flows from operating activities during the nine months ended September 30, 2017, as described above.

***Line of Credit***

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 effective interest rate of the Line of Credit is benchmarked to the London Inter Bank Offered Rate ("LIBOR"). The Line of Credit has been extended through June 28, 2018. 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 September 30, 2017, 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 terms of the leases.

***Off-Balance Sheet Arrangements***

None.

**Item 5. Legal proceedings**

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 our business, financial condition or operations. Our securities are not a party to any past or pending trading suspensions by a securities regulator.

**Item 6. Defaults upon senior securities**

None

**Item 7. Other information**

None

**Item 8. Exhibits**

- Exhibit 3.1 Unaudited interim condensed consolidated financial statements
- Exhibit 9.1 Certification of principal executive officer
- Exhibit 9.2 Certification of principal financial officer

**Item 9. Certifications**

Current certifications are filed as Exhibits 9.1 and 9.2 to this Quarterly Report.



**Exhibit 3.1**

**OTC MARKETS GROUP INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share information)  
(Unaudited)

	September 30, 2017	December 31, 2016
<b>Assets</b>		
Current assets		
Cash	\$ 24,603	\$ 25,034
Accounts receivable, net of allowance for doubtful accounts of \$166 and \$145	5,647	6,262
Prepaid expenses and other current assets	1,554	1,246
Prepaid income taxes	295	435
<b>Total current assets</b>	32,099	32,977
Property and equipment, net	1,967	2,279
Deferred tax assets, net	1,215	886
Goodwill	251	251
Intangible assets, net	124	40
Security deposits	192	210
<b>Total Assets</b>	<u>\$ 35,848</u>	<u>\$ 36,643</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 835	\$ 508
Accrued expenses and other current liabilities	4,165	4,761
Income taxes payable	139	103
Deferred revenue	10,116	14,664
<b>Total current liabilities</b>	15,255	20,036
Deferred rent	274	187
Income tax reserve	1,069	914
<b>Total Liabilities</b>	16,598	21,137
<b>Commitments and contingencies</b>		
<b>Stockholders' Equity</b>		
Common stock - par value \$0.01 per share		
Class A - 14,000,000 authorized, 11,860,898 issued, 11,414,238 outstanding at		
September 30, 2017; 11,595,337 issued, 11,247,979 outstanding at December 31, 2016	119	116
Class C - 0 shares authorized, issued and outstanding at September 30, 2017;		
130,838 shares authorized, issued and outstanding at December 31, 2016	-	1
Additional paid-in capital	14,057	12,988
Retained earnings	11,233	6,385
Treasury stock - 446,660 shares at September 30, 2017 and 347,358 shares at December 31, 2016	(6,159)	(3,984)
<b>Total Stockholders' Equity</b>	19,250	15,506
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 35,848</u>	<u>\$ 36,643</u>

See accompanying notes to unaudited condensed consolidated financial statements

**OTC MARKETS GROUP INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share information)  
(Unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Gross revenues</b>	\$ 13,622	\$ 12,613	\$ 40,768	\$ 38,003
Redistribution fees and rebates	(584)	(557)	(1,834)	(1,733)
<b>Net revenues</b>	<b>13,038</b>	<b>12,056</b>	<b>38,934</b>	<b>36,270</b>
<b>Operating expenses</b>				
Compensation and benefits	5,250	4,665	16,060	14,870
IT Infrastructure and information services	1,499	1,378	4,330	4,093
Professional and consulting fees	560	439	1,308	1,376
Marketing and advertising	190	175	659	639
Occupancy costs	469	442	1,315	1,213
Depreciation and amortization	300	387	1,094	1,215
General, administrative and other	180	171	515	549
<b>Total operating expenses</b>	<b>8,448</b>	<b>7,657</b>	<b>25,281</b>	<b>23,955</b>
<b>Income from operations</b>	<b>4,590</b>	<b>4,399</b>	<b>13,653</b>	<b>12,315</b>
<b>Other income (expense)</b>				
Interest income	6	1	12	1
Other income (expense), net	(1)	10	29	5
<b>Income before provision for income taxes</b>	<b>4,595</b>	<b>4,410</b>	<b>13,694</b>	<b>12,321</b>
Provision for income taxes	1,107	1,404	4,050	4,485
<b>Net income</b>	<b>\$ 3,488</b>	<b>\$ 3,006</b>	<b>\$ 9,644</b>	<b>\$ 7,836</b>
<b>Net income per share</b>				
Basic	\$ 0.31	\$ 0.26	\$ 0.84	\$ 0.69
Diluted	\$ 0.29	\$ 0.26	\$ 0.81	\$ 0.67

