

OTC MARKETS GROUP INC.

A Delaware Corporation

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

2012 Annual Report

ISSUER'S EQUITY SECURITIES

COMMON STOCK

Class A Common Stock
\$0.01 Par Value Per Share
14,000,000 Shares Authorized
10,865,321 Shares Outstanding as of March 1, 2013
OTCQX: OTCM

Class C Common Stock
\$0.01 Par Value Per Share
130,838 Shares Authorized
130,838 Shares Outstanding as of March 1, 2013

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

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OTC MARKETS GROUP INC.

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ANNUAL REPORT

Cautionary Note Regarding Forward-Looking Statements

Information set forth in this 2012 Annual Report (the "Annual Report") contains forward-looking statements, which involve a number of risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Forward-looking statements can be identified by use of the words "expect," "project," "may," "might," "potential," and similar terms. OTC Markets Group Inc. ("OTC Markets Group", "we" or the "Company") cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information. Forward-looking statements involve a number of risks, uncertainties or other factors beyond OTC Markets Group's control. These factors include, but are not limited to, our ability to implement our strategic initiatives, economic, political and market conditions and price fluctuations, government and industry regulation, U.S. and global competition, and other factors. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

Part A. General Company Information

The exact name of the issuer

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

Company description

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

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

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

The address of the issuer is: **304 Hudson Street, 3rd 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, contains general information
about us and our products and services. We also
maintain www.otcqx.com, www.otciq.com,
www.otcquote.com, and www.otcdealer.com. The
information contained on such websites shall not be
deemed incorporated by reference herein.**

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

The name and address of the transfer agent is:

**Continental Stock Transfer & Trust Company
17 Battery Place, 8th Floor
New York, NY 10004**

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

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

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

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

Other corporate information

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

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

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

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

Our fiscal year ends on December 31.

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

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

Part B. Share Structure

The exact title and class of securities outstanding

As of December 31, 2012, OTC Markets Group had two classes of securities outstanding: Class A Common Stock and Class C Common Stock (collectively, “Common Stock”). None of OTC Markets Group’s Common Stock has been registered under the Securities Act or qualified under any state securities laws, and we have no current plans to register or qualify any of our securities. There were no preferred shares outstanding as of the reported period.

From commencement of our public trading on September 19, 2009 through January 18, 2011, the trading symbol for OTC Markets Group’s Class A Common Stock assigned by FINRA was “PINK”. On January 19, 2011, the Company changed its trading symbol to “OTCM”. The Class C Common Stock does not have a trading symbol. As of December 31, 2012, all shares of our Class C Common Stock were held by R. Cromwell Coulson, our Chief Executive Officer, and did not have a public market.

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

Our Class A Common Stock has been qualified for the OTCQX U.S. Premier® marketplace since March 11, 2010, with Merriman Capital, Inc. as our Designated Advisor for Disclosure.

Par or stated value and description of the security

A. Par or Stated Value

All classes of OTC Markets Group’s common stock have a par value of \$.01 per share.

B. Common and Preferred Stock

Common Stock

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

Class A.

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

Class C.

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

Preferred Stock

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

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

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

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

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

As of December 31, 2012, OTC Markets Group had 14,130,838 shares of Common Stock authorized, consisting of (i) 14,000,000 shares of Class A Common Stock and (ii) 130,838 shares of Class C Common Stock. There was no Class B Common Stock authorized as of December 31, 2012, and there were no preferred shares outstanding as of the reported periods.

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

Class A Common Stock as of:

	December 31,	
	2012	2011
(i) Number of shares authorized	14,000,000	14,000,000
(ii) Number of shares outstanding	10,700,047	10,484,595
(iii) Number of shares freely tradable (public float) ⁽¹⁾⁽²⁾	6,315,160	5,461,113
(vi) Total number of holders of record	118	119

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

Notes:

1. The number of shares freely tradable may include shares held by shareholders owning 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 4.4 million shares of our Class A common stock, which may be "control shares" subject to the volume and manner of sale restrictions under Rule 144. These shares are excluded from the number of shares freely tradable.

Class C Common Stock as of:

	December 31,	
	2012	2011
(i) Number of shares authorized	130,838	130,838
(ii) Number of shares outstanding	130,838	130,838
(iii) Number of shares freely tradable (public float)	0	0
(vi) Total number of holders of record	1	1

Issuer purchases of equity securities

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

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

On November 16, 2011, the Company repurchased 2,126 shares of common stock for \$10,630.

On November 17, 2011, the Company repurchased 24,000 shares of common stock for \$120,000.

On December 29, 2011, the Company repurchased 280 shares of common stock for \$1,498.

On February 28, 2012, the Company repurchased 10,000 shares of common stock for \$62,650.

Summary of stock option activity

The following table contains a summary of all stock option activity from December 31, 2010 through December 31, 2012:

(in thousands, except W/A exercise price)	Stock options	Weighted-average exercise price
Outstanding, December 31, 2010	881	\$ 4.17
Granted	222	6.07
Exercised	(94)	2.44
Forfeited	(189)	5.43
Outstanding, December 31, 2011	820	4.59
Granted	178	7.54
Exercised	(79)	2.68
Forfeited	(68)	6.21
Outstanding, December 31, 2012	851	5.25
Exercisable, December 31, 2012	374	\$ 3.85

Summary of restricted stock award activity

In January 2011, 2012 and 2013, the Company granted to certain employees shares of its Class A Common Stock subject to the terms of Restricted Stock Agreements ("RS Agreements") between the Company and each employee. Stock granted subject to a RS Agreement is included in our calculation of shares outstanding, and holders of such stock are included in our calculation of holders of record.

The following table contains a summary of all activity relating to stock granted subject to RS Agreements from December 31, 2010 through December 31, 2012:

(in thousands, except W/A fair value)	Restricted stock	Weighted-average fair value
Outstanding, December 31, 2010	55	\$ 4.00
Granted	128	5.85
Vested	(35)	3.53
Forfeited	(14)	5.40
Outstanding, December 31, 2011	134	5.74
Granted	196	6.05
Vested	(63)	5.70
Forfeited	(17)	5.79
Outstanding, December 31, 2012	250	\$ 5.99

Public trading of Class A Common Stock

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

	High	Low
First Quarter – 2012	\$ 6.80	\$ 5.17
Second Quarter – 2012	\$ 6.98	\$ 6.36
Third Quarter – 2012	\$ 7.40	\$ 6.50
Fourth Quarter – 2012	\$ 9.00	\$ 7.21

Dividends

On November 10, 2011, the Board of Directors authorized and approved a quarterly cash dividend of \$0.04 per share of Class A Common Stock. The quarterly dividend was paid on January 5, 2012 to our stockholders of record as of December 20, 2011.

On February 28, 2012, the Board of Directors authorized and approved a quarterly cash dividend of \$0.05 per share of Class A Common Stock. The quarterly dividend was paid on April 5, 2012 to our stockholders of record as of March 20, 2012.

May 8, 2012, the Board of Directors authorized and approved a quarterly cash dividend of \$0.05 per share of Class A Common Stock. The quarterly dividend was paid on July 5, 2012 to our stockholders of record as of June 19, 2012.

On July 31, 2012, the Board of Directors authorized and approved a quarterly cash dividend of \$0.05 per share of Class A Common Stock. The quarterly dividend was paid on October 4, 2012 to our stockholders of record as of September 18, 2012.

On November 8, 2012, the Board of Directors authorized and approved a special cash dividend of \$0.25 per share of Class A Common Stock and a quarterly cash dividend of \$0.05 per share of Class A common stock. The special dividend was paid on December 6, 2012 to stockholders of record on November 23, 2012 and the quarterly dividend was paid on December 26, 2012 to stockholders of record on December 6, 2012.

On February 26, 2013, the Board of Directors authorized and approved a quarterly cash dividend of \$0.06 per share of Class A Common Stock. The quarterly dividend is payable on March 28, 2013 to our stockholders of record as of March 15, 2013.

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

Part C. Business Information

Overview

OTC Markets Group Inc. (OTCQX: OTCM) operates Open, Transparent and Connected financial marketplaces for 10,000 U.S. and global securities. Our subscription-based premium services enable the market structure, information availability and network connections for broker-dealers, companies and financial data providers to communicate or transact without the need of a stock exchange.

Our wholly-owned subsidiary, OTC Link LLC, is an SEC registered ATS and FINRA member broker-dealer, and operates the OTC Link ATS trading system. A network of broker-dealers providing liquidity and execution services utilizes OTC Link ATS to publish quotation prices and to directly interact with one another. Our unique network-based business model empowers broker-dealer subscribers to be their own market centers and differentiates us from a traditional stock exchange, which typically acts as a central intermediary matching agent that controls the execution of every trade.

The OTC Link ATS offers our FINRA member broker-dealer subscribers greater discretion and control of their trade executions. The diversity of business models of broker-dealer subscribers to OTC Link ATS leads to greater choice of trading partners and more efficient trading for investors. As an SEC registered ATS and FINRA member, OTC Link ATS is subject to the direct regulatory oversight of the SEC and FINRA.

We organize the wide spectrum of equity securities traded on OTC Link ATS into three marketplaces to inform investors of opportunities and risks: OTCQX®, The Best Marketplace with Qualified Companies; OTCQB®, The Venture Stage Marketplace with U.S. Reporting Companies; and OTC Pink®, The Open Marketplace with Variable Reporting Companies.

OTCQX, The Best Marketplace with Qualified Companies, is our highest marketplace. Companies with securities traded on OTC Link ATS that meet certain qualitative and quantitative financial standards and current disclosure requirements can choose to have their securities designated as OTCQX and receive a package of premium services to create better informed and more efficient marketplaces for their investors. OTCQX fills an important role for companies that are not efficiently served by the cost and complexity of a U.S. stock exchange listing but may benefit from the investor visibility, credibility, and trust that an information-rich and quality-controlled marketplace provides.

The OTCQX marketplace delivers a competitive alternative to listing on a stock exchange by providing high quality companies, high quality company information, and high quality trading for a best quality investor experience. The OTCQX marketplace includes premium services that provide or enhance the following core marketplace functions: 1) See prices, 2) Meet buyers and sellers, 3) Analyze company information, 4) Reach investors, and 5) Trade with confidence. Taken together, the OTCQX marketplace services allow an investor to intelligently analyze value and trade an OTCQX company's securities. The OTCQX marketplace services help issuers comply with state "Blue Sky" laws so brokers and investment advisers can provide professional guidance.

Our OTCQB and OTC Pink marketplaces are broker-quoted, which means broker-dealers, often without input from the companies, choose to trade these securities on our platform based on investor trading demand. These marketplaces enable our broker-dealer subscribers to efficiently provide best execution to their customers. OTCQB and OTC Pink companies can use

our premium services to improve their trading transparency and make current information easily accessible for their investors.

The OTCQB Venture Stage Marketplace with U.S. Reporting Companies includes only securities of companies that are current in their reporting to the SEC or another U.S. regulator. The OTC Pink marketplace contains all other securities quoted on our platform. Each of our marketplaces consists of both U.S. and global companies.

Companies on the OTC Pink Open Marketplace with Variable Reporting Companies are categorized as “OTC Pink Current Information,” “OTC Pink Limited Information” or “OTC Pink No Information” based on the completeness and timeliness of the information they provide to investors. Companies seeking to improve their categorizations can use our OTC Disclosure & News Service to make current disclosure available in accordance with our OTC Pink Basic Disclosure Guidelines. Regardless of category, for the protection of investors we flag companies for which there is a public interest concern as “Caveat Emptor,” or buyer beware.

The quote and trading activity on OTC Link ATS creates valuable market data that is recognized as the best price standard for OTCQX, OTCQB and OTC Pink securities. Our market data is used to advertise broker-dealer liquidity and to document best execution in OTCQX, OTCQB and OTC Pink securities. Our market data is widely distributed through multiple channels.

We believe that the financial information and technology services we provide ultimately benefit investors. Our OTC Link ATS Trading Services allow broker-dealers to attract order flow, improve execution quality of trades, and create an audit trail to document compliance with FINRA regulations regarding order handling and best execution of client orders. Our marketplaces inform investors of opportunities and risks, while incentivizing companies to increase the quality and availability of information available for their investors and their wider stakeholder community of customers, employees and suppliers. We believe our disclosure services create a structure for companies to communicate with investors and stakeholders, improve the transparency of company disclosure, and provide an independent platform for companies to demonstrate compliance and manage risk. Increasing the availability and quality of information empowers intelligent investors and produces more efficient trading and valuations for all investors.

More than 130 broker-dealer subscribers actively quote 10,000 securities on OTC Link ATS. During 2012, broker-dealer subscribers used OTC Link ATS trade messaging to negotiate trades in more than 392.8 billion individual shares of OTCQX, OTCQB and OTC Pink securities having a combined dollar volume of over \$36 billion.

The following table shows the number of OTC securities quoted for trading on the OTCQX, OTCQB and OTC Pink marketplaces, at December 31, 2012, December 31, 2011 and December 31, 2010. The table includes those securities that are dually quoted on both OTC Link ATS and the FINRA OTC Bulletin Board.

OTC Marketplace	Year ended December 31,		
	2012	2011	2010
OTCQX	400	314	159
OTCQB	3,401	3,625	3,851
Pink Sheets	6,173	6,227	5,954
Total	9,974	10,166	9,964

(1) OTCQB includes securities dually quoted on OTC Link and the FINRA OTC Bulletin Board. There were 2,860 dually quoted securities in 2010, 2,341 in 2011 and 1,139 in 2012.

Our Mission, Values and Vision

Our mission is to create better informed and more efficient financial marketplaces.

We aspire to live by a set of core values for success with our community and colleagues:

- **Be Open.** When we're open to new ideas, we encourage participation, create opportunity, and foster innovation. It's no coincidence that our open platform produces exactly the same results.
- **Be Transparent.** Sharing information enables smarter decisions. Transparency within our community, workplace, and marketplaces makes everything simpler. And all of us smarter.
- **Be Connected.** Direct connections create better understanding, stronger bonds and more valuable interactions. We grow and strengthen our connections by reliably delivering the service and support we would expect for ourselves. The better we connect with our community, the more we will be valued and the better we'll all be rewarded.
- **Be an Overachiever.** We attract the best and the brightest people by being the best and brightest company. Inspiring leadership, competitive compensation, equity participation and a stimulating work environment foster a culture that promotes initiative, rewards merit and creates opportunity for those with the capacity to fulfill it.
- **Be a Teammate.** Our enterprise is fueled and driven by a team effort of empowered individuals. We treat our colleagues with respect that is earned through collaborative contribution to our collective success. We make each other stronger by sharing our knowledge and experience.
- **Be Creative.** An insatiable curiosity inspires the investigation, critical thinking and understanding our progress requires. We're not afraid of failure as the knowledge we gain only assures our future successes. We are constantly alert to the possibility of new ideas and fresh solutions to complex problems. Just as our enterprise is the result of bold thinking – bold thinking is the result of our enterprise.
- **Be an Owner.** We all share in the success of our company – and we all take ownership of our share of the work. We seize opportunity as it appears and solve problems before they arise. We're careful when investing our capital and spending our resources, as it's always with the best interests of our shareholders in mind.
- **Be Trusted.** Our reputation is our most valuable asset and we vigorously protect it with honesty and integrity. We are dedicated to complying with the letter and spirit of the laws, rules and ethical principles that govern us. We are meticulous in keeping accurate records with strong controls. We actively protect the confidential information with which we are entrusted and conduct ourselves privately as we would publicly.
- **Be a Capitalist.** We strive to be a successful enterprise that provides superior investment returns for our shareholders. Our growth and profitability are critical not only to building our shareholders' capital, but also to our investment in the strength of our operations, our colleagues, and our future.

Our vision is to expand the world of investment opportunities by creating the financial marketplaces of choice. By empowering intelligent investors to easily analyze, value and trade any security, through any broker, we will bring the benefits of public trading to a wide spectrum of securities and efficiently fulfill the capital formation needs of a broad range of U.S. and global companies.

Recent Business Developments

Alternative Trading System

Late in the third quarter of 2009, representatives of the SEC's Division of Trading and Markets expressed the view that in light of the size and scope of trading on the marketplaces we operate, we should register our interdealer quotation system as an ATS. An ATS is a registered special purpose broker-dealer that is exempt from registration with the SEC as an exchange pursuant to Regulation ATS under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

On April 15, 2010, the Company formed a wholly owned subsidiary, Pink Link ATS LLC, a Delaware limited liability company that subsequently changed its name to OTC Link LLC. On March 5, 2012, OTC Link LLC became a broker-dealer member of FINRA, and on June 1, 2012 began operating as an SEC registered ATS known as OTC Link ATS.

Operation of OTC Link ATS has not altered our existing business model or the services we provide. As part of the broker-dealer registration process, FINRA granted OTC Link ATS an exemption, under FINRA Rules 6183, 6625 and 6731, from equity trade reporting obligations and similar obligations for Trade Reporting and Compliance Engine ("TRACE") eligible securities, provided OTC Link ATS continues to meet the criteria specified in the rules. Under this exemption, the trade and TRACE reporting responsibilities of subscribers to OTC Link ATS have not been altered.

We expect that OTC Link ATS will be required to comply with the additional requirements imposed on an ATS that, during at least 4 out of 6 consecutive months, has more than 20% of the average daily volume of any equity security reported to FINRA. These requirements include, among other things, 1) the establishment of current and future capacity estimates, 2) periodic stress tests of critical systems, 3) the development of reasonable procedures to review and keep current system development and testing methodology, 4) review of the vulnerability of systems to internal and external threats, physical hazards and natural disasters, 5) the establishment of adequate contingency and disaster recovery plans and 6) an annual independent review of controls to ensure that the preceding requirements are met. In addition, OTC Link ATS will be required to notify the SEC promptly of material systems outages and significant systems changes.

Operation of the OTC Link ATS trading system is now conducted by a regulated entity and is therefore subject to regulation and periodic examinations by the SEC and FINRA. On December 6, 2012, OTC Link ATS completed its initial FINRA audit regarding compliance with FINRA rules and regulations.

The costs related to operating OTC Link ATS as a regulated entity have not materially impacted our financial results.

FINRA's QCF Proposal

On November 13, 2009, FINRA filed with the SEC a proposed rule change (Release No. 34-60999; File No. SR-FINRA-2009-077) to create a Quotation Consolidation Facility ("QCF") that would serve as a commercial data consolidator and disseminator for quote data in the OTC equity market (the "QCF Proposal"). Under the QCF Proposal, FINRA would provide a national best bid or offer ("NBBO") for OTC securities traded on interdealer quotation systems for inclusion in the NASDAQ UTP Level One feed.

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

Under the QCF Proposal, we would effectively be required to provide FINRA with our OTC-BBO and all broker-dealer quotations on our OTC Link platform, so that FINRA could provide an NBBO for OTC securities for inclusion in the NASDAQ UTP Level One feed. During the year ended December 31, 2012, approximately 45% of OTC Markets Group's total Market Data Licensing revenues were derived from the OTC-BBO. If the SEC approves the QCF Proposal, we expect that we will lose all or the majority of this revenue.

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

On March 18, 2010, FINRA filed with the SEC a proposed amendment to the original QCF Proposal (the "QCF Amendment"). FINRA's QCF Amendment would eliminate, at this time, the FINRA Quote Fee, while reserving the right to re-introduce a fee in a separate rule filing in the future. As of March 10, 2013, the SEC had not incorporated the QCF Amendment into the QCF Proposal.

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

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

As of March 10, 2013, the SEC has not approved the QCF Proposal or Amendment 21.

