

# OTC MARKETS GROUP INC.

A Delaware Corporation

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

## Issuer's Quarterly Report

For the quarterly period ended March 31, 2012

### ISSUER'S EQUITY SECURITIES

#### COMMON STOCK

Class A Common Stock  
\$0.01 Par Value Per Share  
14,000,000 Shares Authorized  
10,632,003 Shares Outstanding as of April 30, 2012  
**OTCQX: OTCM**

Class C Common Stock  
\$0.01 Par Value Per Share  
130,838 Shares Authorized  
130,838 Shares Outstanding as of April 30, 2012

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

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# **OTC MARKETS GROUP INC.**

**A Delaware Corporation**

## **QUARTERLY REPORT**

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

Information set forth in this Quarterly Report (the “Quarterly Report”) contains forward-looking statements, which involve a number of risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Forward-looking statements can be identified by use of the words “expect,” “project,” “may,” “might,” “potential,” and similar terms. OTC Markets Group Inc. (“OTC Markets Group”, “we” or the “Company”) cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information. Forward-looking statements involve a number of risks, uncertainties or other factors beyond OTC Markets Group’s control. These factors include, but are not limited to, our ability to implement our strategic initiatives, economic, political and market conditions and price fluctuations, government and industry regulation, U.S. and global competition, and 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 our Annual Report for the year ended December 31, 2011. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

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

The name of the issuer is OTC Markets Group Inc. 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 the world’s largest Open, Transparent and Connected marketplace platform, delivering price transparency in almost 10,000 OTC securities.

Our OTC Link<sup>®</sup> trading system directly links broker-dealers that provide liquidity and execution services. We organize the wide spectrum of OTC-traded equity securities into three marketplaces to inform investors of opportunities and risks – OTCQX<sup>®</sup> - The Intelligent Marketplace for the Best OTC Companies; OTCQB<sup>®</sup> - The Venture Marketplace; and OTC Pink<sup>®</sup> - The Open Marketplace.

Our information-driven marketplace platform provides the information to intelligently trade through any broker at the best possible price, and empowers companies to build the best markets for their investors.

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

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

**Facsimile: (212) 868-3848**

The issuer's website:

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

Investor relations contact:

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Tel. (212) 220-2215**

## **Item 2. Shares outstanding**

OTC Markets Group has 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 were no preferred shares outstanding as of the reported period.

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

The following table shows Class A common stock share ownership as of March 31, 2012:

(i) Number of shares authorized	14,000,000
(ii) Number of shares outstanding	10,632,003
(iii) Number of shares freely tradable <sup>(1) (2)</sup>	5,624,972
(iv) Total number of beneficial shareholders	244
(v) Total number of holders of record	120

Notes:

- (1) The number of shares freely tradable may include shares held by certain 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 4.95 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.

The CUSIP numbers for our common stock are: 67106F108 for Class A common stock and 67106F207 for Class C common stock.

Our Class A common stock trades on the OTCQX marketplace, under the symbol OTCM. Our Class C common stock does not have a trading symbol and does not have a public market. All

authorized shares of our Class C common stock are outstanding and are held by R. Cromwell Coulson, our Chief Executive Officer.

#### *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.

On 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 will be paid on July 5, 2012 to our stockholders of record as of June 19, 2012.

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

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

Copies of the unaudited interim condensed consolidated financial statements of OTC Markets Group for the three month period ended March 31, 2012, including the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Income and Comprehensive Income, Condensed Consolidated Statements of Cash Flows, Condensed Consolidated Statements of Stockholders' Equity and Notes to the Financial Statements, are attached hereto as Exhibit 3.1 and are hereby incorporated by reference into this Quarterly Report.

The unaudited interim condensed consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States, or U.S. GAAP. The accompanying unaudited interim condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal recurring nature. As permitted under U.S. GAAP, certain footnotes or other financial information can be condensed or omitted in the interim condensed financial statements. The results of operations for the three month period ended March 31, 2012 are not necessarily indicative of future results. These unaudited interim condensed financial statements should be read in conjunction with the financial statements and related notes included in our Annual Report for the year ended December 31, 2011. The December 31, 2011 unaudited Condensed Consolidated Balance Sheet was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. Operating results for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2012.

## **Management's discussion and analysis**

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

#### **Overview**

OTC Markets Group Inc. (OTCQX: OTCM) operates the world's largest Open, Transparent and Connected marketplace platform, delivering price transparency in almost 10,000 OTC securities.