See accompanying notes to unaudited condensed consolidated financial statements

**OTC MARKETS GROUP INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Beginning balance</b>	<b>\$ 15,506</b>	<b>\$ 17,547</b>
Increase from net income	9,644	7,836
Dividends paid	(4,796)	(4,733)
Stock-based compensation	1,459	1,274
Issuance of restricted and common shares, net	(388)	(41)
Purchases of treasury stock	(2,175)	(1,618)
Tax benefits related to stock-based compensation	-	578
<b>Ending balance</b>	<b>\$ 19,250</b>	<b>\$ 20,843</b>

See accompanying notes to unaudited condensed consolidated financial statements

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

	<b>Nine Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 9,644	\$ 7,836
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,094	1,215
Provision for bad debts	22	(7)
Stock-based compensation	1,459	1,274
Excess tax benefits related to stock-based compensation	(592)	(578)
Deferred rent	47	(48)
Deferred income taxes	(329)	(296)
Loss on disposal of fixed assets	4	
Changes in working capital:		
Accounts receivable	593	1,159
Prepaid expenses and other current assets	(308)	(242)
Prepaid income taxes	140	(205)
Accounts payable	260	(229)
Accrued expenses and other current liabilities	(673)	(312)
Income tax payable	628	1,245
Income tax reserve	155	119
Deferred revenue	(4,548)	(3,751)
<b>Cash provided by operating activities</b>	<b>7,596</b>	<b>7,180</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(586)	(177)
Purchases of intangible assets	(100)	-
Security deposits	18	-
<b>Cash used in investing activities</b>	<b>(668)</b>	<b>(177)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(4,796)	(4,733)
Issuance of restricted and common shares, net	(388)	(41)
Tax benefits related to stock-based compensation	-	578
Purchases of treasury stock	(2,175)	(1,618)
<b>Cash used in financing activities</b>	<b>(7,359)</b>	<b>(5,814)</b>
Net decrease in cash	(431)	1,189
Cash at beginning of period	25,034	23,925
Cash at end of period	<u>\$ 24,603</u>	<u>\$ 25,114</u>
<b>Cash paid during period for:</b>		
Income taxes	\$ 4,049	\$ 3,621
<b>Non-cash investing activities:</b>		
Property and equipment included in accounts payable or accrued expenses	\$ 184	\$ 21

See accompanying notes to unaudited condensed consolidated financial statements

## OTC MARKETS GROUP INC.

### Notes to Unaudited Condensed Consolidated Financial Statements

(in thousands, except share and per share information)

#### Note 1. Description of Business

##### *Overview*

OTC Markets Group Inc. (“OTC Markets Group” or the “Company”) (OTCQX: OTCM) operates the OTCQX® Best Market; the OTCQB® Venture Market; and the Pink® Open Market for 10,000 U.S. and global securities. Through OTC Link® ATS, a Securities and Exchange Commission (“SEC”) registered Alternative Trading System (“ATS”) operated by the Company’s wholly-owned subsidiary OTC Link LLC, a Financial Industry Regulatory Authority, Inc. (“FINRA®”) registered broker-dealer, the Company enables investors to easily trade through the broker of their choice and empowers companies to improve the quality and availability of information for their investors.

The Company has three business lines: OTC Link ATS, Market Data Licensing and Corporate Services.