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

Integration of HR Systems and Services Provider

Effective December 31, 2012, the Company terminated its client services agreement with Insperity, which had previously served as its professional employer organization. Prior to the termination, Insperity provided the Company with human resources services including payroll and benefits administration, procurement of workers' compensation insurance, general advice regarding federal and state employment law and development of policies and procedures relating to personnel management.

Effective January 1, 2013, the Company entered into a comprehensive services agreement with ADP®, Inc. ("ADP") under which ADP will provide services similar to those provided by Insperity, but at a significantly lower cost and, we anticipate, with greater functionality. Unlike the Company's relationship with Insperity, the Company's employees will not enter into a co-employment relationship with ADP.

Recent Regulatory Developments

Jumpstart Our Business Startups Act ("JOBS Act")

On April 5, 2012, President Obama signed the JOBS Act into law. The JOBS Act's stated goals include easing the burdens on capital raising for small and mid-sized companies. To achieve its purpose, the JOBS Act includes several provisions that we expect will have a significant impact on our marketplaces. These provisions include, among other things, (i) the elimination of the prohibition on general solicitation related to private offerings of securities relying on Rule 144A and Rule 506 under the Securities Act, (ii) a provision authorizing the SEC to create a new regulation under the Securities Act to permit private offerings of tradeable securities for amounts up to \$50 million (the "Regulation A+ Exemption") in addition to the current \$5 million threshold for offerings of securities relying on Regulation A, (iii) raising the shareholder threshold requiring mandatory registration under the Securities Exchange Act of 1934 (the "Exchange Act") from 500 holders of record to 2,000 holders of record, with a limit of 499 holders that are not "accredited investors" as that term is defined in Rule 501 under the Securities Act, (iv) creating a "crowdfunding" exemption that will allow companies to raise up to \$1 million over 12 months from an unlimited number of investors, each limited to an investment of \$10,000 or 10% of their annual income or net worth, whichever is less, and (v) increasing flexibility for broker-dealers to issue research reports on emerging growth companies.

The JOBS Act requires the SEC to issue rules implementing many of the reforms, and the SEC has requested public comments to inform its rulemaking. On July 9, 2012, we submitted a comment letter explaining why SEC rulemaking related to the end of the ban on general solicitation and advertising in Rule 144A and 506 securities should permit the public dissemination of priced quotes for secondary trades in those securities. On August 29, 2012, the SEC issued a proposed rule giving effect to the JOBS Act requirement to end the ban on general solicitation and general advertising in Rule 506 and Rule 144A offerings (the "Proposed General Solicitation Rule"). In the Proposed General Solicitation Rule, the SEC noted that more information regarding Rule 144A securities could be made publicly available, even though sales would be limited to QIBs."

The JOBS Act may result in our ability to publicly disseminate priced quotes in Rule 144A and 506 securities, and create more securities available to be traded on our platform, each of which may have a beneficial effect on our business. Specifically, the new Regulation A+ Exemption may create additional capital raising opportunities for companies with securities that may trade on our marketplaces. In addition, the elimination of the prohibition on general solicitation for Rule 144A and Rule 506 securities offerings should create increased transparency, which is a core principle of our marketplaces.

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

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). Among other things, Dodd-Frank exempted smaller public companies with a market capitalization less than \$75 million from Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The popular financial press has attributed the recent decline in U.S. initial public offerings, and the general unwillingness of companies to register securities with the SEC, to the costs of compliance with Section 404(b), which generally requires subject companies to obtain an auditor's attestation with respect to the internal controls over financial reporting.

An SEC study submitted to Congress concluded that Section 404(b) did not cause companies with a public float between \$75 million and \$250 million to avoid the public markets and that the benefits of Section 404(b) to investors exceeded the costs of compliance. The study therefore recommended that Congress not provide an exemption for such companies from Section 404(b).

The General Accounting Office ("GAO") is also required to submit a report to Congress on the impact of Section 404(b), as amended by Dodd-Frank, by July 2013.

The JOBS Act provides an additional exemption from the auditor attestation requirements of Section 404(b) for "emerging growth companies," generally defined as companies that have total annual gross revenues of less than \$1 billion. This exemption will continue until (1) the last day of the fiscal year during which the issuer had \$1 billion in annual gross revenues or more; (2) the last day of the fiscal year following the fifth anniversary of the issuer's initial public offering date; or (3) the date in which the issuer is deemed to be a "large accelerated filer," defined by the SEC as an issuer with more than \$700 million in public float.

Many of our Issuer Services, including OTCQX and the OTC Disclosure & News Service, target SEC reporting companies and non-reporting companies, including companies choosing to deregister with the SEC. We believe that the expense and effort of compliance with the internal control audit requirements of Section 404 of the Sarbanes-Oxley Act provided a significant incentive for smaller public companies to deregister under Section 12 of the Securities Exchange Act of 1934 and apply for an OTCQX classification. While the exemptions from Section 404(b) contained in Dodd-Frank and the JOBS Act might be expected to reduce this incentive somewhat, most of the U.S. companies choosing to qualify for OTCQX have been SEC reporting. Accordingly, we have not discerned any effect on the demand for inclusion on OTCQX or a weakening of demand for the OTC Disclosure & News Service based on the Dodd-Frank Section 404 exemption.

Tier Size Pilot

On October 14, 2011, the SEC published FINRA's proposal to amend Rule 6433 (the "Tier Size Proposal"), which requires minimum quote size requirements for quotations published in interdealer quotation systems by an OTC market maker. The Tier Size Proposal was subsequently amended by FINRA on April 17, 2012 and again on June 15, 2012. The SEC granted accelerated approval of the Tier Size Proposal as modified by the amendments.

The Tier Size Proposal was intended to allow for smaller size orders to affect the inside quote through the mandated display of customer limit orders. The rule significantly reduces tier sizes, and decreases the number of tier sizes from nine to six. Under the Tier Size Proposal, Rule 6433 would be expanded to include all quotations displayed in an interdealer quotation system, which would include quotations submitted to Alternative Trading Systems that are not covered under the current version of the rule.

We filed multiple comment letters related to the Tier Size Proposal. Our comment letters sought to ensure that, given the unique structure of the OTCQX, OTCQB and OTC Pink marketplaces, the SEC performed adequate economic analysis prior to a blanket implementation of the Tier Size Proposal. We, along with other commenters, suggested that the SEC institute a pilot program to best determine whether the Tier Size Proposal could have a long term negative impact on trading.

The Tier Size Proposal, as amended by FINRA and approved by the SEC, calls for a one-year pilot program during which FINRA and the SEC will monitor the program's effect on trading. If the pilot program proves to have a negative impact, FINRA and the SEC have committed to a review that could result in rescinding the pilot program prior to its expiration. Due to the impact of Hurricane Sandy on normal business operations, FINRA delayed the effective date of the pilot program from November 5, 2012 to November 12, 2012, and revised the end date of the program to November 12, 2013.

We believe that the tier size reduction imposed during the pilot program may degrade overall market quality, which may, if continued, have a longer-term adverse effect on the broker-dealer subscribers to OTC Link ATS.

Decimalization

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

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

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

We believe that broker-dealers have reacted to decimalization and other market structure rules, including the limit order rules, by lowering the size of their displayed proprietary priced quotes and placing more unpriced quotes on our platform. In short, these rules have disincentivized the publication of liquidity. Since an important function of markets is to attract priced liquidity from investors and broker-dealers, the withdrawal of public quotations and decrease in displayed size diminishes market quality. Market quality would be improved by flexible tick sizes that reflect the trading characteristics of certain stocks.

Decimalization coupled with limit order rules reflect the regulatory discrimination against principal trading by dealers, as compared to agency trading by brokers. This discrimination has resulted in diminished displayed liquidity in less actively traded securities because dealers historically have been the primary source of liquidity in OTC equity securities. A more balanced regulatory approach that created a level playing field among business models would encourage beneficial competition among providers of trading services, increase liquidity, enhance market quality and generally improve the investor experience.

Regulation SCI

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

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

We expect OTC Link ATS to comply with the additional requirements imposed on an ATS that, during at least 4 out of 6 consecutive months, has more than 20% of the average daily volume of any equity security reported to FINRA. See “*Recent Business Developments – Alternative Trading System*.” Many of these requirements are incorporated in proposed Regulation SCI. However, the proposed rule also contains a number of additional requirements, such as coordinated testing with other SCI Entities, that will be costly to implement.

We have not completed our review of proposed Regulation SCI or determined whether to submit a comment letter. The effect of Regulation SCI on our financial results will depend on its final form, if adopted.

Products and services

We generally derive revenues pursuant to a subscription model, whereby the significant majority of our revenues are recurring in nature. For example, once a broker-dealer decides to trade in the U.S. OTC market using our services, that broker-dealer typically continues to subscribe to our services, with different monthly user and usage levels, until it ceases to be active in the U.S. OTC market. The market data redistributors that offer our OTC market data to their subscribers, including our largest redistributors, have historically remained long-term OTC Markets Group clients. Companies that seek designation on the OTCQX marketplace do so on an annual basis. It has been our experience that once these companies have made a decision to move to OTCQX, many choose to remain with OTCQX, and a certain portion of those that choose to leave OTCQX move on to a stock exchange listing. Other OTC traded companies subscribe to our suite of Issuer Services products and services on a semi-annual or annual basis, with subscription fees paid in advance.

OTC Markets Group has three lines of business that provide a variety of products and services, including trading technologies for FINRA member broker-dealers and market information for broker-dealers, companies, investors, and market data distributors. Each of our business lines, consisting of OTC Link ATS Trading Services, Market Data Licensing, and Issuer Services, is described in detail below.

OTC Link ATS Trading Services

Our wholly-owned subsidiary, OTC Link LLC, a FINRA member broker-dealer and SEC registered ATS, operates OTC Link ATS. OTC Link ATS enables FINRA member broker-dealers to display prices, attract order flow and conduct trade negotiations in OTC traded securities. We offer a suite of quotation and trade-messaging products and services, as well as the QAP One Statement service, to broker-dealers operating as market makers, agency brokers and ATSSs, including ECNs. Providing these services is fundamental to our business model.

Broker-dealers pay us monthly license, subscription, and connectivity fees to use OTC Link ATS. Our OTC Dealer® application provides broker-dealers a user interface to view and submit quotes and communicate with each other via OTC Link ATS. OTC Link ATS delivers trade negotiation messages electronically, allowing subscribers to execute, negotiate, or decline trade messages. Our OTC Link ATS Trading Services business made up approximately 33% and 36% of our gross revenues for the years ended December 31, 2012 and 2011, respectively.

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

- Control – Broker-dealer subscribers have greater control over the execution of client and proprietary orders, allowing broker-dealers to deliver a better experience to their customers and improve opportunities for best execution.
- Cost – We provide cost-effective connectivity and communication to the equity trading process. Broker-dealers can leverage their substantial investment in internal systems infrastructures, originally designed to trade NASDAQ and NYSE securities, to trade OTCQX, OTCQB and OTC Pink securities. This allows broker-dealers to avoid the costs of routing

orders through intermediaries that charge per share fees, such as stock exchanges or ECNs. Since broker-dealer subscribers are not charged per share or per transaction fees, the more transactions they are able to execute in OTCQX, OTCQB and OTC Pink securities, the lower their variable transactional costs. Moreover, the dynamic QAP access fee display and QAP One Statement factoring service allow our broker-dealer subscribers to efficiently and effectively operate in the access fee environment created by FINRA Rule 6450.

- Capital – Using their ability to control the trading process while using our OTC Link ATS Trading Services products, broker-dealer subscribers have increased opportunities to efficiently employ capital by providing liquidity through facilitating customer orders or trading with competitors on a proprietary basis.

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

Our broker-dealer subscribers pay variable usage fees to (i) publish quotes and (ii) communicate and negotiate with counterparties on OTC Link ATS. Monthly OTC Link position fees are based on the number of daily priced and un-priced quote positions, with tiered pricing arrangements based on volume. Monthly OTC Link message fees are based on the daily number of priced and un-priced securities on OTC Link ATS for which messages are sent or received, with tiered pricing arrangements based on volume. Our daily messaging fee allows subscribers to send and receive an unlimited number of messages in a security on that day. We do not currently charge fees for quotes of any securities that are listed on NYSE, NYSE Amex Equities, or NASDAQ. Fees for use of the OTC Dealer application are based on the number of authorized users per subscriber and are discounted in graduated amounts in relation to total users per subscriber.

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

For market participants that do not make active markets in securities on our marketplaces, OTC Link ATS also offers OTCQuote®, a web-based, real time, view-only quote service designed for agency traders, institutional investors, compliance officers and regulators that need to stay abreast of market activity in OTCQX, OTCQB, OTC Pink and FINRA OTC Bulletin Board securities.

As of December 31, 2012, over 130 broker-dealers subscribed to our OTC Link ATS Trading Services, enabling them to post quotes and/or communicate via our OTC Link platform.

Market Data Licensing

OTC Markets Group provides our subscribers with access to the extensive market data, company data and security information we collect through our OTC Link ATS Trading Services and Issuer Services business lines. Our market data includes real-time, end-of-day, historical quotation and trading data, company financial data, security master data and corporate reference data for securities traded on our marketplaces.

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 subscriber rates, through direct connectivity and third-party market data redistributors/OMS. Depending on the license type, subscribers may distribute the market data on an internal-only basis, to clients, or to the public. We generate a majority of our market data revenues from sales through market data redistributors, including Bloomberg, Interactive Data Corporation, and Fidessa. At December 31, 2012, 54 market data distributors were disseminating our market data to subscribers, and increase of 7 distributors from 47 at December 31, 2011.

In December 2011, we entered into agreements to have our market data distributed through NYSE Technologies' SuperFeed and NASDAQ UltraFeed data feeds, which allows for the continued growth of our market data distribution network. Certain of our market data license agreements include redistribution fees and rebates.

We continue to derive a significant amount of our market data revenues from historical data, including the End-of-Day Pricing Service, for which customers generally pay monthly subscription fees. For the years ended December 31, 2012 and 2011, our Market Data Licensing business made up approximately 39% and 40% of our gross revenues, respectively.

Our Market Data Licensing services include:

- *OTC Markets Level 1+* - Real-time bid and offer price information and aggregate size information at each bid or offer price level. This license includes information regarding trades negotiated by broker-dealers via OTC Link ATS.
- *OTC Markets Level 2+* - Real-time individual bid and offer prices, size information, market participant identifiers and contact information. This license includes information regarding trades negotiated by broker-dealers via OTC Link ATS.
- *Real-Time Reference Prices* – Real-time inside bid and offer prices. Size and market participant information is not available with this license. OTC Link ATS trade information is included in this license.
- Internal System Application Licenses – Real-time price, size and market participant (Level 1 and Level 2) data for use by a software application only.
- End of Day Pricing Licenses – End of day bid and ask quotations for valuation, research and analysis.
- Security & Company Data Licenses – Security and company attribute data for compliance, research and analysis.

Issuer Services

OTC Markets Group offers services to companies that are designed to create better informed and more efficient trading by fostering greater availability of company disclosure, promoting price transparency, facilitating communication, demonstrating compliance and mitigating risk. We operate OTCQX, The Best Marketplace with Qualified Companies, and offer a suite of premium services including the OTC Disclosure & News Service®, Real-Time Level 2 Quote Display and Blue Sky Monitoring Service. For the years ended December 31, 2012 and 2011, our Issuer Services business made up approximately 28% and 24%, respectively, of our gross revenues.

The securities traded on the OTCQX marketplace are limited to qualified companies that meet our highest qualitative and quantitative financial standards and that provide high quality current

disclosure to their investors. The OTCQB Venture Stage Marketplace with U.S. Reporting Companies and the OTC Pink Open Marketplace with Variable Reporting Companies represent a diverse group of companies with a variable level of financial strength, disclosure availability, and management quality. These marketplaces span all major sectors and industries, and are characterized by market capitalization levels ranging from micro-cap start-ups to large-cap multi-national companies.

In contrast to securities listed on U.S. stock exchanges, securities may trade on our marketplaces whether or not they are registered with the SEC. There are three ways that issuers of securities traded on our marketplaces can provide disclosure to investors:

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

OTCQX - The Best Marketplace with Qualified Companies

The OTCQX marketplace provides the best-informed and most efficient trading for shares and ADRs of leading U.S. and global companies. Investor-focused companies use the cost effective OTCQX marketplace to provide their investors with informed and efficient U.S. public trading without the complexity of a stock exchange listing.

To qualify for OTCQX, companies must be sponsored by a professional third-party advisor, meet minimum financial, disclosure and qualitative standards, pay annual fees, and continue to meet the requirements of our OTCQX Rules on a going-forward basis.

All OTCQX companies receive a suite of our premium services, including the OTC Disclosure & News Service, Real-Time Level 2 Quote Display, and Blue Sky Monitoring Service. Companies on the OTCQX marketplace must meet certain Blue Sky compliance requirements, which means that OTCQX stocks generally may be lawfully traded in more states than securities that do not qualify for OTCQX.

The OTCQX marketplace creates the best trading experience for investors by combining high-quality companies with the widespread public availability of high-quality company disclosure and high-quality market information. We believe that less than 20% of all companies on our OTCQB and OTC Pink marketplaces are currently able to meet the minimum financial and qualitative standards to qualify for trading on OTCQX.

The OTCQX marketplace is divided into OTCQX U.S. for U.S. companies and OTCQX International for non-U.S. companies. Currently, a majority of OTCQX companies are on OTCQX International. The OTCQX International marketplace is targeted towards (i) large non-U.S. companies that meet stringent home country listing standards of a qualified non-U.S. stock exchange and do not see the value of taking on the burdens of meeting multiple regulatory,

compliance, disclosure, and accounting standards, and (ii) non-U.S. emerging growth companies that are listed on a qualified non-U.S. stock exchange and may be working towards a NASDAQ or NYSE listing, but are not yet ready to support the management resources, operational complexity and cost burdens of meeting two different regulatory, compliance, disclosure, and accounting standards.

OTCQX offers companies a choice of disclosure standards to make their financial and operating information publicly available in the most efficient manner. SEC registered companies must be current in their SEC reporting to be compliant with the U.S. Reporting Standard. U.S. companies that are exempt from SEC registration, usually because they do not meet thresholds for mandatory SEC registration under the JOBS Act (2,000 holders of record or 500 non-accredited holders of record), must make appropriate disclosures as required by following OTC Markets Group's Alternative Reporting Standard using the OTCQX U.S. Disclosure Guidelines. Non-U.S. companies that are exempt from SEC registration must be listed on a qualified non-U.S. stock exchange and compliant with the International Information Standard under SEC Rule 12g3-2b by making the home country disclosure publicly available.

The Alternative Reporting Standard provides comprehensive public disclosure for investors without imposing the complexity of SEC reporting requirements that are designed for large corporations. The International Information Standard allows companies to efficiently provide their current disclosure and financial reports to investors trading through U.S. broker-dealers without the complexity of fulfilling duplicative SEC reporting requirements in addition to their home country disclosure obligations.

Within OTCQX there are elite tiers separating the largest and most liquid companies (OTCQX U.S. Premier® and OTCQX International Premier®) from smaller, growth companies. Securities traded on the OTCQX marketplace are identified by an icon designating that they are qualified for trading on OTCQX and indicating whether they have qualified for a Premier tier.