Our OTC Link<sup>®</sup> trading system directly links broker-dealers that provide liquidity and execution services. We organize the wide spectrum of OTC-traded equity securities into three marketplaces to inform investors of opportunities and risks – OTCQX<sup>®</sup> - The Intelligent Marketplace for the Best OTC Companies; OTCQB<sup>®</sup> - The Venture Marketplace; and OTC Pink<sup>®</sup> - The Open Marketplace.

Due to OTC Markets Group's central position in the OTC market, we generate a significant amount of OTC market data and security information through our Trading Services business. Our market data consists of real-time, end-of-day quotation and trading data, as well as security master and corporate reference data for OTCQX, OTCQB, OTC Pink and Financial Industry Regulatory Authority ("FINRA"<sup>®</sup>) OTC Bulletin Board securities traded in the U.S. OTC market. We use our Market Data Licensing revenues to subsidize our Trading Services so we may deliver premium products and services to our broker-dealer clients at a competitive price.

OTCQX is issuer-qualified, which means companies with securities quoted on OTC Link that meet certain financial standards and disclosure requirements can choose to have their securities designated as OTCQX traded and receive a package of marketplace services. The OTCQX marketplace is designed to enable OTC traded companies to create an information-rich marketplace for their investors in a cost-effective manner.

Other OTC traded companies subscribe to our suite of Issuer Services products and services on an annual basis, with subscription fees paid in advance. These products and services are designed to promote price transparency, facilitate public disclosure, and enable issuers to demonstrate compliance with federal securities laws.

We focus on building better marketplaces with our Open, Transparent and Connected marketplace platform that links broker-dealers and delivers the information to trade smarter. The five core functions our services provide or enhance are: 1) See - widespread price transparency; 2) Meet – efficient trading for buyers and sellers with a diverse choice of liquidity and execution providers; 3) Analyze – company information quality and availability; 4) Reach – open access to a wide circle of broker-dealers; 5) Trust - quality control and reputation verification processes.

Our information-driven marketplace platform makes it easy for investors to trade through any broker at the best possible price, and empowers companies to build the best markets for their investors.

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

OTC Markets Group generates a majority of its revenues through a subscription model. As a result, the majority of our revenues are contract based and recurring in nature. For example, once a broker-dealer decides to trade 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. We pay redistribution fees and

rebates under our agreements with market data redistributors and OMS resellers of our Market Data Licensing and Trading Services products. In Market Data Licensing, our redistribution fees and rebates represented 14% of gross revenue for the three month period ended March 31, 2012.

### *Trading Services*

Our OTC Link trading system enables FINRA member broker-dealers to display prices, attract order flow and conduct trade negotiations in OTC traded securities. OTC Markets Group generates revenues by offering a suite of quotation and trade-messaging services, as well as the QAP One Statement access fee solution service, to broker-dealers operating as market makers, agency brokers and Alternative Trading Systems (“ATS”), including Electronic Communication Networks (“ECN”). Providing these services is fundamental to our business model. During the three month periods ending March 31, 2012 and 2011, gross revenues from our Trading Services business line accounted for approximately 35% and 39%, respectively, of the Company’s gross revenue.

Broker-dealers pay us monthly license, subscription, and connectivity fees to use our OTC Link trading system. Our OTC Dealer<sup>®</sup> application provides broker-dealers a user interface to view and submit quotes for OTC securities and communicate with one another via OTC Link. OTC Link delivers trade negotiation messages electronically, as an alternative to the use of the telephone to execute, negotiate or decline orders.

OTC Dealer, together with separately priced add-on applications, provides full access to OTC Link tickers, quote montages, and multiple watch lists for OTCQX, OTCQB, OTC Pink and FINRA OTC Bulletin Board 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 fully-electronic submission and receipt of quotes, trade messages, and confirmations.

Our broker-dealer customers pay usage fees to (i) publish quotes and (ii) communicate and negotiate with counterparties on the OTC Link interdealer quotation and messaging system. 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 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 as a function of 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 OTC market participants that do not make active markets in OTC securities, OTC Markets Group offers 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, FINRA OTC Bulletin Board and OTC Pink securities.