- OTC Link ATS – OTC Link ATS provides electronic communication and connectivity technology to its FINRA member broker-dealer subscribers.
- Market Data Licensing – OTC Markets Group is a central source of real-time data, delayed and historical market data, company financial data, security master data, corporate reference data and compliance data for securities traded on the OTCQX, OTCQB and Pink markets. The Market Data Licensing business line provides investors, traders, institutions, and regulators with a suite of enterprise and user market data licenses, offered via direct or extranet connectivity, through third party market data redistributors or order management systems (“OMSs”).
- Corporate Services – OTC Markets Group offers companies the OTCQX Best Market, OTCQB Venture Market and a suite of 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. These services include the OTC Disclosure & News Service, Real-Time Level 2 Quote Display and Blue Sky Monitoring Service.

##### *Corporate Form*

OTC Markets Group Inc. is a Delaware corporation. The Company is a “C” Corporation for federal, state, and local income tax purposes.

#### Note 2. Summary of Significant Accounting Policies

##### *Basis of Presentation*

The accompanying unaudited interim condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and include the accounts of the Company and its wholly-owned subsidiary, OTC Link LLC, and reflect all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair statement of the results for the period. 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. Refer to Note 2, *Summary of Significant Accounting Policies*, from

**OTC MARKETS GROUP INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

(in thousands, except share and per share information)

the Company's Annual Report for the year ended December 31, 2016 for a full discussion of significant accounting policies.

The interim condensed consolidated financial statements are unaudited and should be read in conjunction with the audited financial statements of the Company as of and for the year ended December 31, 2016. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

*Use of estimates*

The preparation of these unaudited interim condensed 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 periods. Estimates included in the consolidated financial statements include allowance for doubtful accounts, certain accrued expenses, stock-based compensation expense, income tax reserve and provision for income taxes. Actual results could differ from those estimates.

*Recently Issued Accounting Standards*

In August 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-14, *Revenue from Contracts with Customers*, which defers the effective date of FASB ASU 2014-09, *Revenue from Contracts with Customers*, by one year for all entities and permits early adoption on a limited basis. This ASU will be effective for annual reporting periods beginning after December 15, 2017. The Company has substantially completed its assessment of how the new standard will impact its financial reporting and does not anticipate that it will have a material effect on the consolidated financial statements. The Company intends to adopt this ASU in the first quarter of 2018 on a modified retrospective basis through a cumulative adjustment to equity upon initial application.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which amended income tax guidance. This ASU simplifies the disclosure rules related to deferred taxes and requires that all deferred taxes be classified as non-current on the balance sheet. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. The Company adopted this ASU on January 1, 2017. Upon adoption, current deferred tax assets of \$108 previously presented in the December 31, 2016 consolidated balance sheet as current were reclassified as non-current.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which amended guidance for both lessees and lessors. This ASU results in lease assets and lease liabilities being recognized on the balance sheet for both capital and operating leases in order to increase the transparency and comparability of financial statements. The amendments in this ASU are effective for public companies in interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company is in the process of evaluating the impact of adoption of this ASU, but does not expect it to have a material effect on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, amending guidance for share-based payments to employees. The Company elected to adopt this ASU on

## OTC MARKETS GROUP INC.

### Notes to Unaudited Condensed Consolidated Financial Statements (continued)

(in thousands, except share and per share information)

a prospective basis on January 1, 2017. Under the new guidance, excess tax benefits from share-based compensation are reflected in the Consolidated Statements of Income as a component of the provision for income taxes, whereas they were previously recognized under Additional paid-in capital. Additionally, our Consolidated Statements of Cash Flows now present excess tax benefits as an operating activity. As a result of the adoption of ASU 2016-09, the provision for income taxes for the three and nine months ended September 30, 2017 included a discrete tax benefit of \$83 and \$674 within the Consolidated Statement of Cash Flows for the nine months ended September 30, 2017, and the excess tax benefits related to stock-based compensation were presented as a net decrease to the cash flow from operating activities.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which amends the guidance on classification and presentation of changes in restricted cash on the statement of cash flows. This ASU requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted. The Company does not anticipate the adoption of this ASU to have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairments*, which amended guidance for goodwill impairments. This ASU simplifies the accounting for goodwill impairments by eliminating step 2 from the goodwill impairment test. ASU 2017-04 will be effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company does not anticipate the adoption of this ASU to have a material impact on the consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*, which amends guidance on applying modification accounting in Topic 718. ASU 2017-09 will be effective for interim and annual period after December 15, 2017, with early adoption permitted. The Company is in the process of evaluating the impact of the adoption of this ASU, but does not expect it to have a material impact on the consolidated financial statements.