All U.S. domiciled companies qualified for OTCQX U.S. are required to appoint and retain a Designated Advisor for Disclosure, or "DAD," while companies trading on OTCQX International must appoint a Principal American Liaison, or "PAL." Both DADs and PALs are sophisticated securities professionals, proficient with respect to the disclosure requirements of U.S. securities law and compensated directly by the OTCQX-traded company. Prospective DADs must submit an application to OTC Markets Group to show evidence that the firm is qualified to be an OTCQX advisor. DAD eligibility is limited to reputable securities attorneys or to FINRA-member investment banking firms. OTC Markets Group believes that the use of DADs and PALs builds trust in OTCQX on the part of investors, broker-dealers and other OTC market participants. The DAD or PAL is required to provide a professional third-party review, but not affirmation, of a company's initial application and disclosure statement and periodically review the ongoing disclosure provided by OTCQX companies. In particular, a DAD undertakes a review to confirm that the company meets its obligations under the OTCQX Rules. Likewise, a PAL conducts a review of the OTCQX International company's compliance with the OTCQX Rules for International Companies, and checks that the company has posted on the OTC Disclosure & News Service all of the "home country" information required under Rule 12g3-2(b).

By relying on a professional sponsor that is independent of OTC Markets Group, the OTCQX community-based DAD and PAL qualification process has natural checks and balances to accomplish quality control and compliance goals, which would ordinarily be the responsibility of a stock exchange listing department, in an open and efficient manner. We believe that DADs and PALs have reputational and financial incentives to carry out their roles with integrity, and that they play a critical role in building trust in the quality of the OTCQX marketplace.

We believe that OTCQX provides an innovative solution to meet the core marketplace needs of many U.S. and global companies. By creating the public information availability and market data connectivity for investors to intelligently analyze, value and trade OTCQX securities through any broker, companies can increase their visibility, enhance their liquidity, maximize their valuations, access capital and clearly convey their reputations to investors and their wider stakeholder community of customers, employees and suppliers.

OTC Markets Group believes that the quality, strength, and reputations of the companies that have chosen to qualify their securities for OTCQX, and the community of DADs and PALs that sponsor these companies, enhance the trust and credibility of the OTCQX marketplace with companies and investors. Current OTCQX companies include Allianz SE, the Germany-based insurance and asset management company; Computer Services, Inc., the Kentucky-based provider of software and services to over 3,000 banks; Organovo Holdings, Inc., the California-based biotechnology company; Roche Holding Ltd., the Switzerland-based pharmaceuticals company; and Wal-Mart de Mexico S.A.B. de C.V., the Mexico-based operator of retail chain stores in Mexico.

As of December 31, 2012, 400 companies, comprising 44 U.S. companies and 356 international companies, had qualified their securities for OTCQX.

OTCQB - The Venture Stage Marketplace

The OTCQB marketplace helps investors easily identify companies that report to the SEC or a U.S. banking or insurance regulator, and that are currently in compliance with their respective disclosure obligations. The OTCQB marketplace includes securities of smaller or developing companies that may currently be unable to qualify for the OTCQX marketplace. OTCQB includes securities quoted solely on OTC Link ATS as well as those dually quoted on OTC Link ATS and the FINRA OTC Bulletin Board. Securities in the OTCQB marketplace are identified by an icon that says "OTCQB – U.S. Reporting."

OTC Pink – The Open Marketplace

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

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

OTC Disclosure & News Service for OTCQX, OTCQB, OTC Pink and FINRA OTC Bulletin Board Quoted Securities

The OTC Disclosure & News Service provides a simple and efficient way for OTC companies to communicate with the marketplace and demonstrate their compliance with securities laws. Accessed through the www.otciq.com secure web-based portal, the OTC Disclosure & News Service permits companies to post financial reports, news releases, and other disclosure documents on www.otcmarkets.com and, for OTCQX companies, www.otcqx.com. The OTC Disclosure & News Service also serves as a document retention system, as all documents submitted through the service are permanently stored and readily available to investors, regulators, and market professionals. The OTC Disclosure & News Service allows companies to ensure that their information is widely distributed and easily accessible. We provide a feed including company financial reports and news releases to market data distributors, financial databases and major financial portals. In June 2012, we announced that historical financial information posted through the OTC Disclosure & News Service may now be distributed in XBRL and other easily consumable formats to major financial portals, allowing investors to interact with company data when they analyze, value and trade securities.

Real-Time Level 2 Quote Display Service

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

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

Blue Sky Monitoring Service

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

Website Advertising

The depth and breadth of market data and trading-related information offered on our websites attracts marketplace participants to advertise on www.otcmarkets.com. Financial services firms, including investment firms, online brokerage firms and fund managers, may advertise on www.otcmarkets.com to promote investor awareness of their products and services.

Websites

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

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

Technology

OTC Markets Group is in large part a technology company. Our IT infrastructure is the foundation of our business-critical applications and ensures its reliability, high-availability and scalability in order to support the expansion of our systems as well as the growth of our subscribers and performance.

The IT team works in conjunction with our business lines to deliver products and services that are finely attuned to the needs of our customers. Performance, functional depth, and the usability of our products and services drive our technology decisions and product direction.

The product development team builds and maintains all products in-house, which allows us to be nimble in delivering new functionality while maintaining a high level of quality. We consistently roll out new pieces of business functionality while simultaneously focusing on improving the scalability and stability of our systems. We anticipate that this year we will continue to invest in building out our internal support systems, such as our continuous integration environment, our automated regression and load testing frameworks, and our deployment and administration tools.

The underlying systems are built around a common information architecture, shared database design, reusable components, best-of-breed architectural frameworks, and standard design patterns and implementation. These systems facilitate rapid deployment and introduction of new services, as well as lower overall development, operational, and maintenance costs. The standardization of information and technology in our back-end systems and our adherence to reusable components streamline the development and on-going operation of our suite of products and services and reduce time-to-market. As a result, we are able to distribute the cost of developing and delivering our products and services across the full line of products and services we offer to our customers. Moreover, we are able to focus our resources on building new functionality to deliver to our entire customer base, rather than on maintaining an infrastructure to support our customers' distinct applications.

Our stable of services include quoting and trade messaging via OTC Link ATS, desktop applications for traders, incoming and outgoing market data feeds, multiple website portals, and a number of other data related products. We focus our development efforts on improving and enhancing the features, functionality, and security of our existing service offerings, as well as developing new proprietary products and services. Because of our common, multi-tenant application architecture, we are able to provide all of our customers with a service based on a single version of our application. Consequently, we are able to upgrade all of the web-based services used by our subscribers at the same time with each release. As a result, with the exception of the OTC Dealer Application that resides on each trader's desktop, we do not have to maintain multiple versions of our applications.

Contracts

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

Legal Proceedings

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

Risk Factors

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

Risks Relating to our Business

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

The securities markets have faced increasing governmental and public scrutiny and significant regulatory changes in response to recent events in the financial markets. We believe that there will continue to be increased demand for more regulation and stricter oversight of the financial markets, including regulations that affect the OTC markets and our business. We cannot predict the nature of these potential changes in regulation or their impact on our business. Our ability to comply with new laws and regulations will, among other things, depend on our ability to establish and maintain appropriate systems and procedures, as well as our ability to attract and retain qualified personnel. Our subscribers also operate in a highly regulated industry. The SEC, FINRA or other regulatory authorities could impose regulatory changes that could adversely affect the ability of our subscribers to use our services or could result in reduced demand for our services. For example, the JOBS Act provisions regarding Emerging Growth Companies could reduce the incentive for companies to use our services. (See “Recent Regulatory Developments—Jumpstart Our Business Startups Act (“JOBS Act”)).

Our wholly-owned subsidiary, OTC Link LLC, operates OTC Link ATS and is registered with FINRA as a broker-dealer and with the SEC as an ATS. Changes to FINRA’s regulation of broker-dealers or the SEC’s regulation of ATS could significantly increase our costs relating to regulatory compliance or cause us to be subject to penalties for non-compliance. Subscribers to our OTC Link ATS Trading Services are also FINRA member broker-dealers. Changes in FINRA’s regulation of broker-dealers may adversely impact our subscribers, causing them to terminate their use of our service or cease trading OTCQX, OTCQB and OTC Pink securities.

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

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

Demand for our OTCQB venture stage marketplace, which is for companies that are current in their reporting obligations to the SEC or a U.S. banking or insurance regulator but do not qualify

for OTCQX or for listing on U.S. stock exchanges, is greater due to the quantitative requirements imposed by U.S. stock exchanges. However, NASDAQ has announced the creation of a marketplace similar to OTCQB, called the “BX Venture Market”. Although the BX Venture Market has not yet launched, it could reduce the demand for our OTCQB marketplace because we are currently seeking to offer services to the same group of companies that NASDAQ is targeting. The BX Venture Market may also compete with our OTCQX U.S. marketplace for SEC registered companies. If the BX Venture Market is successful, or if other U.S. stock exchanges establish similar marketplaces, there may be less demand for our OTCQB services and greater competition to bring SEC registered companies to the OTCQX marketplace.

Our Issuer Services business targets companies choosing to deregister with the SEC. In recent years, the JOBS Act and other SEC initiatives have had the effect of causing issuers of registered securities to terminate their registration. Any regulatory change that would encourage or require more companies to undertake SEC registration and reverse the deregistration trend would likely reduce the demand for our OTC Disclosure & News Service and our OTCQX marketplace, but may increase the demand for inclusion on our OTCQB marketplace. If U.S. stock exchanges are permitted to create listing markets, such as the BX Venture Market or a specialized market for smaller companies, broker-dealers could seek to quote companies on those markets, rather than on our OTCQB marketplace. In addition, companies could seek alternative trading venues to our OTCQX marketplace, causing our business to be adversely affected.

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

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

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

Our Market Data Licensing business may be affected by the ongoing weak economic conditions. Continued reductions in trading activity could lower the value of our market data. In addition, demand for our market data may decline due to, among other things, a decline in

employment throughout the financial services industry, which is associated with a decline in trading activity. If the employment decline were to continue, there would be fewer users of our products and services and remaining customers may seek to reduce costs by using less of them.

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

OTC Link ATS is subject to FINRA and SEC oversight.

Our wholly-owned subsidiary, OTC Link LLC, is a FINRA member broker-dealer and an SEC registered ATS. OTC Link LLC operates the OTC Link ATS trading system. Regulation of OTC Link ATS as an ATS increases our costs, including the cost of providing trading services. Regulatory compliance requires substantial time and resources, which make it more costly to operate our OTC Link ATS Trading Services business. The operation of OTC Link ATS will also be subject to time-consuming periodic examinations by the SEC and FINRA. See “*Recent Business Developments – Alternative Trading System.*”

Trading automation presents challenges to our business model.

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

The securities market business is highly competitive.

The industry in which we operate is highly competitive. We face formidable competition in every aspect of our business. We compete with other market participants, including other SEC-registered ATS's, in a variety of ways, including the cost of products and services, the functionality, ease of use and performance of trading systems, the range of products and services offered to customers, technological innovation, and reputation. We face competition in each of our lines of business. There is the possibility that new ATS's could emerge that would further increase the competition in our industry. There is also the possibility that U.S. stock exchanges could create listing venues that compete with our OTCQB and OTCQX marketplaces, such as NASDAQ's BX Venture market. (See the discussion on the risks related to “*Regulatory Changes,*” above.) It is also possible that currently existing private securities markets, such as SecondMarket and SharesPost, could alter their business models in an attempt to compete more directly with us, or that SecondMarkets' current effort to develop a market for the trading of community banks, of which there are approximately 700 on our OTCQB marketplace, will have an adverse effect on our business. The recently announced planned NASDAQ Private Market, a joint venture between NASDAQ and SharePost, may also prove to be a competitor if and when it is launched. To continue growing, we may be forced to enter into more competitive markets. If we fail to compete successfully with existing or new OTC market participants, our business, financial condition, and operating results may be adversely affected. For additional information on the competitive environment in which we operate, see the section on “*Competition*” below.

The issuer services business is highly competitive.

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

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

A significant percentage of our OTCQX companies are based in Canada, and many of those companies are engaged in metal mining or oil and gas businesses. The recent downturn in those industries may continue to adversely affect the operating results of those companies, causing them to no longer qualify for OTCQX or to choose to withdraw from OTCQX to reduce costs. A downturn in the general Canadian economy may also adversely affect the operating results of Canadian OTCQX companies, causing them to no longer qualify for, or choose to withdraw from, OTCQX. The voluntary or involuntary withdrawal from OTCQX by these companies could adversely affect our OTCQX brand as well as our financial position and results of operations.

OTCQX companies are not required to register with the SEC and this may cause some investors to choose not to invest in OTCQX securities.

OTCQX companies are not required to register with the SEC or file annual, quarterly, or current reports or proxy statements with the SEC. While OTCQX companies can choose to register with the SEC based on their investor base or capital raising needs, those that do not register may find some investors reluctant to invest in their securities.

OTCQX is not a national securities exchange and this may limit the pool of available investors for OTCQX companies.

OTCQX is not a national securities exchange and some investors may only invest in securities listed on a national securities exchange. Moreover, many states require securities not listed on a national securities exchange to comply with state Blue Sky laws before such securities may be traded within the state. OTCQX companies are required to comply with the “manual exemption,” which permits secondary trading in most states. OTCQX companies may also decide whether to comply with the Blue Sky laws and exemptions of states that do not accept the manual exemption. Nonetheless, the need for Blue Sky compliance to encourage the development of an active trading market may cause other companies to be reluctant to qualify for OTCQX.

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

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

the DAD/PAL community could erode investor confidence in OTCQX or affected OTCQX companies.

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

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

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

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

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

The markets in which we operate are characterized by rapid technological development, frequent enhancements to existing products and services, the introduction of new services and products, and rapidly changing customer demands. We have made significant investments in the development of our technology infrastructure, including our quotation platform. Although investments in technology are carefully scrutinized for value to the enterprise, there can be no assurance that we will generate an acceptable return on such investments. Ultimately, we may not realize any, or may realize only small amounts of, revenues for these technological improvements.

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

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

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

During 2012, technology-related failures impacted several prominent securities industry participants. These failures are likely to result in costly new regulations for trading systems, which may include OTC Link ATS. If broker-dealer subscribers to OTC Link ATS undergo significant systems failures they may cease to use our services, and those failures may erode investor confidence in the securities trading industry generally, which could adversely affect our business, financial condition and operating results.

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

Our business depends on the continuing operation of our information technology and communications systems. If these systems cannot accommodate user demand or otherwise fail to perform, we could experience disruptions in service, slower response times, and delays in the introduction of new or updated products and services. Interruptions in service and delays could reduce revenues and profits, and our brand could be damaged if people believe our system is unreliable.

We have experienced systems failures in the past, and systems failures may occur in the future. Failures could be caused by, among other things, unusually heavy use of our systems, insufficient capacity or network bandwidth, power or telecommunications failures, natural disasters, hardware or software malfunctions or defects, and computer viruses. We also rely on third parties for systems support. Any interruption in these third-party services could be disruptive to our business. The steps we have taken to increase the reliability and redundancy of our systems are expensive, reduce our operating margin and may not be successful in reducing the frequency or duration of unscheduled downtime.

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

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

Among our competitive advantages are our strong reputation and brand name. We believe that our brand identity has significantly contributed to the success of our business. We also believe that maintaining and enhancing the "OTC Markets Group" brand as an innovative provider of financial information and technology services is critical to expanding our business. Our OTCQX marketplace needs to be a trusted designation associated with investment-quality companies. Our OTCQB marketplace must be associated with identification of companies that are current in their reporting obligations to the SEC or U.S. banking or insurance regulators. Our OTC Pink marketplace brand must convey high quality trading services for broker-dealers while alerting unsophisticated investors to the potential risks of speculating in OTC Pink securities. Maintaining and enhancing our brands may require us to make substantial investments and

these investments may not be successful. If we fail to promote and maintain our brands, or if we incur excessive expenses in this effort, our business, operating results, and financial condition will be materially and adversely affected. Maintaining and enhancing our brands will depend largely on our ability to be a technology leader and to continue to provide high quality products and services, which we may not do successfully.

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

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

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

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

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

Our expenses as a percentage of our revenues may be significantly different from our historical or projected rates. Our results of operations may be especially volatile because many of our operating expenses consist of fixed costs. Our fixed costs tend to magnify the impact of revenue fluctuations because even a relatively small decline in revenue may lead to a large impact on our overall operating results. Moreover, a substantial portion of our fixed operating expenses cannot be adjusted quickly or at all. Our operating expense levels are based on our expectations for future revenue.

If actual revenue is below management's expectations, our operating results would be materially and adversely affected. It is possible that operating results may fail to meet our expectations or

the expectations of stock market analysts and investors. If this happens, the market price of our common stock may be adversely affected.

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

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

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

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

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

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

Moreover, our securities are not listed on a national securities exchange. Many states require securities not listed on a national securities exchange to comply with state Blue Sky laws before such securities may be traded within the state. We avail ourselves of the Blue Sky "manual exemption" through our inclusion in S&P's Corporation Records, Market Access Program and Mergent's Mergent Industrial OTC and OTC Unlisted Manuals, and other applicable exemptions, however not all states recognize the manual exemption and there are states in which we have not qualified for an exemption. For this reason, many investors are reluctant to purchase securities in private offerings from companies that are not listed on a national securities exchange, which may make it difficult for us to raise significant capital through ordinary private offerings.

Unless we register our securities with the SEC under the Securities Act, we may not raise funds through a registered public offering. If we decide to issue securities in a registered public offering, we will also be required to register our securities under the Exchange Act and, among

other things, comply with SEC reporting requirements, which would increase our ongoing costs of operations.

We are exposed to credit risk from third parties.

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

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

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

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

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

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

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

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

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

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

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

Our stock price has been, and will likely continue to be, volatile. A variety of market and industry factors may affect the market price of our common stock, regardless of our actual operating performance. This market volatility, as well as the factors listed below, could affect the market price of our common stock, and stockholders may lose some or all of their investment:

- quarterly variations in our results of operations or the results of operations of our competitors;
- additions or departures of key personnel;
- changes in earnings estimates, investors' perceptions, recommendations by securities analysts or failure to achieve analysts' earnings estimates;
- the inability to continue to pay quarterly dividends;
- the announcement of new products or service enhancements by us or our competitors;
- developments in the financial services industry;
- regulatory changes; and
- general economic, market and political conditions and other factors.

Three of our stockholders, including our Chief Executive Officer, hold nearly 50% of our issued and outstanding capital stock.

To the best of our knowledge, as of December 31, 2012, our three largest stockholders, including our Chief Executive Officer, R. Cromwell Coulson, together own approximately 49% of the voting power of our outstanding capital stock. Since these three stockholders own a plurality of our capital stock, they will, collectively, have significant influence over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of the Company or our assets, for the foreseeable future. This concentrated control may limit the ability of other stockholders to influence corporate matters, and as a result we may take actions that our stockholders do not view as beneficial. As a result, the market price of our common stock could be adversely affected.

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

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

Our certificate of incorporation and by-laws:

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

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

Regulation

Beginning on June 1, 2012, our OTC Link ATS Trading Services business line has been operated by our wholly-owned subsidiary, OTC Link LLC. OTC Link LLC is a FINRA member broker-dealer and an SEC registered ATS. The majority of our OTC Link ATS Trading Services operations are therefore subject to regulation and periodic examinations by the SEC and FINRA. See "*Recent Business Developments – Alternative Trading System.*"

Our operation of OTC Link LLC as an ATS has not altered our existing business model or the services we provide. We have not, and do not plan to become a provider of the agency execution services provided by an ATS that operates as an ECN. While we allow only FINRA member broker-dealers to publish quotes and transmit messages on our facilities, we are not a reporting party to any trade executions that may result and we neither promulgate any rules that would apply to trades resulting from such quotes or messages nor charge any execution or share-based fees. Instead, FINRA rules apply to trades resulting from information we supply. Among other things, FINRA requires broker-dealers to comply with the firm quote rule (FINRA Rule 5220), which requires that a broker-dealer's published quotes be firm and include minimum sizes, and prohibits backing away from such quotes. FINRA's reporting rules also apply, including the requirement that broker-dealers report all transactions within 30 seconds to FINRA's OTC Reporting Facility.