On March 5, 2012, our wholly-owned subsidiary, OTC Link LLC, gained admission as a broker-dealer member of FINRA. On April 27, 2012, OTC Link LLC filed its initial operations report on

Form ATS, indicating that it plans to operate as an ATS beginning June 1, 2012. With the commencement of ATS operation, we expect that OTC Link LLC will operate the vast majority of our Trading Services products.

### *Market Data Licensing*

OTC Markets Group generates revenues by providing our customers with access to the extensive OTC market data and security information we collect through our Trading Services products. Due to our central position in the OTC market, we are able to collect and resell a variety of OTC market data, including real-time, end-of-day, historical quotation and trading data, security master data and corporate reference data. During the three month periods ending March 31, 2012 and 2011, gross revenues from our Market Data Licensing business line accounted for approximately 39% and 40%, respectively, of the Company's gross revenue.

Broker-dealers, banks, traders, financial advisors, accountants and regulators pay us monthly license fees to access this information. We offer a suite of market data licenses, priced on 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 late 2011, OTC Markets Group entered into agreements to have its market data distributed through the NYSE Technologies' SuperFeed and NASDAQ UltraFeed data feeds, which we expect will ensure 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.
- *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.
- 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 use.
- Security & Company Data Licenses – Security and Company attribute data for compliance, research and analysis use.

### *Issuer Services*

OTC Markets Group generates revenues by providing a suite of products and services that are designed to foster greater levels of timely issuer disclosure, promote price transparency, facilitate communication and mitigate risk in the OTC market. Issuer Services includes the OTCQX marketplace and a suite of additional products and services. During the three month periods ending March 31, 2012 and 2011, gross revenues from our Issuer Services business line accounted for approximately 26% and 21%, respectively, of the Company's gross revenue.

The OTCQX marketplace provides an efficient and cost-effective alternative to a stock exchange by offering solutions tailored to the needs of smaller U.S. and international

companies. The OTCQX marketplace services make available the information required by an intelligent investor to analyze, value and trade an OTCQX company's securities and help solve the problem of state "Blue Sky" law compliance for OTC traded companies so brokers and investment advisors can provide professional guidance when recommending, soliciting or discussing the securities with their clients.

OTCQX is divided into two distinct sections: OTCQX U.S. and OTCQX International. Both sections require that companies meet financial standards, have audited financial statements and be sponsored by professional advisors. OTCQX U.S. companies must be sponsored by a Designated Advisor for Disclosure ("DAD"), and OTCQX International companies are sponsored by a Principal American Liaison ("PAL"). DADs and PALs make up a community of qualified investment banks and securities attorneys, and for PALs only, ADR banks. The community based sponsorship model of OTCQX creates an efficient process for companies to demonstrate their qualifications and reputation to investors.

OTCQX U.S. companies can meet their disclosure obligations by (i) fulfilling their SEC reporting obligations, or (ii) for those not required to report to the SEC, meeting our Alternative Reporting Standard. The SEC reporting option is utilized by companies that are required to be SEC registered because of their shareholder base or prior offering history, have capital raising needs that require registered offerings, or are in the final stages of preparation for exchange listing. For SEC reporting companies, OTCQX U.S. formal DAD review helps demonstrate to investors the quality of their SEC disclosure. The Alternative Reporting Standard is designed for companies using OTCQX as a gateway to the public markets, or for established companies that want to provide high-quality investor information in a cost-effective manner. The Alternative Reporting Standard requires substantial disclosure without imposing the SEC reporting requirements that are designed for large corporations with complex operations.

OTCQX International companies may also be SEC reporting, or may satisfy the International Information Standard by making their home country disclosure available to U.S. investors in English. 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 multiple regulatory reporting obligations. OTCQX International is a cost-effective entry point for international companies seeking to establish visibility with U.S. investors, and is a destination marketplace for established international companies that want to provide for their U.S. investors while recognizing that a majority of their trading occurs in their home country markets.

Domestic and international issuers pay us a one-time application fee and annual fees to have their securities classified on our OTCQX marketplace. These fees are fixed and do not vary based on outstanding shares, market capitalization or otherwise. The OTCQX marketplace includes access to a variety of products and services for the issuer and its investors, including use of our OTC Disclosure and News Service to post financial reports, disclosure documents and news releases; use of the OTCQX Market Center for investor meetings; and a variety of other included services, such as Real-Time Level 2 Quote Display, the OTC Market Report, and the Blue Sky Monitoring Service.