### Note 3. Concentrations and Uncertainties

During both the three and nine months ended September 30, 2017, market data revenues earned through one market data redistributor amounted to approximately 11% of gross revenues, and 12% during the comparable three and nine months in 2016, respectively. As of September 30, 2017 and 2016, accounts receivable from that same subscriber amounted to 21% and 24% of accounts receivable.

### Note 4. Fair Value of Financial Instruments

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 enhanced disclosure requirements for fair value measurement. The three tiers are:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in an active market;

**OTC MARKETS GROUP INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

(in thousands, except share and per share information)

- Level 2 – Other inputs that are directly or indirectly observable in the market; and
- 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 unaudited interim condensed consolidated balance sheets that are measured at carrying value, which approximates fair value due to the short term nature of these balances, include prepaid expenses, accrued expenses and other current liabilities and deferred revenue. These balances are classified as Level 1 and Level 2 in the fair value hierarchy.

**Note 5. Property and Equipment**

Property and equipment consisted of the following:

	September 30, 2017	December 31, 2016	Estimated useful life (years)
Computer software	\$ 1,116	\$ 925	2 - 3
Computer equipment	5,502	5,570	3 - 5
Furniture and fixtures	1,259	1,259	5 - 7
Leasehold improvements	4,352	4,352	Term of lease
Total property and equipment	12,229	12,106	
Accumulated depreciation and amortization	(10,262)	(9,827)	
<b>Total property and equipment, net</b>	<b>\$ 1,967</b>	<b>\$ 2,279</b>	

Depreciation and amortization on property and equipment included in the unaudited interim condensed consolidated statements of income amounted to \$288 and \$1,077 for the three and nine months ended September 30, 2017, respectively, and \$387 and \$1,215 during the comparable three and nine months in 2016, respectively. During the nine months ended September 30, 2017, the Company recorded a reduction of \$646 to gross book value and accumulated depreciation resulting from the decommissioning of fully depreciated Computer Software and Computer Equipment.

**Note 6. Goodwill and Intangible Assets**

Goodwill and intangible assets consisted of the following:

	September 30, 2017	December 31, 2016	Estimated useful life (years)
Goodwill	\$ 251	\$ 251	Indefinite
<b>Intangible assets:</b>			
Website	\$ 100	\$ -	2
Subscription services	150	150	8-15
Distributor relations	27	27	15
Intellectual property	40	40	Indefinite
Total intangible assets	317	217	
Accumulated amortization	(193)	(177)	
<b>Intangible assets, net</b>	<b>\$ 124</b>	<b>\$ 40</b>	



**OTC MARKETS GROUP INC.****Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

(in thousands, except share and per share information)

On May 30, 2017, the Company entered into an asset purchase agreement to acquire an independent website, theOTC.today.

Amortization expense for finite-lived intangible assets was \$12 and \$17 for the three and nine months ended September 30, 2017, and no amortization expense was recognized for the three and nine months ended September 30, 2016. The increase in amortization expense in 2017 compared with 2016 was due to the acquisition of certain intangible assets in the second quarter of 2017. No impairment charges were recorded to goodwill or intangible assets during the three and nine months ended September 30, 2017 or 2016.

**Note 7. Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2017	December 31, 2016
Payroll and employee withholdings	\$ 3,308	\$ 4,023
Deferred compensation	68	68
Accrued operating expenses	726	509
Deferred rent	63	161
<b>Total accrued expenses and other current liabilities</b>	<b>\$ 4,165</b>	<b>\$ 4,761</b>

Payroll and employee withholdings primarily consisted of accrued discretionary bonus, discretionary employer 401(k) contribution, vacation and sales commission. The balance of payroll and employee withholdings as of December 31, 2016 represents a full year of accrual, which was paid out in February 2017.