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

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

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

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

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

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

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

Employees

At December 31, 2012 and 2011, OTC Markets Group had a total of 74 and 65 employees, respectively, all of whom are full-time employees. Employees are staffed in one of our three lines of business – OTC Link ATS Trading Services, Market Data Licensing and Issuer Services or one of our three support units – Product Development, IT Operations and Finance & Corporate Administration. The Product Development group designs, creates, enhances, and

releases our various suites of products and services and maintains our websites. The IT Operations group ensures operational and system efficiencies and manages our various databases, and the Finance and Administration group is responsible for our finance, compliance, legal, corporate marketing and human resources functions.

2013 Outlook

- As part of our growth and development, we will continue to increase our investment in our platform, marketing, and people.
- We plan to expand the breadth and types of securities quoted on OTC Link ATS and focus on the widespread distribution of our market data.
- We will continue our educational effort to enhance broker-dealer, company and investor understanding of the evolution of OTC Markets Group, including our FINRA and SEC regulated OTC Link ATS.
- As part of our efforts to continue the trend of year over year revenue growth within our Issuer Services business we plan to capitalize on the success of OTCQX so that more companies use OTCQX as a key part of their U.S. investor relations strategy. We also plan to broaden our marketing efforts to increase subscriptions to our premium services from OTCQB and OTC Pink traded companies that do not qualify for OTCQX.
- We plan to continue implementing significant upgrades to our IT architecture and infrastructure, including an upgrade of our data center. We expect this investment in our technology to allow us to leverage our increased bandwidth to complement the growth of our core business lines, and ensure that the quality of our service delivery and customer satisfaction remains high. These improvements will also allow our business lines to continue to develop and enhance current services through a more scalable network.
- We will continue to focus on meeting all OTC Link ATS regulatory obligations. We believe that proposed regulatory changes, including the JOBS Act, may also impact our current and future business plans. We will continue to participate in the regulatory process through communication with the SEC, FINRA, and other regulators as well as submitting comment letters regarding rule amendments and interpretations.
- We expect that operating expense growth will be primarily concentrated in compensation and benefits. Based on business and strategic requirements, we expect to continue to offer competitive compensation packages to attract additional employees and retain existing employees.

There can be no assurance that any of our strategic initiatives will be successful. Moreover, the environment in which we operate is highly regulated and the pace of regulatory change in recent years has been dramatic. Regulatory changes could alter the way we do business, which might adversely affect our profitability.

Competition

OTC Link ATS Trading Services

We compete with U.S. stock exchanges such as NASDAQ, and NYSE because a portion of the companies quoted on OTC Link ATS may also qualify for a stock exchange listing. The SEC's regulation of stock exchanges has been in a state of flux for several years. The JOBS Act includes provisions aimed at making it easier for emerging companies to achieve a stock exchange listing. Stock exchange regulation may also be affected by recent high-profile stock

exchange acquisitions and the potential consolidation of global stock exchanges. Any regulatory change that would better enable registered stock exchanges to compete with us for the quotation of international and other non-SEC registered equity securities or that would limit our ability to provide our services can be expected to have a material adverse effect on our business. In particular, we benefit from current SEC regulations that prevent a U.S. stock exchange from listing the securities of non-SEC registered foreign companies. We would face increased competition for the quotation of OTC equity securities if U.S. stock exchanges were permitted to list or quote non-SEC registered foreign securities.

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

Finally, we also encounter limited competition because broker-dealers that quote the securities on our marketplaces are not required to publish quotes in an interdealer quotation system, such as the system we provide, and may choose to trade these securities on the "Grey Market," which represents securities that are not listed, traded or quoted on any stock exchange or interdealer quotation system.

Market Data Licensing

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

Our broad base of market data revenues allows us to offer competitive pricing for OTC Link ATS Trading Services to broker-dealer subscribers and support the costs of our IT development, marketing efforts and corporate infrastructure. In the event that competitive price pressure or other factors cause a reduction in market data revenues, we may be forced to charge more for our OTC Link ATS Trading Services or accept a reduction of operating profits.

Issuer Services

On May 6, 2011, the SEC approved the creation of the "BX Venture Market," a proposed listing market for OTC equity securities to be operated by NASDAQ OMX Group, Inc. Companies listed on the BX Venture Market would be SEC registered and current in their reporting, and meet corporate governance standards similar to the listing requirements on The NASDAQ Stock Market. Companies listed on the BX Venture Market would also be subject to quantitative listing standards that will be less stringent than those imposed on NASDAQ listed companies.

NASDAQ OMX Group, Inc. initially announced that the BX Venture Market was expected to launch during 2012, but the development of the BX Venture Market is on hold. It is not possible

at this time to determine the extent, if any, to which competition from the BX Venture Market would affect our financial results.

If launched we would expect the BX Venture Market to compete for companies traded on our OTCQX U.S. and OTCQB marketplaces. The OTCQX U.S. marketplace is available to SEC reporting and non-reporting companies, but the BX Venture Market will be restricted only to SEC reporting companies. The BX Venture Market will not compete with the OTCQX International marketplace. The OTCQX marketplace offers the added benefit of professional third-party review of companies' disclosure statements by DADs and PALs, and offers companies an opportunity to distinguish their compliance with federal disclosure requirements. The BX Venture Market has no similar requirement. In our marketplaces, this review is especially important to help ensure the accuracy and quality of company disclosure.

It is possible that currently existing private securities markets, such as SecondMarket, SharesPost and the recent announcement of a planned NASDAQ Private Market, could alter their business models in an attempt to compete with our Issuer Services. SecondMarket is currently attempting to develop a trading market for community banks, of which there are approximately 700 on our OTCQB marketplace. We would face competition from these companies in offering any OTC Markets Group services for the trading of private company shares.

Dependence on One or a Few Major Customers

OTC Markets Group's three lines of business produce a diverse offering of products and services. The varied nature of our revenue streams generally prevents us from material reliance on a small number of major customers. However, our Market Data Licensing business utilizes third party data redistributors to bring our data to numerous end users and the public dissemination of our market data is somewhat concentrated among certain major redistribution partners. In 2012, our relationship with these partners accounted for the following:

Third-Party Distributor	Percentage of Market Data Licensing Gross Revenues	Percentage of Gross Revenues
Bloomberg	34%	13%
Interactive Data Corporation	14%	5%

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

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

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

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

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

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

On March 5, 2012 OTC Link LLC became a broker-dealer member of FINRA, and on June 1, 2012 it began operating as an SEC registered ATS. See "*Recent Business Developments – Alternative Trading System.*" FINRA membership and SEC registration subject our OTC Link ATS Trading Services to FINRA and SEC rules. At the present time, we believe all of the products and services we will offer through OTC Link ATS fully comply with FINRA and SEC rules, but our status as an ATS and FINRA member may delay or restrict the introduction of future products and services and our ability to market them.

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

Many OTCQX and OTC Pink securities are sold in reliance on Rule 144. Rule 144 requires that prior to a sale of the securities of a non-SEC registered company by an affiliate of the company, the information specified by Rule 15c2-11 must be made "publicly available." OTC Markets Group has asked the SEC to issue a formal ruling indicating that information posted on the OTC Disclosure & News Service satisfies Rule 144's "publicly available" requirement. We believe a favorable ruling by the SEC would further validate us as leading central information provider for the OTC markets.

The Nature and Extent of the Issuer's Facilities

OTC Markets Group's corporate headquarters is located at 304 Hudson Street, New York, NY 10013, and is composed of approximately 12,500 square feet of general office space on the second floor and approximately 12,500 square feet of conference, meeting, and reception space that comprises the OTCQX Market Center on the third floor. We lease all of our space in this building. The lease expires in 2017 and the annual rental expense is approximately \$950 thousand.

During 2011, the Company commenced a lease agreement for our Washington, D.C. office, located at NW 100 M Street, Washington, D.C., which is approximately 4,000 square feet of general office space. The lease expires in 2016 and annual rent expense is approximately \$200 thousand.

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

PART D. Management Structure and Financial Information

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

A. Officers and Directors

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

R. Cromwell Coulson is President, CEO and a Director of OTC Markets Group. In 1997, Cromwell led a group of investors in acquiring OTC Markets Group's predecessor business, the National Quotation Bureau (NQB). Cromwell led the transformation of what was an opaque and inefficient market into a technology-driven, Open, Transparent and Connected financial marketplace platform. Today, OTC Markets Group operates the OTCQX, OTCQB and OTC Pink marketplaces for over 10,000 securities. OTC Markets Group's marketplaces have vastly increased the amount and quality of information available for investors and improved the efficiency of trading. Prior to the acquisition of NQB, Cromwell was an institutional trader and portfolio manager specializing in distressed and value-oriented investments at Carr Securities Corporation, an OTC market maker. Cromwell received a BBA from Southern Methodist University in Dallas, TX and graduated from the Owner/President Management Program at Harvard Business School. Cromwell is 46 years of age.

Wendy Fraulo, Chief Financial Officer

Wendy Fraulo joined OTC Markets Group as CFO in July 2011. Wendy has over 13 years of public accounting experience. Previously, Wendy was a Senior Manager in M&A Transaction Services at Deloitte & Touche LLP, working with major private equity firms and strategic buyers and Deloitte's AERS practice, where the majority of her audit clients were large SEC registrants. Wendy holds a Bachelor of Science from Fairfield University. She is a CPA in New York and Massachusetts and is a member of the AICPA and the New York State Society of CPA's. Wendy is 35 years of age.

Matthew Fuchs, Managing Director - Market Data and Strategy

Matthew Fuchs joined OTC Markets Group in 2007 to help build out the growing product development team. He has over 13 years of experience in the financial technology industry. Prior to OTC Markets Group, he served as the Director of Product Development for The National Research Exchange (NRE), an equity research start-up. Before NRE he was a Manager/Technology Consultant for Bearing Point and Arthur Andersen. Matthew received a BA from Columbia University. Matthew is 37 years of age.

Lisabeth Heese, Managing Director - Issuer and Information Services

Lisabeth (Liz) Heese joined OTC Markets Group in 2004 as the Head of Issuer and Information Services. Since then, she has built a team responsible for collecting and maintaining market data for over 10,000 companies; development, sales and support of company-related products and services; and monitoring company compliance with OTC Markets Group's policies and procedures. Prior to joining OTC Markets Group, Liz spent 11 years at NASDAQ, serving as a Product Manager in the Trading and Market Services Division for what is currently the FINRA OTC Bulletin Board. Liz received a BA degree from American University. Liz is 43 years of age.

Michael Modeski, President, OTC Link LLC

Mike Modeski joined OTC Markets Group in 2011. Mike has over 16 years of experience in the financial markets, with a focus on the OTC markets. Previously, Mike served as the Director of Broker-Dealer Execution Services and Sales at Citigroup and the Director of Execution Services at Lava Technology, a division of Citigroup. Before working at Citigroup, Mike was the Director of OTC Equities at FINRA, and held several management positions at Pershing. Mike graduated from Lehigh University with a Bachelor of Science in Finance in 1995. Mike is a member of the Board of Directors of the Security Traders Association of New York (STANY). Mike is 41 years of age.

Timothy Ryan, Managing Director - Sales and Business Development

Timothy Ryan has been with OTC Markets Group since 2005, where he heads up new business development and sales for the corporate clients business. Tim has been involved in building better financial marketplaces for most of his professional career. Prior to joining OTC Markets Group, Tim was with NASDAQ OMX and Bloomberg BNA focusing on new product development, marketing, and sales. Tim holds a BA from Stonehill College in Massachusetts and is a frequent speaker at conferences and seminars on topical issues related to the securities industry. Tim is 42 years of age.

Emilia Sherifova, Chief Information Officer

Emilia Sherifova joined OTC Markets Group in 2000 and oversees all aspects of technology development and IT infrastructure. During her tenure, Emilia has been instrumental in transforming OTC Markets Group into an electronic marketplace. Prior to joining OTC Markets Group, Emilia held technology management positions at several large organizations, including the Soros Foundation and the American Civil Liberties Union. She was a founding member of an Internet start-up and worked at Andersen Consulting. Emilia holds a graduate degree with concentration in International Business and Finance from Columbia University. Emilia is 38 years of age.

Daniel Zinn, General Counsel

Dan Zinn joined OTC Markets Group as General Counsel and Corporate Secretary in November of 2010. Prior to joining OTC Markets Group, he was a partner at The Nelson Law Firm, LLC, outside counsel to the Company. Dan also previously worked in the corporate office of the American International Group (AIG). He received a BS degree from the Pennsylvania State University and earned his JD at the Benjamin N. Cardozo School of Law in New York City, where he served as Associate Editor of the Cardozo Law Review. Dan is a member of the New York State and American Bar Associations. Dan is 35 years of age.

Gary Baddeley, Director

Gary Baddeley has served as CEO of The Disinformation Company Ltd., a diversified entertainment company, since 1997. The Disinformation Company's core businesses are home entertainment and electronic publishing. Previously, Gary served for two years as Vice President and General Manager of a leading dance music label, Robbins Entertainment. From 1990 to 1996 Gary was an attorney at Phillips Nizer LLP in New York City, specializing in representation of clients in the music and television industries. Gary holds a JD from New York University School of Law and a B.Sc. from Kingston University. Mr. Baddeley is 47 years of age.

Louisa Serene Schneider, Director

Louisa Serene Schneider is the Senior Director for the Heilbrunn Center for Graham & Dodd Investing at Columbia Business School, responsible for all operational aspects of the school's value investing activities including maintaining and developing new programs and initiatives surrounding the Graham & Dodd tradition at Columbia. Ms. Serene Schneider has taught in Columbia's Executive Education course on Value Investing since 2010. Prior to her work at Columbia, from 2000 to 2008 Ms. Serene Schneider was employed by Morgan Stanley and JPMorgan in several departments, including Mergers & Acquisitions, Fixed Income Research, and Trading. Ms. Serene Schneider received a B.S. from Dartmouth College in Political Science and French and an M.B.A. from Columbia Business School. Ms. Schneider is 36 years of age.

Sigurdur Petur Snorrason, Director

Sigurdur (Siggi) Petur Snorrason is currently president and principal owner of Stora Eplid ehf., a consulting firm in Iceland. Joining OTC Markets Group in 1998, Siggi was the principal designer of OTC Link, the electronic interdealer quotation, trading and messaging system. From 1998 to 2006 at OTC Markets Group, Siggi served in a number of senior capacities, including Director of Products and Services, Director of Internal Development, and Director of Trading Services. Prior to joining OTC Markets Group, Siggi was Head of Trading and Information Technology at the Iceland Stock Exchange (currently NASDAQ OMX Nordic Exchange Iceland) and Economist at the Central Bank of Iceland. Siggi holds a B.Sc. in Economics from the University of Iceland and MBA, specializing in IT Management, from Rotterdam School of Management, The Netherlands. Mr. Snorrason is 47 years of age.

Andrew Wimpfheimer, Director

Andrew Wimpfheimer has been a private investor since 2005. Mr. Wimpfheimer served as Director of AM Capital LLC from 2002 to 2005. From 1995 to 2001, Andrew was Managing Director responsible for OTC-Non-NASDAQ Trading at Knight Securities, L.P. From 1988 to 1995 he was an equity trader for Troster Singer Inc., a division of Spear, Leeds & Kellogg, Inc. From 1985 to 1988, Andrew was employed by Spear, Leeds & Kellogg Inc., where his duties included work on the NYSE, AMEX, Futures Market and Arbitrage Department, as well as general back office work. From 1980 to 1985, Andrew was a New York Stock Exchange floor clerk, trading desk employee and back office trainee for Herzfeld & Stern LLP. Mr. Wimpfheimer received his BA from Macalester College in St. Paul, Minnesota. He attended the Taft School in Watertown, Connecticut as well as the Collegiate School in New York City. Mr. Wimpfheimer is 56 years of age.

Neal Wolkoff, Director

Neal Wolkoff is a former executive of three exchanges, and an attorney focusing on futures and securities markets, exchanges, market regulation, operations and clearinghouses. Mr. Wolkoff is presently employed as Of Counsel at the firm Richardson & Patel, LLP. Mr. Wolkoff is also an independent business consultant. From 2008 to February 2012, Mr. Wolkoff was the Chief Executive Officer of ELX Futures, L.P. From 2005 to 2008, he served as Chairman and Chief Executive Officer of the American Stock Exchange (AMEX). Prior to the AMEX, Mr. Wolkoff was an executive officer at the New York Mercantile Exchange (NYMEX) from 1981 to 2003, over time serving as Acting President, Chief Operating Officer, and Senior Vice President for Regulation and Clearing. From 1980 to 1981, Mr. Wolkoff was employed as an Honors Program Trial Attorney in the Division of Enforcement of the Commodity Futures Trading Commission. In addition to his role as a non-executive director of OTC Markets Group, Mr. Wolkoff was recently

named as a non-executive director of World Gold Trust Services, the sponsor of the Exchange Traded Fund “GLD.” Mr. Wolkoff is also a member of the not-for-profit board of The Golda Och Academy in West Orange, NJ. Mr. Wolkoff received a B.A. from Columbia University and a J.D. from Boston University School of Law. Neal is a member of the Bar of the State of New York. Mr. Wolkoff is 57 years of age.

Board Memberships and Other Affiliations

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

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

Mr. Snorrason is the sole board member of Stora Eplid ehf. in Iceland.

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

Compensation of Officers and Directors

Beneficial Share Ownership of Officers and Directors as of March 1, 2013:

Name and Business Address*	Position	Shares Beneficially Owned**	Options Outstanding	Vested Options Outstanding	Note
R. Cromwell Coulson	President, Chief Executive Officer, and Director	3,413,988 Class A 130,838 Class C	0	0	(1)(2)
Wendy Fraulo	Chief Financial Officer	36,000 Class A	30,000	6,000	(3)
Matthew Fuchs	Managing Director, Market Data and Strategy	72,992 Class A	32,000	26,000	(4)
Lisabeth Heese	Managing Director, Issuer and Information Services	80,320 Class A	45,000	43,000	(5)
Michael Modeski	President, OTC Link LLC	72,500 Class A	50,000	10,000	(6)
Timothy Ryan	Managing Director, Sales and Business Development	76,562 Class A	46,000	37,600	(7)
Emilia Sherifova	Chief Information Officer	137,300 Class A	46,000	37,600	(8)
Dan Zinn	General Counsel	34,500 Class A	20,000	8,000	(9)
Gary Baddeley	Director and Audit Committee Member	118,335 Class A	0	0	
Louisa Serene Schneider	Director and Audit Committee Member	5,625 Class A	0	0	
Sigurdur Petur Snorrason	Director	123,000 Class A	0	0	
Andrew Wimpfheimer	Director and Audit Committee Chairman	385,310 Class A	0	0	(10)
Neal Wolkoff	Director	5,625 Class A	0	0	
Officers and Directors as a Group		4,562,057 Class A 130,838 Class C	269,000	168,200	

Notes:

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

** Beneficial share ownership includes vested options, options scheduled to vest within 60 days of March 1, 2013 and stock owned subject to a restricted stock agreement.

1. Includes 370,000 Class A shares held by Mr. Coulson's wife and 28,400 total shares held equally by two trusts for the benefit of Mr. Coulson's sons. Mr. Coulson disclaims beneficial ownership of these securities and this report shall not be deemed an admission that Mr. Coulson is the beneficial owner of these securities for any purpose.