Companies that choose to have their securities trade 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 large majority generally chooses to remain with OTCQX, although some OTCQX issuers have been acquired, merged, chosen to downgrade from OTCQX or moved from OTCQX to an exchange listing.

Issuers that do not choose to qualify their securities for OTCQX may subscribe separately to the following Issuer Services products, which are offered on an annual subscription basis:

- OTC Disclosure and News Service: Online publication and management of financial reports, news releases, and other issuer disclosure materials.
- Real-Time Level 2 Quote Display Service: Issuer-sponsored quotes available free to investors on [www.otcm Markets.com](http://www.otcm Markets.com) and the issuer's website.
- Blue Sky Monitoring Service: Provides analysis, review, and guidance to companies about compliance with each U.S. state's securities laws.

#### Website Advertising

OTC Markets Group charges for the right to display advertisements on [www.otcm Markets.com](http://www.otcm Markets.com). Our clients typically include financial services and investment firms. Our website advertising revenues are included within our Issuer Services line of business.

### Financial Results

Our three lines of business – Trading Services, Market Data Licensing and Issuer Services – are designed to provide a variety of products and services, including trading technologies for FINRA member broker-dealers and comprehensive, real-time and historical market information for broker-dealers, issuers, investors, market data distributors, and regulators at very cost competitive levels. We believe our competitive pricing allows us to maintain our leading market position as a financial and technology services provider to participants in the U.S. OTC market. 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 Statements of Income – Results From Operations

The table below presents comparative information from the Company's unaudited condensed consolidated income statement for the three month periods ended March 31, 2012 and 2011.

(in thousands)	Three Months Ended March 31,		2012 vs. 2011 % change
	2012	2011	
Trading services	\$ 3,014	\$ 3,001	0%
Market data licensing	3,345	3,087	8%
Issuer services	2,209	1,661	33%
Gross revenues	8,568	7,749	11%
Net revenues	8,084	7,141	13%
Operating expenses	5,952	5,567	7%
Income from operations	2,132	1,574	35%
Operating profit margin	26%	22%	
Income before provision for income taxes	2,137	1,583	35%
Net income	\$ 1,280	\$ 990	29%
Diluted earnings per share	\$ 0.12	\$ 0.09	33%

**Revenues.** The following table shows OTC Markets Group's gross revenue by line of business and net consolidated revenue for the three month periods ended March 31, 2012 and 2011, with the percentage change for the periods presented.

(in thousands)	Three Months Ended March 31,		2012 vs. 2011
	2012	2011	% change
Trading services	\$ 3,014	\$ 3,001	0%
Market data licensing	3,345	3,087	8%
Issuer services	2,209	1,661	33%
Gross revenues	8,568	7,749	11%
Redistribution fees and rebates	( 484 )	( 608 )	-20%
Net revenues	\$ 8,084	\$ 7,141	13%

OTC Markets Group has demonstrated revenue growth for the three month period ended March 31, 2012, despite an environment of continuing macroeconomic uncertainty, lower trading volume across the OTC market, and emerging regulatory initiatives. As shown in the table above, gross revenues during the three month period ended March 31, 2012 increased \$819 thousand, or 11%, to \$8.6 million, compared to \$7.8 million during the similar period in 2011.

The increases in gross revenues for the three month period ended March 31, 2012 as compared to the similar periods in 2011, are further described below:

- Overall revenue from Trading Services was flat for the three month period ended March 31, 2012. Revenue from messages on our OTC Link trading system decreased \$81 thousand, or 11%, due to lower trading volume in the OTC market, and we experienced a 9% decrease in the number of OTC Dealer users, which decreased dealer revenue by 6% during the three month period ended March 31, 2012 as compared to the similar period in 2011. These decreases were offset by an increase in revenue from the QAP One Statement service, introduced in December 2011, which contributed \$99 thousand to Trading Services revenue during the first quarter of 2012, and an increase in revenue from quotes on the OTC Link trading system of \$71 thousand, or 8%, due to the increase in the number of securities trading on our OTC Link trading system during the last twelve months.
- Market Data Licensing revenues increased \$258 thousand, or 8%, for the three month period ended March 31, 2012, as compared to the similar period in 2011. The increase was primarily due to a 6% increase in the average number of professional licenses receiving level 2 market data during the first quarter of 2012, which increased revenues from professional licenses by \$104 thousand, or 5%, for the three month period ended March 31, 2012, as compared to the similar period in 2011. Revenues from broker-dealer enterprise licenses increased \$66 thousand in first quarter of 2012 as compared to the similar period in 2011.