**Note 8. 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 amortized into compensation expense on a straight-line basis over the requisite service period, which is generally the vesting period of 5 years. 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. These charges are included in compensation and benefits expense and professional and consulting fees on the unaudited interim condensed consolidated statements of income.

# OTC MARKETS GROUP INC.

## Notes to Unaudited Condensed Consolidated Financial Statements (continued)

(in thousands, except share and per share information)

A summary of the Company's option activity for the nine months ended September 30, 2017 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, 2017	792	\$ 11.83	\$ 8,846	7.16
Granted	76	\$ 24.69	\$ 32	
Exercised	(83)	\$ 9.01	\$ 1,157	
Forfeited	(50)	\$ 14.25	\$ 492	
Outstanding, September 30, 2017	735	\$ 13.31	\$ 11,905	6.85
Exercisable, September 30, 2017	338	\$ 9.48	\$ 6,777	5.32

The Company recognized compensation expense related to stock options, net of estimated forfeitures, of \$122 and \$120 for the three months ended September 30, 2017 and 2016, respectively, and \$376 and \$383 for the nine months ended September 30, 2017 and 2016, respectively. Management has estimated forfeiture rates of 5% for stock options granted to management and 27% for stock options granted to other employees.

At September 30, 2017, unrecognized compensation cost related to non-vested stock options was \$1.1 million, which will be recognized over approximately 3.3 years.

A summary of the Company's restricted stock activity for the nine months ended September 30, 2017 is as follows:

(in thousands, except W/A fair value)	Restricted stock	Weighted-average fair value	Aggregate intrinsic value
Outstanding, January 1, 2017	293	\$ 12.37	\$ 6,746
Granted	109	21.41	2,328
Vested	(103)	11.01	2,195
Forfeited	(7)	13.35	157
Outstanding, September 30, 2017	292	\$ 16.20	\$ 8,600

The Company recognized compensation expense, net of estimated forfeitures, of \$294 and \$226 for the three months ended September 30, 2017 and 2016, respectively, and \$972 and \$779 for the nine months ended September 30, 2017 and 2016, respectively. Management has estimated forfeiture rates of 9% for RSAs granted to management and 15% for RSAs granted to other employees. In addition, the Company recognized professional fees of \$36 and \$37 for the three months ended September 30, 2017 and 2016, respectively, and \$111 for each of the nine months ended September 30, 2017 and 2016, related to the issuance of restricted stock awards to the Board of Directors.

At September 30, 2017, unrecognized compensation cost related to non-vested RSAs totaled \$3.4 million, which will be recognized over approximately 3.4 years.

## 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 April 2017 and expires on June 30, 2020. The other is for office space at 100 M Street SE, Washington, D.C. that was amended in May 2016 and expires on June 30, 2021. The New York lease provides for contingent rental

## OTC MARKETS GROUP INC.

### Notes to Unaudited Condensed Consolidated Financial Statements (continued)

(in thousands, except share and per share information)

payments consisting of a proportionate share of any increases in real estate taxes. 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 September 30, 2017, future minimum lease payments are as follows:

<u>Fiscal year</u>	<u>Payments due</u>
Remainder of 2017	\$ 383
2018	1,565
2019	1,621
2020	939
2021	116
<b>Total</b>	<b>\$ 4,624</b>

Occupancy expense included in the unaudited interim condensed consolidated statements of income was \$469 and \$442 for the three months ended September 30, 2017 and 2016, respectively, and \$1.3 million and \$1.2 million for the nine months ended September 30, 2017 and 2016, respectively.

Total security deposits on the Company's office leases were \$192 and \$210 as of September 30, 2017 and December 31, 2016, 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. Stockholders' Equity**

#### *Common Stock*

As of September 30, 2017, the Company has one class of shares, Class A common stock, outstanding. Holders of Class A common stock, which include holders of unvested RSAs, 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").