2. The change in Mr. Coulson's share ownership during the reporting period reflects a grant of 687,000 shares to a family trust for the benefit of Mr. Coulson's spouse and children in December 2012, as well as a private sale of 63,500 shares to members of the Company's senior management team in July 2012. Shares purchased by senior management from Mr. Coulson are included in the beneficial ownership amounts reported in the above table.
3. Ms. Fraulo's outstanding options consist of 30,000 awarded in August 2011, at an exercise price of \$5.72, 6,000 of which are vested.
4. Mr. Fuch's outstanding options consist of (i) 20,000 awarded in November 2007, at an exercise price of \$2.76, 17,000 of which are vested, (ii) 10,000 awarded in May 2009, at an exercise price of \$2.44, 6,000 of which are vested, and (iii) 5,000 awarded in January 2010, at an exercise price of \$5.50, 3,000 of which are vested.
5. Ms. Heese's outstanding options consist of (i) 40,000 awarded in November 2007, at an exercise price of \$2.76, 40,000 of which are vested, and (ii) 5,000 awarded in January 2010, at an exercise price of \$5.50, 3,000 of which are vested.
6. Mr. Modeski's outstanding options consist of 50,000 awarded in April 2011, at an exercise price of \$6.28, 10,000 of which are vested and an additional 10,000 of which are scheduled to vest within 60 days of March 1, 2013.
7. Mr. Ryan's outstanding options consist of: (i) 25,000 awarded in November 2007, at an exercise price of \$2.76, 25,000 of which are vested; (ii) 15,000 awarded in May 2009, at an exercise price of \$2.44, 9,000 of which are vested, and (iii) 6,000 awarded in January 2010, at an exercise price of \$5.50, 3,600 of which are vested.
8. Ms. Sherifova's outstanding options consist of: (i) 30,000 awarded in November 2007, at an exercise price of \$2.76, 28,000 of which are vested; (ii) 10,000 awarded in May 2009, at an exercise price of \$2.44, 6,000 of which are vested, and (iii) 6,000 awarded in January 2010, at an exercise price of \$5.50, 3,600 of which are vested.
9. Mr. Zinn's outstanding options consist of 20,000 awarded in November 2010, at an exercise price of \$6.88, 8,000 of which are vested.
10. Includes 377,810 Class A shares held by the Melinda Wimpfheimer 2012 Irrevocable Trust, of which Mr. Wimpfheimer is a beneficiary.

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

OFFICERS

Name and Position	Calendar Year Ended	Salary (\$)	Bonus (\$)	Restricted Stock Awards(1) (2)	Option Awards(3)	Restricted Stock Dollar Value	Option Dollar Value
R. Cromwell Coulson President, Chief Executive Officer, and Director	2012	\$517,000	\$100,000	10,000	0	\$78,800	\$0
	2011	\$517,000	\$80,000	10,000	0	\$58,000	\$0
Wendy Fraulo Chief Financial Officer	2012	\$200,000	\$60,000	10,000	0	\$78,800	\$0
	2011	\$195,000(4)	\$40,000	10,000	30,000	\$58,000	\$58,523
Matthew Fuchs Managing Director, Market Data and Strategy	2012	\$176,800	\$65,000	10,000	0	\$78,800	\$0
	2011	\$170,000	\$52,000	10,000	0	\$58,000	\$0
Lisabeth Heese Managing Director, Issuer and Information Services	2012	\$197,600	\$55,000	8,000	0	\$63,040	\$0
	2011	\$190,000	\$45,000	8,000	0	\$46,400	\$0
Michael Modeski President, OTC Link LLC	2012	\$270,400	\$100,000	12,500	0	\$98,500	
	2011	\$260,000(4)	\$85,000	12,500	50,000	\$72,500	\$111,960
Timothy Ryan Managing Director, Sales and Business Development	2012	\$208,000	\$158,919(5)	12,500	0	\$98,500	\$0
	2011	\$200,000	\$142,704(6)	12,500	0	\$72,500	\$0
Emilia Sherifova Chief Information Officer	2012	\$249,600	\$100,000	12,500	0	\$98,500	\$0
	2011	\$219,000	\$85,000	12,500	0	\$72,500	\$0
Daniel Zinn General Counsel	2012	\$200,000	\$60,000	10,000	0	\$78,800	\$0
	2011	\$185,000	\$45,000	10,000	0	\$58,000	\$0

Notes:

1. All restricted stock awards are Class A Common Stock. The 2012 and 2011 restricted stock awards consisted of shares of unvested stock, which vest equally over five years.
2. The fair market value of the Class A Common Stock was \$7.88 at the award date for shares related to the year 2012, and \$5.80 at the award date for shares awarded related to the year 2011.
3. The option awards are convertible into Class A Common stock and vest in equal annual installments over five years. The fair market value was determined by using the Black-Scholes valuation method at the time of issuance.
4. The salaries for Mr. Modeski and Ms. Fraulo are presented on an annualized basis as they commenced employment during 2011.
5. Mr. Ryan's cash bonus included \$83,919 of sales commissions related to the Company's Issuer Services Sales Commission Plan.
6. Mr. Ryan's cash bonus included \$107,704 of sales commissions related to the Company's Issuer Services Sales Commission Plan.

DIRECTORS

Name	Calendar Year Ended	Director's Fees ⁽¹⁾	Share Awards (#) ⁽²⁾	Share Value (\$) ⁽³⁾	Note
Gary Baddeley	2012	\$22,500	7,500	\$52,650	
	2011	\$22,500	7,500	\$39,000	
Louisa Serene Schneider	2012	\$3,750	5,625	\$41,063	
	2011	N/A	N/A	N/A	
Sigurdur Petur Snorrason	2012	\$15,000	7,500	\$52,650	
	2011	\$15,000	7,500	\$39,000	(4)
Andrew Wimpfheimer	2012	\$25,000	7,500	\$52,650	
	2011	\$25,000	7,500	\$39,000	
Neil Wolkoff	2012	\$3,750	5,625	\$41,063	
	2011	N/A	N/A	N/A	

Notes:

1. Represents fees of \$3,750 for each of four regularly scheduled meetings of the Board of Directors during 2012 and 2011. In each of 2012 and 2011, an additional \$7,500 was paid to Mr. Baddeley as a member of the audit committee and an additional \$10,000 was paid to Mr. Wimpfheimer as chairman of the audit committee.
2. All share awards are of Class A Common Stock that vest in equal quarterly installments over the 12 months immediately subsequent to the date of grant.
3. The fair market value of the Class A Common Stock issued to Messrs. Baddeley, Snorrason and Wimpfheimer in July 2012 was \$7.02 per share, and the fair market value of the Class A Common Stock issued to Ms. Schneider and Mr. Wolkoff in November 2012 was 7.30 per share. The fair market value of the Class A Common Stock issued to all applicable Directors in 2011 was \$5.20 per share.
4. Mr. Snorrason served as an independent consultant to OTC Markets Group during 2012 and 2011 and was paid \$88,024 and \$80,395, respectively.

B. Legal/Disciplinary History

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

- A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
- Any bankruptcy petition filed by or against any business of which such person was a general partner, or executive officer either at the time of the bankruptcy or within two years prior to that time;
- The entry of an order, judgment or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended, or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
- A finding or judgment by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
- The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

C. Disclosure of Family Relationship

None.

D. Disclosure of Related Party Transactions

Sigurdur Petur Snorrason is the principal owner of Stora Eplid ehf. and a board member of OTC Markets Group. Stora Eplid ehf. has a verbal consulting agreement with OTC Markets Group to provide, on an as-needed basis, expertise related to trading system design and specifications. We paid Stora Eplid ehf. \$88 thousand in 2012 and \$80 thousand in 2011 for its services.

E. Disclosure of Conflicts of Interest

None.

Beneficial Owners

As of December 31, 2012, the following persons beneficially own 5% or more of OTC Markets Group's Common Stock:

Name and Address of Shareholder	Membership Class	Number of Shares Owned	Ownership Percentage of Class Outstanding	Note
R. Cromwell Coulson 304 Hudson Street, 3rd Floor New York, NY 10013	Class A Class C	3,413,988 130,838	31.9% 100%	(1)
Walter P. Carucci c/o Carr Securities 14 Vandeventer Ave., Ste. 210 Port Washington, NY 11050	Class A	1,138,380	10.6%	(2)
Cromwell Coulson Family 2012 DE Trust	Class A	687,000	6.4%	

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

Notes:

1. Includes 370,000 Class A shares held by Mr. Coulson's wife.
2. Walter P. Carucci is the general partner of Uncle Mills Partners. His beneficial ownership includes 575,898 Class A shares owned by Uncle Mills Partners.

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

1. Investment Banker: None.
2. Promoters: None.
3. Disclosure Counsel:
The Nelson Law Firm, LLC
One North Broadway, Suite 712
White Plains, NY 10601
Tel: (914) 220-1900
Fax: (914) 220-1911
www.thenelsonlawfirm.com
Email: sjnelson@nelsonlf.com
4. Auditor:
Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281
Tel: (212) 436-2000
Fax: (212) 436-5000
www.deloitte.com

Preparation of OTC Markets Group's consolidated financial statements is the responsibility of OTC Markets Group management. Deloitte & Touche LLP is responsible for expressing an opinion on the consolidated financial statements for the year ended December 31, 2012, based on their audit.

Deloitte & Touche LLP has confirmed to us that the firm is licensed to practice public accounting in the states in which we conduct our business. Deloitte & Touche LLP is registered with the Public Company Accounting Oversight Board ("PCAOB").

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

Selected Financial Data

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

The statement of income and other comprehensive income data for the years ended December 31, 2012, 2011, 2010 and 2009 as well as the balance sheet data at December 31, 2012, 2011, 2010 and 2009 are derived from our audited consolidated financial statements. Also presented below is a pro-forma statement of income dated for the calendar year ended December 31, 2008, which is derived from an unaudited combination of the two audited constituent periods.

	Year Ended December 31,				
	2012	2011	2010	2009	2008 ⁽¹⁾
(in thousands, except per share data)					
Trading services	\$ 11,640	\$ 11,773	\$ 11,378	\$ 10,911	\$ 10,688
Market data licensing	13,555	13,111	11,858	9,894	7,972
Issuer services	9,831	8,067	4,803	3,227	2,510
Gross revenues	35,026	32,951	28,039	24,032	21,170
Net revenues	33,184	30,763	25,871	22,088	19,520
Total operating expenses	24,228	23,657	20,740	16,355	16,341
Income from operations	8,956	7,106	5,131	5,733	3,179
Net income	\$ 5,477	\$ 4,852	\$ 2,935	\$ 3,506	\$ 2,176
Net income per share (Pro-forma for 2008)					
Basic	\$ 0.51	\$ 0.46	\$ 0.28	\$ 0.34	\$ 0.18
Diluted	\$ 0.51	\$ 0.45	\$ 0.28	\$ 0.33	\$ 0.18
Weighted-average shares outstanding (Pro-forma for 2008)					
Basic	10,539,142	10,473,811	10,419,555	10,253,024	10,050,480
Diluted	10,608,516	10,540,818	10,529,508	10,454,517	10,186,259

(1) – Pro forma net income for the year ended December 31, 2008 was \$1,849 thousand.

	December 31,				
	2012	2011	2010	2009	2008
(in thousands)					
Cash and cash equivalents	\$ 13,611	\$ 10,170	\$ 6,703	\$ 5,385	\$ 2,827
Working capital	\$ 10,125	\$ 8,827	\$ 5,720	\$ 5,392	\$ 3,321
Total long-term liabilities	\$ 1,176	\$ 1,598	\$ 1,016	\$ 2,179	\$ 2,708
Total stockholders' equity	\$ 14,515	\$ 12,872	\$ 9,260	\$ 7,713	\$ 4,381

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

OTC Markets Group Inc. (OTCQX: OTCM) operates Open, Transparent and Connected financial marketplaces for 10,000 U.S. and global securities. Through our OTC Link® ATS, we directly link a diverse network of broker-dealers that provide liquidity and execution services for a wide spectrum of securities. OTC Link ATS is operated by our wholly-owned subsidiary OTC Link LLC, a Financial Industry Regulatory Authority, Inc. ("FINRA®") member broker-dealer regulated by the Securities and Exchange Commission (SEC) as an Alternative Trading System ("ATS").

We organize these securities into marketplaces to inform investors of opportunities and risks: OTCQX®, The Best Marketplace with Qualified Companies; OTCQB®, The Venture Stage Marketplace with U.S. Reporting Companies; and OTC Pink®, The Open Marketplace with Variable Reporting Companies. Our data-driven platform enables investors to easily trade through the broker of their choice at the best possible price and empowers a broad range of companies to improve the quality and availability of information for their investors.

Our mission is to create better informed and more efficient financial marketplaces. We pursue our mission by operating Open, Transparent and Connected marketplaces and delivering elegant information and communication solutions that are reliable and cost-effective subscription-based services for broker-dealers and OTCQX, OTCQB and OTC Pink traded companies.

Due to the role OTC Link ATS plays in the broker-dealer trading process, we generate a significant amount of market data and security information. Our market data consists of real-time, end-of-day quotation and trading data, as well as security master and corporate data for OTCQX, OTCQB, OTC Pink and other equity and debt securities. Our Market Data Licensing revenues allow us to deliver premium services to our broker-dealer clients at a competitive price.

The OTCQX marketplace is issuer-qualified, which means companies with eligible securities on OTC Link ATS that meet certain financial standards and disclosure requirements can choose to have their securities qualify for trading on the OTCQX marketplace. OTCQX provides a cost-effective marketplace for qualified companies to create an information-rich marketplace for their investors to intelligently analyze, value and trade securities. OTCQX companies receive a premium package of investor information and market data to inform investors, clearly convey their reputations and demonstrate their regulatory compliance.

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

Our information and communication services offer or enhance the five essential elements of informed and efficient marketplaces: 1) See prices; 2) Meet buyers and sellers; 3) Analyze company information; 4) Reach investors; 5) Trade with confidence. These essential elements improve the capital formation process by allowing investors to make better decisions when they analyze, value and trade securities. By combining these essential elements, our services can be used by broker-dealers and companies to give investors an informational experience that is comparable to trading stock exchange listed securities.

Our vision is to expand the world of investment opportunities by creating the financial marketplaces of choice. By empowering intelligent investors to easily analyze, value and trade any security, through any broker, we will bring the benefits of public trading to a wide spectrum of securities and efficiently fulfill the capital formation needs of a broad range of U.S. and global companies.

Trends in Our Business

Our revenue streams are influenced by macroeconomic events and conditions affecting the broader equity markets and in particular the U.S. OTC equity market, including investor sentiment and outlook, the regulatory environment, the risk/return and volatility factors of equity securities versus other financial investments and assets, and rapidly changing technologies in the capital markets.

We have placed increased emphasis on ensuring that the tiered marketplaces we have developed are recognized and properly used by all market participants. We have seen an upswing in recognition and acknowledgement of these marketplaces, which we expect will add to the value of our market data, resulting in increased revenues in both our Market Data Licensing and Issuer Services business lines.

Our OTCQX marketplace has also continued to increase the visibility of qualified companies' securities, as well as enlarge the pool of high quality companies that consider the trading of their securities in the U.S. OTC market as a viable option for their investors. As anticipated, gross revenue from our Issuer Services business line has increased significantly over the past two years and now comprises 28% of total company gross revenue during 2012. We expect the increased recognition and understanding of our OTCQX marketplace to lead to continued growth in the number of OTCQX traded companies and corresponding revenue based on OTCQX application and annual fees. However, the rate at which companies joined the OTCQX marketplace slowed during the second half of 2012 and into the first quarter of 2013. In 2012, the OTCQX marketplace included a large number of Canadian companies engaged in the

resources sector, which has experienced a difficult economic climate coinciding with the slower growth of OTCQX. We believe the economic slowdown in the Canadian resources sector was a primary factor in the annual renewal rate of companies on the OTCQX marketplace dropping to 87% for 2013 from 95% in 2012. We plan to engage the increasing number of OTCQB companies and introduce them to our Issuer Services business line suite of premium services.

Our market data continues to be consumed by a wider audience. During 2012, OTC Markets Group continued to expand its market data distribution network by entering into new distribution agreements with ten data providers.

The development and introduction of new trading technologies in the capital markets business since 2008 has resulted in increased trading automation. Automated trading products generally drive greater consumption of market data, resulting in increased demand for our market data products, which we believe will lead to increased revenues in our Market Data Licensing business over time.

Since 2008, an increasing percentage of total dollar volume traded in OTCQX, OTCQB and OTC Pink securities has come from ADR and foreign securities. During 2012, ADR and foreign securities comprised over 77% of all dollar volume traded in OTCQX, OTCQB and OTC Pink securities. We believe this has been due large part to the ongoing effects of the SEC's 2008 amendments to Rule 12g3-2(b), which we expect will lead to continued increases in the amount of ADRs and foreign ordinary shares quoted for trading on our marketplaces.

We have also noticed an indirect correlation between total trading volumes and usage of our OTC Link ATS over the past two years. Network volume, noted through quotes and trade messages, has increased approximately 25% while trade counts on OTC Link ATS declined approximately 19% over the same period. Our broker-dealer subscriber base has trended towards more electronic trading over the past several years, while manual trading firms have experienced more significant economic distress over the same period. These trends have led to a decrease in OTC Link ATS Trading Services subscription revenue derived from firm licenses of OTC Dealer as well as individual trader subscriptions, which we expect will continue.

We believe the public trading of our common stock has had a positive impact on the operation of our business and serves as a model for unlisted companies to consider a public secondary market trading of their shares on our marketplaces. We believe that a public market for our common stock has, among other things, enhanced the market value of our common stock, provided our stockholders with greater liquidity for their shares, increased our ability to attract and retain highly skilled employees, increased the transparency of our business to subscribers, investors and regulators and may in time facilitate our ability to make corporate acquisitions.

We continue to build the necessary employee and systems infrastructures required to manage our growth and develop and promote our products and services. We plan to continue the expansion of our OTCQX sales and marketing efforts, both domestically and internationally. Our OTCQB marketplace has received increased recognition resulting from the migration of broker-dealer quotes in the securities of U.S. reporting companies from the FINRA Bulletin Board to OTC Link ATS.

How OTC Markets Group Generates Revenues

We generate a majority of our revenues through a subscription model. As a result, the majority of our revenues are contract based and recurring in nature. For example, once a broker-dealer decides to trade using OTC Link ATS, that broker-dealer typically continues to subscribe, with variable monthly user and usage levels, until it ceases to be active in trading OTCQX, OTCQB and OTC Pink securities. The market data redistributors that offer our market data to their subscribers, including our largest redistributors, have historically remained long-term clients. We pay certain redistribution fees, the majority of which are paid to redistributors of our Market Data Licensing subscription licenses, which represented 13% of Market Data Licensing gross revenue for the year ended December 31, 2012.

OTC Link ATS Trading Services

Beginning on June 1, 2012, the majority of our OTC Link ATS Trading Services business has been operated by our wholly-owned subsidiary, OTC Link LLC.

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

OTC Link ATS Trading Services generates revenues by offering a suite of quotation and trade-messaging services, as well as the QAP One Statement access fee solution service, to a diverse network of broker-dealers operating as market makers, agency brokers and Alternative Trading Systems, including Electronic Communication Networks ("ECN"). In 2012, OTC Link ATS Trading Services accounted for approximately 33% of our gross revenue, as compared to 36% in 2011.

Broker-dealers pay us monthly license, subscription, and connectivity fees to use OTC Link ATS. Our OTC Dealer® application provides broker-dealers a user interface to view and submit quotes for securities and communicate with each another via OTC Link ATS. OTC Link ATS delivers trade negotiation messages electronically, allowing broker-dealer subscribers to execute, negotiate or decline trade messages and automate their liquidity and execution services for investors.