As of January 1, 2017, the Class A common stock was quoted by more than two market makers on OTC Link ATS, and the average price per share of the Class A common stock in trade reports aggregating a total of 300,000 shares consecutively reported to FINRA was greater than \$19.62. As a result, pursuant to the terms of our Certificate of Incorporation, all shares of the Company's Class C common stock were converted into shares of Class A common stock. Accordingly, no shares of Class C common stock remain outstanding.

The Company is authorized to issue 14,000,000 shares of common stock at \$0.01 par value. As of September 30, 2017 there were a total of 11,860,898 shares issued and 11,414,238 shares outstanding. As of December 31, 2016 there were a total of 11,726,175 shares issued

**OTC MARKETS GROUP INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

(in thousands, except share and per share information)

and 11,378,817 shares outstanding; the latter was comprised of 11,247,979 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 Securities Exchange Act of 1934 (the "Exchange Act"). On February 28, 2017, the Board of Directors refreshed the Company's stock repurchase program, authorizing the repurchase of up to 300,000 shares of Class A common stock.

During the nine months ended September 30, 2017, the Company repurchased 99,302 shares of Class A common stock at an average price of \$21.91 per share for a total of \$2,176. During the nine months ended September 30, 2016, the Company repurchased 96,260 shares at an average price of \$16.81 per share for a total of \$1,618. All repurchased shares are held in treasury. Under the stock repurchase program, there are 259,943 shares remaining to be purchased as of September 30, 2017.

*Dividends*

The Company declared a cash dividend of \$0.14 and \$0.14 per Class A share during the three months ended September 30, 2017 and 2016, respectively, totaling \$1,598 and \$1,578, respectively. The Company declared cash dividends of \$0.42 and \$0.42 per Class A share during the nine months ended September 30, 2017 and 2016, respectively, totaling \$4,796 and \$4,733, respectively.

*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 8, Stock-Based Compensation). In each of November 2016 and 2015, the Board of Directors authorized the increase in the number of shares available for issuance under the Plan by 200,000 shares.

**Note 11. Income Taxes**

The Company's effective tax rates were 24% and 32% for the three months ended September 30, 2017 and 2016, respectively, and 30% and 36% for nine months ended September 30, 2017 and 2016, respectively. The rates reflect the inclusion of state and local income taxes at the federal statutory rate of 35% for 2017 and 2016. In the third quarter of 2017, the Company recognized discrete benefits relating primarily to the tax effect of deductions claimed against qualifying income pursuant to the Domestic Production Activities Deduction ("DPAD"). This deduction was claimed on the Company's federal tax returns for fiscal years 2013 through 2016. In respect of New York State sourced income in 2015 and 2016, the Company benefits from the lower rate of Corporation Income Tax available to entities who meet the criteria of a Qualified Emerging Technologies Company ("QETC"). The net effect of these discrete items was to decrease the effective tax rate for the three and nine months ended September 30, 2017 by 10% and 3%, respectively. In addition, the Company also recognized \$83 and \$674 of excess tax benefits from share-based compensation for the three and nine months ended September 30, 2017, as result of the adoption of ASU 2016-09 in the first quarter of 2017. On January 1, 2017, the Company adopted ASU 2015-17. As a result of the adoption, current deferred tax assets of \$108 previously presented in the December 31, 2016 consolidated balance sheet as

**OTC MARKETS GROUP INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

(in thousands, except share and per share information)

current were reclassified as non-current. See Note 2— *Summary of Significant Accounting Policies* for additional information related to the adoption of ASU 2016-09 and ASU 2015-17.

As required by the uncertain tax position guidance in FASB Accounting Standards Codification 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. The gross amount of unrecognized tax benefits as of September 30, 2017 and December 31, 2016 was \$725 and \$619, respectively, and was classified in income tax reserve in the unaudited interim condensed consolidated balance sheets. It is not reasonably possible that any unrecognized tax benefits related to state nexus will reverse within the next twelve months from settlements with taxing authorities.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of tax expense. The Company recognized interest and penalties of \$7 and \$7 for the three months ended September 30, 2017 and 2016, respectively, and \$37 and \$37 for the nine months ended September 30, 2017 and 2016, respectively. Interest and penalties accrued as of September 30, 2017 and December 31, 2016 were \$213 and \$176, respectively.