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

OTC Link ATS's FINRA member broker-dealer subscribers pay per security usage fees to (i) publish quotes and (ii) communicate and negotiate with counterparties on OTC Link ATS. Monthly OTC Link ATS position fees are based on the number of daily priced and un-priced quote positions, with tiered pricing arrangements based on volume. Monthly OTC Link ATS message fees are based on the daily number of priced and un-priced securities on OTC Link ATS for which messages are sent or received, with tiered pricing arrangements based on

volume. The daily messaging fee allows subscribers to send and receive an unlimited number of messages in a security on that day. We do not currently charge fees for quotes of any securities that are listed on NYSE, NYSE Amex Equities, or NASDAQ.

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

For market participants that do not make active markets in securities, we offer OTCQuote®; a web-based, real-time, view-only quotes service designed for agency traders, institutional investors, compliance officers and regulators that need to stay abreast of market activity in OTCQX, OTCQB, OTC Pink and FINRA OTC Bulletin Board securities.

Market Data Licensing

We generate Market Data Licensing revenues by providing our subscribers with access to the extensive market data, company data and security information collected through our OTC Link ATS Trading Services and Issuer Services business lines. Our market data includes real-time, end-of-day, historical quotation and trading data, company financial data, security master data and company reference data for securities traded on our marketplaces. In 2012, our Market Data Licensing business made up approximately 39% of our gross revenue, as compared to 40% of our gross revenue for 2011.

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 subscriber rates, through direct connectivity and third party market data redistributors/OMS. Depending on the license type, subscribers may distribute the market data on an internal-only basis, to clients, or to the public. We generate a majority of our market data revenues from sales through market data redistributors, including Bloomberg and Interactive Data Corporation. Certain of our market data license agreements include redistribution fees and rebates.

In December 2011, we entered into agreements to have our market data distributed through the NYSE Technologies' SuperFeed™ and NASDAQ UltraFeed™ data feeds, which allows for the continued growth of our market data distribution network.

Our Market Data Licensing services include:

- *OTC Markets Level 1+* - Real-time bid and offer price information and aggregate size information at each bid or offer price level. This license includes information regarding trades negotiated by broker-dealers via OTC Link ATS.
- *OTC Markets Level 2+* - Real-time individual bid and offer prices, size information, market participant identifiers and contact information. This license includes information regarding trades negotiated by broker-dealers via OTC Link ATS.
- *Real-Time Reference Prices* – Real-time inside bid and offer prices. Size and market participant information is not available with this license. OTC Link ATS trade information is included in this license.
- *Internal System Application Licenses* – Real-time price, size and market participant (Level 1 and Level 2) data for use by a software application only.

- End of Day Pricing Licenses – End of day bid and ask quotations for valuation, research and analysis.
- Security & Company Data Licenses – Security and Company attribute data for compliance, research and analysis.

Issuer Services

We generate Issuer Services revenues by offering services to companies that are designed to create better informed and more efficient trading by fostering greater availability of company disclosure, promoting price transparency, facilitating communication, demonstrating compliance and mitigating risk. We operate OTCQX, The Best Marketplace with Qualified Companies, and offer a suite of premium services including the OTC Disclosure & News Service[®], Real-Time Level 2 Quote Display and Blue Sky Monitoring Service. In 2012, our Issuer Services business made up approximately 28% of our gross revenue, as compared to 24% in 2011.

The OTCQX marketplace provides the best-informed and most efficient trading for shares and ADRs of leading U.S. and global companies. Investor-focused companies use the cost effective OTCQX marketplace to provide their investors with informed and efficient U.S. public trading without the complexity of a stock exchange listing.

To qualify for OTCQX, companies must be sponsored by a professional third-party advisor, meet minimum financial, disclosure and qualitative standards, pay annual fees, and continue to meet the requirements of our OTCQX Rules on a going-forward basis.

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

OTCQX offers companies a choice of disclosure standards to make their financial and operating information publicly available in the most efficient manner. SEC registered companies must be current in their SEC reporting to be compliant with the U.S. Reporting Standard. U.S. companies that are exempt from SEC registration, usually because they do not meet thresholds for mandatory SEC registration under the JOBS Act of 2000 holders of record or 500 non-accredited holders of record, must make appropriate disclosures as required by following OTC Markets Group's Alternative Reporting Standard using the OTCQX U.S. Disclosure Guidelines. Non-U.S. companies that are exempt from SEC registration must be listed on a qualified non-U.S. stock exchange and compliant with the International Information Standard under SEC Rule 12g3-2b by making the home country disclosure publicly available.

The Alternative Reporting Standard provides comprehensive public disclosure for investors without imposing the complexity of SEC reporting requirements that are designed for large corporations. The International Information Standard allows companies to efficiently provide their current disclosure and financial reports to investors trading through U.S. broker-dealers without the complexity of fulfilling duplicative SEC reporting requirements in addition to their home country disclosure obligations.

Within OTCQX there are elite tiers separating the largest and most liquid companies (OTCQX U.S. Premier® and OTCQX International Premier®) from smaller, growth companies. Securities traded on the OTCQX marketplace are identified by an icon designating that they are qualified for trading on OTCQX and whether they have qualified for a Premier tier.

All OTCQX traded companies pay us a one-time application fee and annual fees each year their securities are qualified to trade on the OTCQX marketplace. These fees are fixed and do not vary based on outstanding shares, market capitalization or otherwise. OTCQX companies receive a suite of our premium services, including the OTC Disclosure & News Service to post financial reports, disclosure documents and news releases, Real-Time Level 2 Quote Display, and Blue Sky Monitoring Service. Companies on the OTCQX marketplace must meet certain Blue Sky compliance requirements, which means that OTCQX stocks generally may be lawfully traded in more states than securities that do not qualify for OTCQX.

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

Companies that do not choose to qualify their securities for the OTCQX marketplace may subscribe separately to our premium services: the OTC Disclosure & News Service, the Real-Time Level 2 Quote Display Service for company-sponsored quotes available free to investors on www.otcmarkets.com and the company's website, and the Blue Sky Monitoring Service for analysis, review, and guidance to companies about compliance with each U.S. state's securities laws. Each of these premium services is available to companies that sign up to receive free access to our www.otciq.com secure web portal.

Website Advertising

We charge for the right to display advertisements on www.otcmarkets.com. Our clients typically include financial services and investment firms. For the year ended December 31, 2012, our website advertising revenues are included within our Issuer Services line of business.

Financial Highlights

For the year ended December 31, 2012, OTC Markets Group reported gross revenues and income from operations of \$35.0 million and \$9.0 million, respectively. This compares to gross revenues and income from operations of \$32.9 million and \$7.1 million, respectively, for the year ended December 31, 2011. The 2012 increase in each key metric reflected the following significant factors:

- Gross revenues increased \$2.1 million, primarily due to (i) a 27% increase in the number of companies on the OTCQX marketplace, (ii), the introduction and wide-spread acceptance of QAP One Statement service, which partly offset a decline in OTC Dealer subscriptions and (iii) an increase in broker dealer enterprise licenses for level 2 data feeds.
- Income from operations increased \$1.9 million and operating profit margin improved from 23% in 2011 to 27% in 2012. The growth in income from operations and operating profit margin was primarily achieved through renegotiating our rebate arrangements with certain market data redistributors, which resulted in lower rebates in 2012 as compared

to 2011, a reduction in bad debt expense during 2012 and the operating lease buy-out of IT equipment in 2011.

Financial Results

Our three lines of business – OTC Link ATS Trading Services, Market Data Licensing and Issuer Services – provide a wide variety of services to broker-dealers, companies, investors, market data distributors and regulators. We believe our elegant, reliable, cost-effective subscription based services allow us to maintain our leading market position as a financial and technology services provider. Our sources of revenue are diverse, including subscription service fees, usage based fees, OTCQX application and annual fees, market data distribution and licensing fees, and website advertising fees.

Consolidated Statement of Income and Other Comprehensive Income – Results From Operations

Year Ended December 31, 2012 Versus Year Ended December 31, 2011

The table below presents comparative information from the Company's consolidated income statement for the years ended December 31, 2012 and 2011.

(in thousands)	Year Ended December 31,		2012 vs 2011
	2012	2011	
Gross revenues	\$ 35,026	\$ 32,951	6%
Net revenues	33,184	30,763	8%
Operating expenses	24,228	23,657	2%
Income from operations	8,956	7,106	26%
<i>Operating profit margin</i>	27%	23%	
Income before provision for income taxes	8,986	6,991	29%
Net income	\$ 5,477	\$ 4,852	13%
Diluted earnings per share	\$ 0.51	\$ 0.45	12%
Weighted-average shares outstanding, diluted	10,608,516	10,540,818	1%

Revenues

The following table shows OTC Markets Group's gross revenue by line of business and net consolidated revenue for 2012 and 2011, with the percentage change year over year.

(in thousands)	Year Ended December 31,		2012 vs 2011
	2012	2011	
Trading services	\$ 11,640	\$ 11,773	-1%
Market data licensing	13,555	13,111	3%
Issuer services	9,831	8,067	22%
Gross revenues	35,026	32,951	6%
Redistribution fees and rebates	(1,842)	(2,188)	-16%
Net revenues	\$ 33,184	\$ 30,763	8%

OTC Markets Group demonstrated revenue growth during 2012, despite an environment of continuing macroeconomic uncertainty, lower trading volume across our marketplaces, and emerging regulatory initiatives. In addition, the composition of gross revenues across our business lines continues to shift as the number of companies choosing to be included in the OTCQX marketplace drives the majority of our revenue growth. As shown in the table above, gross revenues during 2012 increased \$2.1 million, or 6%, to \$35.0 million from \$32.9 million during 2011.

The increases in gross revenue during 2012 are further described below:

- Gross revenue from OTC Link ATS Trading Services was impacted by low trading volume throughout the entire year and financial distress on smaller subscribers, which resulted in a decrease of \$133 thousand, or 1%, in gross revenues to \$11.6 million during 2012 versus \$11.8 million during 2011. OTC Link ATS Trading Services subscription revenue, which encompasses OTC Dealer licenses, OTC Link ATS subscriptions and fix connections, decreased \$404 thousand, or 9%, during 2012 versus 2011 due to a 14% decrease in the number of OTC Dealer users and a 13% decrease in the number of locations with subscription privileges. OTC Link ATS Trading Services transactional revenue, which encompasses quotes, messages and QAP fees, increased \$272 thousand, or 4%, during 2012 versus 2011, primarily attributable to QAP fees, which contributed \$350 thousand to OTC Link ATS Trading Services gross revenues during 2012.
- Market Data Licensing revenue increased \$444 thousand to \$13.6 million during 2012 versus \$13.1 million during 2011. Revenue from professional licenses was \$8.6 million during 2012, which was flat in terms of revenue growth as compared to 2011. Revenue growth from broker-dealer enterprise license subscriptions contributed \$225 thousand, or 50% of the increase in 2012 gross revenues. Revenues from internal systems licenses and port fees also contributed to the increase in gross revenues during 2012, primarily due to an increased demand for data from our marketplaces.
- Issuer Services gross revenue increased \$1.7 million, or 22% to \$9.8 million during 2012 compared to \$8.1 million during 2011. As of December 31, 2012, there were 400 OTCQX companies; an increase of 86 companies from Dec-11, which directly increased revenues from OTCQX marketplace subscription fees by \$1.8 million, or 41%. Revenue from OTCQX subscriptions was a significant contributor to Company-wide revenue growth during 2012, although the rate at which companies joined the OTCQX marketplace slowed during the second half of 2012. The OTC Disclosure & News Service remains a large component of the Issuer Services business line, although it experienced a reduction in revenue of \$165 thousand, or 6%, during 2012 as compared to 2011, primarily due to a high rate of subscriber turnover. This decrease was offset by a \$200 thousand increase in revenue from use of a bundled package of premium issuer services during 2012.

Operating Expenses

The following table shows OTC Markets Group's consolidated operating expenses for 2012 and 2011, with the percentage change year over year presented.

(in thousands)	Year Ended December 31,		2012 vs 2011
	2012	2011	
Compensation and benefits	\$ 12,908	\$ 12,117	7%
IT Infrastructure and data communications	3,318	3,469	-4%
Professional and consulting services	2,387	2,377	0%
Marketing and advertising	1,743	1,804	-3%
Occupancy costs	1,411	1,540	-8%
Depreciation and amortization	1,622	1,358	19%
General, administrative and other	839	992	-15%
Total operating expenses	<u>\$ 24,228</u>	<u>\$ 23,657</u>	2%

As illustrated in the table above, operating expenses increased \$571 thousand, or 2%, to \$24.2 million in 2012.

The increase in operating expenses during 2012 was primarily attributable to the following:

- Compensation and benefit costs increased \$791 thousand, or 7% to \$12.9 million during 2012 as compared to \$12.1 million in 2011; primarily related to salary expense due to a headcount increase of 9 employees from December 31, 2011 to December 31, 2012. The increased expense reflects the impact of providing competitive compensation plans to qualified employees, including equity awards, discretionary bonuses and sales commissions. Commission expense decreased \$137 thousand during 2012 due to the lower number of new companies that joined the OTCQX marketplace as compared to 2011.
- IT Infrastructure and data communication costs decreased \$151 thousand, or 4%, during 2012 on a comparative basis over 2011, primarily due to the operating lease buy-out of several IT servers in September 2011, which decreased IT Infrastructure costs by \$202 thousand during 2012. The decrease was offset by an increase of approximately \$155 thousand in certain information service fees incurred during 2012.
- Professional and consulting fees were flat during 2012, although the composition shifted significantly between 2012 and 2011. Legal fees decreased \$265 thousand, or 50%, during 2012 due to high fees incurred in 2011 related to registration of OTC Link LLC as a FINRA member broker-dealer and an SEC registered ATS. This decrease was offset by a \$253 thousand, or 20%, increase in consulting fees during 2012, due to increased use of product development consultants and other professional and technical specialists.
- Depreciation and amortization increased \$264 thousand, or 19%, due to the significant capital expenditure investments made during 2011.
- General and administrative expenses decreased \$153 thousand, or 15%, during 2012 as compared to 2011, primarily related to a decrease in bad debt expense. Efficiencies in general spending also contributed to the overall decrease.

Income from operations

Income from operations increased \$1.9 million, or 26%, from \$7.1 million during 2011 to \$9.0 million during 2012, and operating profit margin improved from 23% in 2011 to 27% in 2012. The growth in income from operations and operating profit margin was primarily achieved through renegotiating our rebate arrangements with certain market data redistributors, which resulted in lower rebates in 2012 as compared to 2011, a reduction in bad debt expense during 2012 and the operating lease buy-out of IT equipment in 2011.

Other Income/(Expense)

Miscellaneous expenses during 2011 reflected losses on disposals of assets. These expenses did not recur during 2012.

Provision for Income Taxes

The Company's effective income tax rate was 39% and 31% for fiscal years 2012 and 2011, respectively. The 2012 and 2011 rates reflect the inclusion of state and local income taxes as compared to the federal statutory rate of 34%. The 2011 rate was lower than the federal statutory rate primarily due to a R&D tax credit and a benefit from a 2008 IRS audit.

Liquidity and Capital Resources

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

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

The following table summarizes our cash available for operations, which consists of cash and cash equivalents and short-term investments as of December 31, 2012 and 2011 and uses of cash flows during 2012 and 2011.

(in thousands)	December 31,		2012 vs 2011
	2012	2011	
Cash available for operations	\$ 13,611	\$ 11,467	19%
<hr/>			
Year Ended December 31,	2012		2011 vs 2010
	2012	2011	
Cash provided by operating activities	\$ 8,707	\$ 9,100	-4%
Cash used in investing activities	(49)	(3,757)	-99%
Cash used in financing activities	(5,217)	(1,876)	178%

Cash available for operations

Cash available for operations, which is comprised of cash, cash equivalents and short-term investments, increased by \$2.1 million to \$13.6 million as of December 31, 2012, which includes approximately \$4.6 million held by our wholly-owned subsidiary, OTC Link LLC, as compared to \$11.5 million at December 31, 2011. The Company generated \$8.7 million of cash from

operations during the year ended December 31, 2012, which were used in part to fund our dividend payments of \$5.2 million and our investments in infrastructure of \$1.3 million.

Cash provided by operating activities

Cash provided by operating activities for the years ended December 31, 2012 and December 31, 2011 consisted of net income of \$5.5 million and \$4.9 million, respectively, plus certain non-cash items, such as depreciation, amortization, share-based compensation and provision for doubtful accounts. The net change in working capital also contributed \$893 thousand and \$1.4 million to cash flows from operations for the years ended December 31, 2012 and 2011, respectively.

Cash used in investing activities

Cash used in investing activities for the year ended December 31, 2012 was \$49 thousand, primarily comprised of purchases of new and replacement hardware, networking, and communications equipment of \$1.3 million offset by proceeds from the sales of short-term investments of \$1.3 million. Cash used in investing activities for the year ended December 31, 2011 of \$3.8 million was comprised of property and equipment purchases of \$2.4 million related to the build-out of our office leases and the buy-out of certain operating leases for IT equipment, and aggregate cash outflows of \$1.3 million related to purchases and sales in our marketable securities portfolio, all of which were classified as short-term investments.

Cash used in financing activities

Cash used in financing activities during the year ended December 31, 2012 totaled \$5.2 million, primarily due to dividends paid of \$5.2 million. Cash used in financing activities during the year ended December 31, 2011 totaled \$1.9 million, also primarily due to the dividend paid of \$1.7 million. The remaining financing cash outflows during 2011 related to the purchase of treasury stock and the final payment of \$92 thousand on a prior credit facility.

Capital resources and working capital

OTC Markets Group's working capital at December 31, 2012 was \$10.1 million, which increased \$2.3 million, or 26%, from \$8.8 million at December 31, 2011. Working capital includes certain non-operating assets and liabilities, such as prepaid income taxes, deferred tax assets and liabilities, income taxes payable and dividends payable. The improvement in working capital during the year ended December 31, 2012 was primarily attributable to the Company's increase in revenue, improvement in days of sales outstanding, and increase in the number of companies on the OTCQX marketplace, which increased the deferred revenue balance as of December 31, 2012.

Line of Credit

OTC Markets Group maintains a commercial banking relationship with JPMorgan Chase. On July 7, 2012, the Company entered into a line of credit with JPMorgan Chase (the "Line of Credit") that made up to \$1.5 million available for business operations through July 7, 2013. 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. The company has never been in default of any covenant or other terms of the Line of Credit.

Operating Leases

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

Off-Balance Sheet Arrangements

None.

Part E. Issuance History and Financial Information

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

CLASS A COMMON STOCK AND OPTIONS ISSUED

The following table sets forth information concerning the equity securities issued during the fiscal years 2011 and 2012:

Month of Grant	Award Type	Awards Issued	Weighted Average Exercise or Grant Price	Grant Awarded To
January-11	Restricted Stock	105,164	\$6.00	Employee
January-11	Option Grant	20,500	\$6.60	Employee
March-11	Option Grant	21,000	\$6.66	Employee
April-11	Option Grant	59,000	\$6.28	Employee
June-11	Option Grant	12,000	\$6.38	Employee
August-11	Option Grant	48,000	\$5.82	Employee
August-11	Restricted Stock	22,500	\$5.20	Directors
September-11	Option Grant	18,000	\$5.40	Employee
October-11	Option Grant	12,000	\$5.66	Employee
November-11	Option Grant	21,000	\$5.62	Employee
December-11	Option Grant	11,000	\$5.88	Employee
January-12	Restricted Stock	151,778	\$5.80	Employee
January-12	Option Grant	20,000	\$6.38	Employee
February-12	Option Grant	21,000	\$6.87	Employee
March-12	Restricted Stock	10,000	\$6.20	Employee
April-12	Option Grant	31,000	\$7.26	Employee
July-12	Restricted Stock	22,500	\$7.02	Directors
July-12	Option Grant	52,000	\$7.72	Employee
September-12	Option Grant	14,000	\$8.09	Employee
October-12	Option Grant	6,000	\$8.64	Employee
November-12	Restricted Stock	11,250	\$7.30	Directors
November-12	Option Grant	15,000	\$8.03	Employee
December-12	Option Grant	19,000	\$8.31	Employee

Notes:

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

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

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

Part F. Exhibits

1 Consolidated Financial Statements

- 1.1 Financial information for the years ended December 31, 2012, December 31, 2011 and December 31, 2010

2 Issuer's Certifications

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

3 Material Contracts

- 3.2 Lease Agreement by and between Pink Sheets LLC and The Rector, Church-Wardens and Vestrymen of Trinity Church in the City of New York for space at 304 Hudson Street, New York, NY (incorporated herein by reference to Exhibit 3.2 to the Initial Disclosure Statement filed on September 15, 2009)
- 3.3 Lease Agreement by and between Pink OTC Markets Inc. and Myles Doherty, Carolyn Doherty, Steve and Ruth Kinsley for space at 725 8th Street, Washington, D.C. (incorporated by reference to Exhibit 3.3 to the 2009 Annual Report filed on March 31, 2010)
- 3.4 Lease Agreement by and between OTC Markets Group Inc. and Myles Doherty, Carolyn Doherty, Steve and Ruth Kinsley for space at 725 8th Street, Washington, D.C. (incorporated by reference to Exhibit 3.4 to the 2010 Annual Report filed on March 31, 2011)
- 3.5 Lease Agreement by and between OTC Markets Group Inc. and NW 100 M Street LLC for space at NW 100 M Street, Washington, D.C. (incorporated by reference to Exhibit 3.5 to the 2010 Annual Report filed on March 31, 2011)
- 3.6 Employment Agreement dated as of May 1, 2011 by and between OTC Markets Group Inc. and R. Cromwell Coulson (Chief Executive Officer) (incorporated by reference to Exhibit 3.6 to the 2011 Annual Report filed on March 26, 2012.)

- 3.7 Pink OTC Markets Inc. "Key Man" Life Insurance Policy for R. Cromwell Coulson (incorporated herein by reference to Exhibit 3.5 to the Initial Disclosure Statement filed on September 15, 2009)
- 3.8 Comprehensive Services Agreement dated as of October 24, 2012 between ADP, Inc. and OTC Markets Group Inc.

4 Customer Contracts

The following documents may be found on our website at www.otcmarkets.com

- 4.1 OTC Link BD Subscriber Agreement
- 4.2 OTCQuote.com Subscriber Agreement
- 4.3 Market Data Distribution Agreement
- 4.4 Market Data Subscription Agreement
- 4.5 OTCQX Application for U.S. Companies
- 4.6 OTCQX Agreement for U.S. Companies
- 4.7 OTCQX Application for International Companies
- 4.8 OTCQX Agreement for International Companies
- 4.9 OTCIQ Agreement
- 4.10 OTC Intelligence Package Agreement
- 4.11 Application to Serve as an Attorney DAD or PAL or Investment Bank DAD or PAL
- 4.12 Agreement to Serve as an Attorney DAD or PAL or Investment Bank DAD or PAL
- 4.13 Issuer Appointment of Attorney Designated Advisor for Disclosure; Issuer Appointment of Attorney Principal American Liaison; Issuer Appointment of Investment Bank Designated Advisor for Disclosure; Issuer Appointment of Investment Bank Principal American Liaison; Issuer Appointment of ADR Depositary Principal American Liaison
- 4.14 Advertising Agreement

5 Certificate of Incorporation and By-laws

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

6 Equity Incentive Plans

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

INDEPENDENT AUDITORS REPORT

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

We have audited the accompanying consolidated financial statements of OTC Markets Group Inc. and subsidiary (the “Company”), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income and other comprehensive income, cash flows and changes in stockholders’ equity for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2012 and 2011, and the

results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

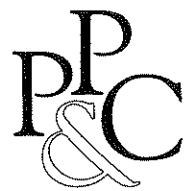
Predecessor Auditors' Opinion on 2010 Consolidated Financial Statements

The consolidated financial statements of the Company as of and for the year ended December 31, 2010 were audited by other auditors whose report, dated March 29, 2011, expressed an unmodified opinion on those statements.

Deloitte & Touche LLP

March 12, 2013

PUSTORINO,
PUGLISI
& CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
488 MADISON AVENUE
NEW YORK, NEW YORK 10022
(212) 832.1110



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of income and other comprehensive income, stockholders' equity and cash flows of OTC Markets Group Inc. (the "Company", a Delaware corporation formerly known as Pink OTC Markets Inc.) for the year ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of OTC Markets Group Inc. for the year ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Pustorino, Puglisi & Co., LLP
PUSTORINO, PUGLISI & CO., LLP
New York, New York
March 29, 2011

Exhibit 1.1

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)
CONSOLIDATED BALANCE SHEETS
(in thousands, except number of shares)

	December 31,	
	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 13,611	\$ 10,170
Short-term investments	-	1,297
Accounts receivable, net of allowance for doubtful accounts of \$221 and \$268	6,481	7,194
Prepaid income taxes	345	307
Prepaid expenses and other current assets	744	417
Deferred tax assets, net	203	293
Total current assets	21,384	19,678
Property and equipment, net	5,066	5,143
Goodwill	251	251
Intangible assets, net	40	40
Security deposits	209	209
Total Assets	\$ 26,950	\$ 25,321
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 721	\$ 629
Accrued expenses and other current liabilities	2,868	3,066
Dividend payable	-	419
Income tax reserve	-	109
Deferred revenue	7,670	6,628
Total current liabilities	11,259	10,851
Deferred rent	786	926
Deferred tax liabilities, net	113	475
Income tax reserve	277	197
Total Liabilities	12,435	12,449
Stockholders' equity		
Common stock - par value \$0.01 per share		
Class A - 14,000,000 authorized, 10,814,622 issued, 10,700,047 outstanding at December 31, 2012;		
10,589,170 issued, 10,484,595 outstanding at December 31, 2011	108	106
Class C - 130,838 shares authorized, issued and outstanding at December 31, 2012 and December 31, 2011	1	1
Additional paid-in capital	6,050	5,027
Retained earnings	8,951	8,276
Treasury stock - 114,575 shares at December 31, 2012 and 104,575 shares at December 31, 2011	(595)	(532)
Accumulated other comprehensive loss	-	(6)
Total Stockholders' Equity	14,515	12,872
Total Liabilities and Stockholders' Equity	\$ 26,950	\$ 25,321

See accompanying notes to consolidated financial statements

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
(in thousands, except earnings per shares)

	Year Ended December 31,		
	2012	2011	2010
Gross revenues	\$ 35,026	\$ 32,951	\$ 28,039
Redistribution fees and rebates	(1,842)	(2,188)	(2,168)
Net revenues	<u>33,184</u>	<u>30,763</u>	<u>25,871</u>
Operating expenses			
Compensation and benefits	12,908	12,117	10,102
IT Infrastructure and data communications	3,318	3,469	3,208
Professional and consulting services	2,387	2,377	2,148
Marketing and advertising	1,743	1,804	1,043
Occupancy costs	1,411	1,540	1,288
Depreciation and amortization	1,622	1,358	1,017
General, administrative and other	839	992	1,934
Total operating expenses	<u>24,228</u>	<u>23,657</u>	<u>20,740</u>
Income from operations	<u>8,956</u>	<u>7,106</u>	<u>5,131</u>
Other income/(expense)			
Interest income	14	39	16
Interest expense	-	-	(85)
Miscellaneous income (expense)	<u>16</u>	<u>(154)</u>	<u>-</u>
Income before provision for income taxes	<u>8,986</u>	<u>6,991</u>	<u>5,062</u>
Provision for income taxes	3,509	2,139	2,127
Net Income	<u>\$ 5,477</u>	<u>\$ 4,852</u>	<u>\$ 2,935</u>
Net income per share			
Basic	\$ 0.51	\$ 0.46	\$ 0.28
Diluted	\$ 0.51	\$ 0.45	\$ 0.28
Other comprehensive income:			
Unrealized holding loss on securities arising during period	<u>6</u>	<u>(6)</u>	<u>-</u>
Total comprehensive income	<u>\$ 5,483</u>	<u>\$ 4,846</u>	<u>\$ 2,935</u>

See accompanying notes to consolidated financial statements

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(in thousands, except number of shares)

	Par Value - \$0.01						Accumulated Other Comprehensive Loss
	<u>Total</u>	Class A	Class C	Paid in Capital	Retained Earnings	Treasury Stock	
Balance, December 31, 2010	\$ 9,260	\$ 104	\$ 1	\$ 4,455	\$ 5,100	\$ (400)	\$ -
Comprehensive income:							
Net income	4,852	-	-	-	4,852	-	-
Unrealized gain (loss) on marketable securities	(6)	-	-	-	-	-	(6)
Total comprehensive income	4,846						
Issuance of restricted shares, net of forfeitures	222	1	-	221	-	-	-
Issuance of common shares, net upon exercise of vested stock options	(41)	1	-	(42)	-	-	-
Compensation expense for stock option vesting	334	-	-	334	-	-	-
Tax benefit on stock-based compensation expense	59	-	-	59	-	-	-
Dividends	(1,676)	-	-	-	(1,676)	-	-
Repurchase of common stock for treasury stock	(132)	-	-	-	-	(132)	-
Balance, December 31, 2011	\$ 12,872	\$ 106	\$ 1	\$ 5,027	\$ 8,276	\$ (532)	\$ (6)
Comprehensive income:							
Net income	5,477	-	-	-	5,477	-	-
Unrealized gain (loss) on marketable securities	6	-	-	-	-	-	6
Total comprehensive income	5,483						
Issuance of restricted shares, net of forfeitures	558	2	-	556	-	-	-
Issuance of common shares, net upon exercise of vested stock options	(11)	-	-	(11)	-	-	-
Compensation expense for stock option vesting	400	-	-	400	-	-	-
Tax benefit on stock-based compensation expense	78	-	-	78	-	-	-
Dividends	(4,802)	-	-	-	(4,802)	-	-
Repurchase of common stock for treasury stock	(63)	-	-	-	-	(63)	-
Balance, December 31, 2012	\$ 14,515	\$ 108	\$ 1	\$ 6,050	\$ 8,951	\$ (595)	\$ -

See accompanying notes to consolidated financial statements

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	2012	2011	2010
Cash flows from operating activities			
Net income	\$ 5,477	\$ 4,852	\$ 2,935
Adjustments to reconcile net cash provided by operating activities			
Depreciation and amortization	\$ 1,622	\$ 1,358	\$ 1,017
Provision for bad debts	\$ 219	\$ 393	\$ 1,544
Share-based compensation	\$ 958	\$ 555	\$ 625
Excess tax benefit from share-based compensation	\$ (78)	\$ (59)	\$ (59)
Deferred rent	\$ (122)	\$ 215	\$ 58
Deferred income taxes	\$ (272)	\$ 241	\$ (133)
Loss on disposal of fixed assets	\$ 3	\$ 105	\$ -
Other non-cash items	\$ 6	\$ -	\$ (269)
Changes in working capital:			
Accounts receivable	\$ 494	\$ (2,258)	\$ (1,012)
Prepaid expenses and other current assets	\$ (327)	\$ (36)	\$ 271
Prepaid income taxes	\$ (38)	\$ 275	\$ (366)
Accounts payable	\$ (110)	\$ 242	\$ (405)
Accrued expenses and other current liabilities	\$ (216)	\$ 895	\$ 60
Income tax payable	\$ 78	\$ -	\$ -
Income tax reserve	\$ (29)	\$ (7)	\$ 431
Deferred revenue	\$ 1,042	\$ 2,329	\$ 1,568
Cash provided by operating activities	\$ 8,707	\$ 9,100	\$ 6,265
Cash flows from investing activities			
Purchases of property and equipment	\$ (1,346)	\$ (2,426)	\$ (980)
Purchases of short-term investments	\$ -	\$ (3,105)	\$ (92)
Sales of short-term investments	\$ 1,297	\$ 1,802	\$ -
Security deposits	\$ -	\$ (28)	\$ -
Cash used in investing activities	\$ (49)	\$ (3,757)	\$ (1,072)
Cash flows from financing activities			
Payments on term loans	\$ -	\$ (92)	\$ (1,939)
Dividends paid	\$ (5,221)	\$ (1,671)	\$ (1,581)
Proceeds from the exercise of stock options	\$ 83	\$ 47	\$ 128
Withholding taxes paid related to cashless exercise of stock options	\$ (94)	\$ (87)	\$ (142)
Excess tax benefits from the exercise of non-qualified stock options	\$ 78	\$ 59	\$ 59
Purchase of treasury stock	\$ (63)	\$ (132)	\$ (400)
Cash used in financing activities	\$ (5,217)	\$ (1,876)	\$ (3,875)
Net increase in cash	\$ 3,441	\$ 3,467	\$ 1,318
Cash at beginning of period	\$ 10,170	\$ 6,703	\$ 5,385
Cash at end of period	\$ 13,611	\$ 10,170	\$ 6,703
Cash paid during period for:			
Interest	\$ -	\$ -	\$ 92
Income taxes	\$ 3,839	\$ 1,768	\$ 2,195
Non-cash investing and financing activities:			
Accrued dividends	\$ -	\$ 419	\$ 414
Property and equipment included in accounts payable or accrued expenses	\$ 202	\$ 96	\$ -

See accompanying notes to consolidated financial statements

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)

Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

NOTE 1. DESCRIPTION OF BUSINESS

Overview

OTC Markets Group Inc. (OTCQX: OTCM) operates Open, Transparent and Connected financial marketplaces for 10,000 U.S. and global securities. The OTC Link® ATS directly links a diverse network of broker-dealers that provide liquidity and execution services for a wide spectrum of securities.

OTC Markets Group organizes these securities into marketplaces to inform investors of opportunities and risks: OTCQX®, The Best Marketplace with Qualified Companies; OTCQB®, The Venture Stage Marketplace with U.S. Reporting Companies; and OTC Pink®, The Open Marketplace with Variable Reporting Companies. The Company's data-driven platform enables investors to easily trade through the broker of their choice at the best possible price and empowers a broad range of companies to improve the quality and availability of information for their investors.

The Company's mission is to create better informed and more efficient financial marketplaces.

The Company has three lines of business: OTC Link ATS Trading Services, Market Data Licensing and Issuer Services. Each line offers a variety of services.

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

The Company also operates www.otcmarkets.com, a website containing market data and trading-related information on OTC securities. Financial services firms, online brokerage firms, and fund managers catering to individual investors advertise on www.otcmarkets.com to promote investor awareness of their respective products and services.

Corporate Form

Prior to March 31, 2008, the Company was organized and operated as a limited liability company under the name Pink Sheets LLC (the "LLC"). On March 31, 2008, the LLC was converted, via a "formless conversion" under Section 265 of the Delaware General Corporation Law, from a Delaware limited liability company to a Delaware corporation named Pink OTC

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)

Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

Markets Inc. On January 18, 2011, Pink OTC Markets Inc. changed its name to OTC Markets Group Inc. The Company is a "C" Corporation for federal, state, and local income tax purposes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America and include the accounts of the Company and its wholly-owned subsidiary, OTC Link LLC (formerly Pink Link ATS LLC). All significant intercompany transactions have been eliminated in consolidation. Management assessed the segment reporting standards and 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 are one reportable segment.

Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

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

The OTC Link ATS Trading Services business line collects monthly license, subscription and connectivity fees to use the OTC Link interdealer quotation and messaging platform. Fees for use of the proprietary OTC Dealer application are based on the number of authorized users per subscriber, and are calculated based on a tiered-pricing arrangement. Broker-dealers also pay usage fees, based on a tiered pricing arrangement, to publish quotes and negotiate with counterparties on the OTC Link ATS. The Company does not charge fees for quotes of any securities that are listed on NYSE, NYSE Amex Equities or NASDAQ. These fees are recognized over the service period and as transactions occur. The unrealized portion of monthly invoiced subscription fees are recorded as deferred revenue on the consolidated balance sheets. OTC Link pays rebates to Order Management System resellers of OTC Link ATS services, which are recorded as a reduction of gross revenues.

Market Data Licensing revenue is generated from charging subscribers to access OTC market data and security information collected through the Company's OTC Link ATS Trading Services

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)

Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

line of business. Investors, traders, institutions, and others pay monthly license fees to access the Company's market data. The majority of Market Data Licensing revenues result from sales through major market data redistributors, who earn redistribution fees for the resale of the Company's proprietary information, which are recorded as a reduction of gross revenues. These fees are recognized as services are rendered. OTC Markets Group records revenues from certain market data license subscription agreements on a pro rata basis over the life of the subscription agreement; the unrealized portion is recorded as deferred revenue on the consolidated balance sheets.

Fees paid by companies to qualify for the OTCQX marketplace are recognized on a pro rata basis over the calendar year in which the services are provided. Fees for the premium services offered by the Company's Issuer Services business line are recognized on a straight-line basis over the service period, typically semi-annually or annually. The unrealized portion of invoiced subscription fees are recorded as deferred revenue on the consolidated balance sheets.

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

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

Property and Equipment

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

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

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)

Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

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

Long-lived Asset Impairments

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

Goodwill and Indefinite-Lived Intangible Asset Impairments

OTC Markets Group reviews the carrying value of goodwill and indefinite-lived intangible assets for impairment annually and more frequently if triggering events occur. The Company first assesses qualitative factors, such as operating results, business plans, anticipated future cash flows and other market data, to determine whether it is more likely than not that the fair value of the business is less than its carrying amount, including goodwill. Quantitative testing is only performed if the qualitative assessment concludes it is more likely than not that the fair value of a reporting unit is less than its carrying amount. There are inherent uncertainties related to these factors which require judgment in applying them to the analysis of goodwill and indefinite lived intangible assets for impairment. An impairment loss is triggered if the estimated fair value is less than its estimated net book value and would reduce goodwill.

Share-based Compensation

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

Comprehensive Income

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

Fair Value Measurement

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

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets and liabilities in an active market
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace
- Level 3 – Unobservable inputs that are supported by little or no market activity

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)

Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

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. All of the Company's financial instruments have been determined to be Level 1 tier.

During 2012, the Company allowed all of the short-term securities to mature and then sold them upon maturity. Therefore, the Company held no cash equivalents or short-term investments as of December 31, 2012.

Assets that were measured at fair value as of December 31, 2011 were as follows:

(in thousands)	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Money market funds ⁽¹⁾	718	718	-	-
Marketable securities	1,297	1,297	-	-
	\$ 2,015	\$ 2,015	\$ -	\$ -

(1) amounts are included in cash and cash equivalents

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

Income Taxes

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

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

Recently Adopted Accounting Standards

In May 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standards update with new guidance on fair value measurement and some enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for Level 3 measurements based on unobservable inputs. The standards update is effective for fiscal years beginning after December 15, 2011. The adoption of this standard did not have a material impact on the consolidated financial statements.

In June 2011, the FASB issued an accounting standards update with new guidance on the presentation of other comprehensive income. The standards update eliminates the option of presenting other comprehensive income and its components in the statement of shareholders'

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)

Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

equity. An entity is now required to present components of net income and other comprehensive income in one continuous statement or in two separate but consecutive statements. In December 2011, the FASB issued an amendment that supersedes certain pending paragraphs of the June 2011 accounting standards update to effectively defer changes that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The Company chose to adopt this standard through the one statement approach, as reflected in the consolidated statements of income and other comprehensive income.