**Note 12. Earnings 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 8, *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)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income available to common shareholders	\$ 3,488	\$ 3,006	\$ 9,644	\$ 7,836
Less: Undistributed earnings allocated to unvested RSAs	(48)	(38)	(124)	(82)
Less: Dividend equivalents on unvested RSAs	(41)	(42)	(122)	(127)
Net income allocated to common shareholders	<u>\$ 3,399</u>	<u>\$ 2,926</u>	<u>\$ 9,398</u>	<u>\$ 7,627</u>
Shares of common stock and common stock equivalents				
Weighted-average common shares outstanding	<u>11,123,225</u>	<u>11,087,328</u>	<u>11,137,764</u>	<u>11,094,872</u>
Basic earnings per share	\$ 0.31	\$ 0.26	\$ 0.84	\$ 0.69

**OTC MARKETS GROUP INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

(in thousands, except share and per share information)

*Diluted Earnings per common share*

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except shares and per share data)	2017	2016	2017	2016
Net income available to common shareholders	\$ 3,488	\$ 3,006	\$ 9,644	\$ 7,836
Less: Undistributed earnings allocated to unvested RSAs	(46)	(37)	(120)	(80)
Less: Dividend equivalents on unvested RSAs	(41)	(42)	(122)	(127)
Net income allocated to common shareholders	\$ 3,401	\$ 2,927	\$ 9,402	\$ 7,629
Shares of common stock and common stock equivalents				
Weighted-average common shares outstanding	11,123,225	11,087,328	11,137,764	11,094,872
Dilutive effect of employee stock options and RSAs	470,665	341,388	404,940	331,596
Weighted-average shares used in diluted computation	11,593,890	11,428,716	11,542,704	11,426,468
Diluted earnings per share	\$ 0.29	\$ 0.26	\$ 0.81	\$ 0.67

**Note 13. 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 Exchange Act. Rule 15c3-1 requires the maintenance of net capital, as defined, which shall be the greater of \$5 or 6-2/3% of aggregate indebtedness, as defined. OTC Link LLC's regulatory net capital as of September 30, 2017 and December 31, 2016 was \$3,668 and \$3,893, respectively, which exceeded the minimum net capital requirement by \$3,544 and \$3,764, respectively.

**Note 14. Subsequent Events**

For purposes of disclosure in the unaudited condensed consolidated financial statements, the Company has evaluated subsequent events through November 8, 2017, the date the financial statements were available to be issued.

On November 8, 2017, the Board of Directors authorized and approved a special cash dividend of \$0.60 per share of Class A Common Stock and a quarterly cash dividend of \$0.14 per share of Class A common stock. The special dividend is payable on December 6, 2017 to stockholders of record on November 22, 2017. The ex-dividend date is November 21, 2017. The quarterly dividend is payable on December 21, 2017 to stockholders of record on December 7, 2017. The ex-dividend date is December 6, 2017.

**EXHIBIT 9.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

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

1. I have reviewed this Quarterly Report of OTC Markets Group Inc.;
2. Based on my knowledge, this Quarterly 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 Quarterly Report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly 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 Quarterly Report.

/s/ R. Cromwell Coulson

R. Cromwell Coulson  
Chief Executive Officer

November 8, 2017

Date

## **EXHIBIT 9.2**

### **CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, Beatrice Ordonez, Chief Financial Officer of OTC Markets Group Inc., certify that:

1. I have reviewed this Quarterly Report of OTC Markets Group Inc.;
2. Based on my knowledge, this Quarterly 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 Quarterly Report; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this Quarterly 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 Quarterly Report.

/s/ Beatrice Ordonez  
Beatrice Ordonez  
Chief Financial Officer

November 8, 2017  
Date