In September 2011, the FASB issued an accounting standards update with new guidance on annual goodwill impairment testing. The standards update allows an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, based on its qualitative assessment, an entity concludes it is more likely than not that the fair value of a reporting unit is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. The standards update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company elected to early adopt the standards update effective October 1, 2011.

In July 2012, the FASB issued an accounting standards update permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results. Similar to the goodwill impairment testing guidance, an entity will have an option not to annually calculate the fair value of an indefinite-lived intangible asset, on an annual basis, if the entity determines that it is more likely than not that the asset is not impaired. The Company adopted this standard effective October 1, 2012 and was applied during the 2012 annual impairment test.

Recently Issued Accounting Standards

In December 2011, the FASB issued an accounting standards update requiring new disclosures about financial instruments and derivative instruments that are either offset by, or subject to, an enforceable master netting arrangement or similar agreement. The standards update is effective for fiscal years beginning after December 15, 2012. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

NOTE 3. CONCENTRATIONS AND UNCERTAINTIES

During the years ended December 31, 2012, 2011 and 2010, market data revenues earned through one market data distributor amounted to approximately 13%, 14% and 15% of the Company's gross revenues, respectively. Additionally, at December 31, 2012 and 2011, accounts receivable from that same subscriber amounted to 15% and 14%, respectively, of the Company's accounts receivable.

During 2012, revenues earned from Canadian companies amounted to approximately 11% of the Company's gross revenues. Amounts earned during 2011 and 2010 from Canadian companies were under 10% of the Company's gross revenues.

In November 2009, FINRA filed with the Securities and Exchange Commission ("SEC") a proposed rule change to create a Quotation Consolidation Facility ("QCF") that would serve as a

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)

Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

commercial data consolidator and disseminator for quote data in the OTC equity market (the “QCF Proposal”), which, if approved, would reduce the Company’s ability to generate revenues from market data licensing. Market data licensing represented approximately 39% and 40% of the Company’s revenues for the years ended December 31, 2012 and 2011, and if the QCF Proposal is adopted it would have negatively impacted approximately 45% of the Company’s 2012 market data licensing revenues.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

(in thousands)	December 31,		Estimated useful lives (Years)
	2012	2011	
Computer software	\$ 602	\$ 943	2 - 3
Computer equipment	2,818	1,626	3 - 5
Furniture and fixtures	986	802	5 - 7
Leasehold improvements	4,321	4,306	Term of lease
Total property and equipment	8,727	7,677	
Accumulated depreciation and amortization	(3,661)	(2,534)	
Total property and equipment, net	\$ 5,066	\$ 5,143	

Depreciation and amortization on property and equipment, included in the consolidated statements of income and other comprehensive income, amounted to \$1,622, \$1,310 and \$965 for the years ended December 31, 2012, 2011 and 2010, respectively. During 2011, the Company disposed of approximately \$940 in assets that had a net book value of approximately \$47 and recorded total fixed asset losses of approximately \$145, which included approximately \$41 related to cash paid for a lease buyout.

NOTE 5. GOODWILL AND INTANGIBLE ASSETS

Intangible assets consisted of the following:

(in thousands)	December 31,		Estimated useful lives (Years)
	2012	2011	
Goodwill	\$ 251	\$ 251	Indefinite
Intangible assets:			
Subscription services	150	150	8-15
Distributor relations	27	27	15
Intellectual property	40	40	Indefinite
Total intangible assets	217	217	
Accumulated amortization	(177)	(177)	
Intangible assets, net	\$ 40	\$ 40	

Amortization of finite-lived intangible assets, included in the consolidated statements of income and comprehensive income, amounted to \$0, \$48 and \$52 for the years ended December 31, 2012, 2011 and 2010, respectively, and were fully amortized as of December 31, 2011. No impairment charges were recorded to goodwill or intangible assets for the years ended December 31, 2012, 2011 and 2010.

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

NOTE 6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

(in thousands)	December 31,	
	2012	2011
Payroll and employee withholdings	\$ 2,074	\$ 1,944
Deferred compensation	123	155
Accrued operating expenses	530	725
Accrued sales tax reserve	-	137
Deferred rent	141	105
Total accrued expenses and other	\$ 2,868	\$ 3,066

NOTE 7. STOCK-BASED COMPENSATION

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

A summary of the Company's option activity for the years ended December 31, 2012 and 2011 is as follows:

(in thousands, except W/A exercise price)	Stock options	Weighted-average exercise price	Aggregate intrinsic value	Remaining contractual term (years)	
				(years)	(years)
Outstanding, December 31, 2010	881	\$ 4.17	\$ 1,831	8.02	
Granted	222	6.07	-	9.52	
Exercised	(94)	2.44	295	5.15	
Forfeited	(189)	5.43	150	N/A	
Outstanding, December 31, 2011	820	4.59	1,025	7.73	
Granted	178	7.54	-	9.53	
Exercised	(79)	2.68	350	5.19	
Forfeited	(68)	6.21	91	N/A	
Outstanding, December 31, 2012	851	5.25	1,999	7.39	
Exercisable, December 31, 2012	374	\$ 3.85	\$ 1,380	5.99	

The Company recognized compensation expense related to stock options, net of estimated forfeitures, of \$400, \$334 and \$347 for the years ended December 31, 2012, 2011 and 2010, respectively. Management has estimated forfeiture rates of 4% for stock options granted to management and 13% for stock options granted to other employees. Such charges are included in compensation and benefits expense on the consolidated statements of income.

At December 31, 2012, unrecognized compensation cost related to non-vested awards totaled \$935, which will be recognized over approximately 3.5 years.

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)

Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

The weighted-average assumptions used in the Black-Scholes option pricing model for 2012, 2011 and 2010 are as follows:

	Year ended December 31,		
	2012	2011	2010
Risk free interest rate	1.04%	1.94%	2.35%
Expected life in years	6.50	6.50	6.50
Expected volatility	53%	54%	55%
Expected annual dividend per share	2.67%	2.42%	0.00%
Weighted average fair value of options granted	\$ 2.61	\$ 3.43	\$ 3.21

A summary of the Company's non-vested stock option activity for the year ended December 31, 2012 is as follows:

	Number of options	Weighted-average fair value	Remaining contractual life
Unvested balance at January 1, 2012	527	\$ 2.49	8.44
Granted	178	2.61	
Modified	-	-	
Forfeited	(59)	2.73	
Vested	<u>(169)</u>	2.37	
Non-vested options at December 31, 2012	477	\$ 2.55	8.48

The chart below presents a summary of the Company's restricted stock and performance award activity for the years ended December 31, 2012 and 2011:

(in thousands, except W/A fair value)	Restricted stock	Weighted-average fair value	Aggregate intrinsic value
Outstanding, December 31, 2010	55	\$ 4.00	\$ 328
Granted	128	5.85	683
Vested	(35)	3.53	N/A
Forfeited	<u>(14)</u>	5.40	73
Outstanding, December 31, 2011	134	5.74	718
Granted	196	6.05	1,476
Vested	(63)	5.70	N/A
Forfeited	<u>(17)</u>	5.79	129
Outstanding, December 31, 2012	250	\$ 5.99	\$ 1,888

The Company recognized compensation expense, net of estimated forfeitures, of \$394, \$175 and \$92 for the years ended December 31, 2012, 2011 and 2010, respectively. Management has estimated forfeiture rates of 0% for RSAs granted to management and 2% for RSA's granted to other employees. In addition, the Company also recognized professional fees of \$164, \$46 and \$186 for the years ended December 31, 2012, 2011 and 2010, respectively, related to the issuance of restricted stock and performance awards to the Board of Directors.

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)

Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

A summary of the Company's non-vested RSA activity for the year ended December 31, 2012 is as follows:

	Number of RSA's	Weighted-average fair value	Remaining contractual life
Unvested balance at January 1, 2012	134	\$ 5.74	9.00
Granted	196	6.05	9.18
Modified	-	-	-
Forfeited	(17)	5.79	N/A
Vested	<u>(63)</u>	5.70	N/A
Non-vested options at December 31, 2012	250	\$ 5.99	8.81

At December 31, 2012, unrecognized compensation cost related to non-vested awards totaled \$1,102, which will be recognized over approximately three years.

NOTE 8. DEBT

OTC Markets Group maintains a commercial banking relationship with JPMorgan Chase. On July 7, 2012, the Company entered into a line of credit agreement with JPMorgan Chase (the "Line of Credit") that made up to \$1.5 million available for business operations through July 7, 2013. We did not draw 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. The company has not been in default of any covenant or other terms of the Line of Credit during 2012.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Operating leases

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

As of December 31, 2012, future minimum lease payments under the leases are as follows:

Fiscal year	Payments due
2013	1,261
2014	1,298
2015	1,336
2016	1,289
2017	616
Total	\$ 5,800

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)

Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

Occupancy expense included in the consolidated statements of income and other comprehensive income was \$1.4 million, \$1.5 million and \$1.3 million for the years ended December 31, 2012, 2011 and 2010, respectively.

At December 31, 2012, the Company had an open letter of credit of approximately \$180, which secures its obligation under the New York City office lease. The letter of credit is collateralized by a certificate of deposit and all other assets, as defined in the security agreement. Total security deposits on the Company's office leases were \$209 as of each of December 31, 2012 and 2011, respectively.

Legal Matters

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

NOTE 10. EMPLOYEE BENEFIT PLAN

The Company has a 401(k) Plan for all eligible employees. Subject to federal contribution limits, the Plan permits each participant to contribute up to 15% of the participant's annual compensation and allows the Company to make discretionary contributions. In 2008, the Company established an "Employer Non-Elective Discretionary Contribution" feature for its 401(k) Plan. The Company elected to contribute \$224, \$187 and \$164 for the annual periods ended December 31, 2012, 2011 and 2010, respectively.

NOTE 11. STOCKHOLDERS' EQUITY

Common Stock

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

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

The Company is authorized to issue an aggregate of 14,130,838 shares of Common Stock at \$0.01 par value, comprised of: 14,000,000 Class A shares and 130,838 Class C shares. As of December 31, 2012 there were a total of 10,945,460 shares issued and 10,830,885 shares

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Notes to Consolidated Financial Statements (continued)

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outstanding; the latter was comprised of 10,700,047 Class A shares and 130,838 Class C shares. As of December 31, 2011 there were a total of 10,720,008 shares issued and 10,615,433 shares outstanding; the latter was comprised of 10,484,595 Class A shares and 130,838 Class C shares.

Treasury stock

In August 2011, the Board of Directors authorized the Company to repurchase up to 300,000 shares of Class A Common Stock in compliance with Rule 10b-18 under the Exchange Act. On February 28, 2012, the Company repurchased 10,000 shares of Class A Common Stock at a price of \$6.27 per share, which are held in treasury.

During the year ended December 31, 2011, the Company repurchased 26,406 shares of Class A Common Stock, at prices that ranged from \$5.00 - \$5.35 per share; 26,126 shares were purchased in November 2011 and 280 shares were purchased in December 2011. All repurchased shares are held in treasury.

Dividends

During the years ended December 31, 2012 and 2011, the Company paid cash dividends of \$0.05 and \$0.04, respectively, per share of Class A common stock on a quarterly basis. The Company also paid a special dividend of \$0.25 per share of Class A common stock during the fourth quarter of 2012. Dividends payable recorded on the consolidated balance sheets relating to the Company's quarterly dividends totaled \$0 and \$419 at December 31, 2012 and 2011, 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 7 "Stock-Based Compensation"). In November 2012, the Board of Directors authorized the increase in the number of shares available for issues under the Plan by 200,000 shares.

NOTE 12. INCOME TAXES

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

(in thousands)	2012	2011	2010
Current:			
Federal	\$ 2,940	\$ 1,456	\$ 1,688
State and local	840	442	572
Total current	\$ 3,780	\$ 1,898	\$ 2,260
Deferred:			
Federal	(222)	467	(124)
State and local	(49)	(226)	(9)
Total deferred	(271)	241	(133)
Provision for income taxes	\$ 3,509	\$ 2,139	\$ 2,127

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Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

The Company's effective income tax rate was 39% and 31% for fiscal years 2012 and 2011, respectively. The 2012 rate reflects the inclusion of state and local income taxes as compared to the federal statutory rate of 34%. The 2011 rate was lower than the federal statutory rate primarily due to a R&D tax credit and a benefit from a 2008 IRS audit. The decrease was offset by an increase related to state and local taxes, net of federal benefit. There were no discrete items that impacted the 2012 provision.

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

(in thousands)	Year Ended December 31,	
	2012	2011
Current deferred tax assets:		
Allowance for doubtful accounts	\$ 88	\$ 105
Deferred rent	56	41
Deferred compensation	49	61
Deferred tax asset on income tax reserve	-	32
Other reserves	10	54
Current deferred tax assets:	\$ 203	\$ 293
Non-current deferred tax assets:		
Share-based compensation	\$ 547	\$ 398
Deferred rent	312	364
Deferred tax asset on income tax reserve	86	61
Other reserves	29	-
Non-current deferred tax assets	974	823
Non-current deferred tax liabilities:		
Property and equipment	(1,055)	(1,289)
Other reserves	(32)	(9)
Non-current deferred tax liabilities	(1,087)	(1,298)
Net, non-current deferred tax liabilities	\$ (113)	\$ (475)

As required by the uncertain tax position guidance in ASC Topic 740, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon settlement with the relevant tax authority. In connection with the assessment of certain tax positions, a reconciliation of the gross unrecognized tax liabilities for the years ended December 31, 2012 and 2011 is as follows:

(in thousands)	Year Ended December 31,	
	2012	2011
Beginning balance		
	\$ 252	\$ 287
Increases based on tax positions taken during the current period	66	85
Decreases based on tax position taken during a prior period	(92)	(120)
Ending balance	\$ 226	\$ 252

It is not reasonably possible that any unrecognized tax benefits, related to state nexus will reverse within the next twelve months due to expected settlements with taxing authorities. The total amount of uncertain tax positions that if recognized would impact the Company's effective tax rate as of December 31, 2012, is \$191.

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)

Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of tax expense. During the years ended December 31, 2012 and 2011, the Company reduced the amount of interest and penalties due on income tax reserves by \$4 and \$30, respectively. As of December 31, 2012 and 2011, the Company had \$50 and \$54 of interest and penalties accrued, respectively.

The Company is subject to income taxes in the U.S. federal jurisdiction and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The 2009, 2010 and 2011 tax years remain subject to examination by the Internal Revenue Service (IRS) and 2008, 2009, 2010 and 2011 tax years remain subject to examination by various state taxing authorities. The Company does not believe that the outcome of any examination will have a material impact on its financial statements.

NOTE 13. NET INCOME PER SHARE

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

The calculations of earnings per share under the two class method are as follows:

Basic Earnings per common share

	Year ended December 31,		
(in thousands, except shares and per share data)	2012	2011	2010
Net income available to common shareholders	\$ 5,477	\$ 4,852	\$ 2,935
Less: Undistributed earnings allocated to unvested RSAs	(3)	(40)	(7)
Less: Dividend equivalents on unvested RSAs	(113)	(21)	(9)
Net Income allocated to common shareholders	5,361	4,791	2,919
Shares of common stock and common stock equivalents			
Weighted-average common shares outstanding	<u>10,539,142</u>	<u>10,473,811</u>	<u>10,419,555</u>
Basic earnings per share	\$ 0.51	\$ 0.46	\$ 0.28

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

Diluted Earnings per common share

(in thousands, except shares and per share data)	Year ended December 31,		
	2012	2011	2010
Net income available to common shareholders	\$ 5,477	\$ 4,852	\$ 2,935
Less: Undistributed earnings allocated to unvested RSAs	(3)	(40)	(7)
Less: Dividend equivalents on unvested RSAs	(113)	(21)	(9)
Net Income allocated to common shareholders	5,361	4,791	2,919
 Shares of common stock and common stock equivalents			
Weighted-average common shares outstanding	10,539,142	10,473,811	10,419,555
Dilutive effect of employee stock options and restricted stock units	69,374	67,007	109,953
Weighted-average shares used in diluted computation	10,608,516	10,540,818	10,529,508
Diluted earnings per share	\$ 0.51	\$ 0.45	\$ 0.28

As of December 31, 2012, 2011 and 2010, 250, 134 and 55 restricted stock awards, respectively, and stock options to purchase 851, 820 and 881 shares of common stock, respectively, were outstanding. For the years ended December 31, 2012 and 2011, 106 and 359 awards, respectively, were excluded from the diluted earnings per share computation because their effect would have been anti-dilutive.

NOTE 14. QUARTERLY FINANCIAL DATA (unaudited)

The following represents OTC Markets Group's unaudited quarterly results for the years ended December 31, 2012 and 2011. These quarterly results were prepared in accordance with generally accepted accounting principles and reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results. These adjustments are of a normal recurring nature.

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2012				
Net revenues	\$ 8,084	\$ 8,421	\$ 8,229	\$ 8,450
Operating Income	2,132	2,464	1,866	2,494
Net Income	1,280	1,464	1,154	1,579
Basic earnings per share	\$ 0.12	\$ 0.14	\$ 0.11	\$ 0.14
Diluted earnings per share	\$ 0.12	\$ 0.14	\$ 0.11	\$ 0.14
2011				
Net revenues	\$ 7,141	\$ 7,573	\$ 7,584	\$ 8,465
Operating Income	1,574	1,799	1,919	1,814
Net Income	990	1,242	1,320	1,300
Basic earnings per share	\$ 0.09	\$ 0.12	\$ 0.12	\$ 0.12
Diluted earnings per share	\$ 0.09	\$ 0.12	\$ 0.12	\$ 0.11

OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)

Notes to Consolidated Financial Statements (continued)

(in thousands, except per share information)

NOTE 15. RELATED PARTY TRANSACTIONS

A consulting firm, of which a member of the Company's Board of Directors is the principal owner, has a verbal consulting agreement with OTC Markets Group to provide expertise related to trading system design and specifications on an as-needed basis. During 2012, 2011 and 2010, the Company paid the consulting firm \$88, \$80 and \$72, respectively.

NOTE 16. SUBSEQUENT EVENTS

For purposes of disclosure in the financial statements, the Company has evaluated subsequent events through March 12, 2013, the date the financial statements were available to be issued.

Effective January 1, 2013, the Company entered into comprehensive services agreement with ADP®, Inc. ("ADP") under which ADP will provide services similar to those previously provided by the Company's former professional employer organization, Insperity, but at a significantly lower cost and, we anticipate, with greater functionality. Unlike the Company's relationship with Insperity, the Company's employees will not enter into a co-employment relationship with ADP.

In January 2013, the Company granted to certain employees shares of its Class A Common Stock subject to the terms of Restricted Stock Agreements between the Company and each employee.

On February 26, 2013, the Board of Directors authorized and approved a quarterly cash dividend of \$0.06 per share of Class A common stock.

NOTE 17. REGULATORY AUTHORITIES

OTC Link LLC is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 as amended (the "Exchange Act"). Rule 15c3-1 requires the maintenance of net capital, as defined, which shall be the greater of \$5 or 12.50% of aggregate indebtedness, as defined. OTC Link LLC's regulatory net capital as of December 31, 2012 was \$3,249, which exceeded the minimum net capital requirement by \$3,078.

EXHIBIT 2.1

CERTIFICATION OF PRINCIPAL EXECUTIVE

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

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

/s/ R. Cromwell Coulson

R. Cromwell Coulson
Chief Executive Officer

March 12, 2013

Date

EXHIBIT 2.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

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

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

/s/ Wendy E. Fraulo

Wendy E. Fraulo
Chief Financial Officer

March 12, 2013

Date