Issuer Services revenues increased \$548 thousand, or 33%, for the three month period ended March 31, 2012, as compared to the similar period in 2011. The increase was primarily due to the growth in OTCQX companies from 191 as of March 31, 2011 to 335 as of March 31, 2012, which directly increased revenues from annual OTCQX subscription fees by \$437 thousand, or 54%, for the three month period ended March 31, 2012 as compared to the similar period in 2011. OTC Disclosure and News Service remains a large component of the Issuer Services business line, although it experienced a reduction in revenue of \$64 thousand, or 10%, during the first quarter of 2012 as compared to the similar period in 2011, primarily due to a higher rate of subscriber turnover than with other Issuer Services products.

**Operating Expenses.** As illustrated on the following table, operating expenses increased \$385 thousand, or 7%, during the three month period ended March 31, 2012 as compared to the similar period in 2011.

(in thousands)	Three Months Ended March 31,		2012 vs. 2011
	2012	2011	% change
Compensation and benefits	\$ 3,230	\$ 3,090	5%
IT Infrastructure and data communications	797	872	-9%
Professional and consulting services	508	542	-6%
Marketing and advertising	469	303	55%
Occupancy costs	353	341	4%
Depreciation and amortization	409	266	54%
General, administrative and other	186	153	22%
Total operating expenses	<u>\$ 5,952</u>	<u>\$ 5,567</u>	7%

The changes in operating expenses for the three month period ended March 31, 2012, as compared to the similar periods in 2011, are primarily attributable to the following:

- Compensation and benefits expenses increased \$140 thousand, or 5%, for the three month period ended March 31, 2012 as compared to the similar period in 2011, primarily due to the cost of providing competitive compensation plans to qualified employees, including stock-based compensation expense, discretionary bonuses and sales commissions. As a percentage of gross revenues, compensation and benefits costs decreased to 38% from 40% during the three month periods ended March 31, 2012 and 2011, respectively.
- Marketing expenses increased \$166 thousand, or 55%, for the three month period ended March 31, 2012 as compared to the similar period in 2011, primarily attributable to fees paid to an outside advertising agency, which we used from April 2011 through March 2012. Other increases in marketing expenses were related to an increase in our attendance at and sponsorship of industry events, as well as a general increase in marketing initiatives.
- Depreciation and amortization increased \$143 thousand, or 54%, and reflected our significant capital expenditure investments during 2011.

**Income from Operations.** Income from operations increased \$558 thousand, or 35%, to \$2.1 million for the three month period ended March 31, 2012, as compared to the similar period in 2011, and operating profit margin improved from 22% to 26% during the same time frame. The growth in income from operations and operating profit margin was primarily achieved through management's focus on scaling revenue growth through enhancements to our products and services while slowing the rate of increase of our general operating expenses.

### 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 products and enhance existing products, 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.

The following table summarizes our cash and cash equivalents balances as of March 31, 2012 and 2011, and uses of cash flows during the three month periods ending March 31, 2012 and 2011.

(in thousands)	March 31,	December 31,	2012 vs. 2011 % change
	2012	2011	
Cash and cash equivalents	\$ 11,725	\$ 10,170	15%
Short-term investments	920	1,297	-29%
Cash available for operations	\$ 12,645	\$ 11,467	10%

	Three Months Ended March 31,		2012 vs. 2011 % change
	2012	2011	
Cash provided by operating activities	1,713	2,192	-22%
Cash provided by (used in) investing activities	322	( 2,367 )	-114%
Cash used in financing activities	( 480 )	( 504 )	-5%

**Cash available for operations.** Cash available for operations as of March 31, 2012 increased \$1.2 million to \$12.6 million, as compared to December 31, 2011. Cash flows from operations of \$1.7 million for the three month period ended March 31, 2012 were sufficient to fund our investments in infrastructure of \$56 thousand and our dividend payment of \$419 thousand.

**Cash provided by operating activities.** Cash provided by operating activities for the three month period ended March 31, 2012 was \$1.7 million and was primarily attributable to net income of \$1.3 million and non-cash items, such as depreciation and amortization and stock-based compensation. During the three month period ended March 31, 2012, the net change in working capital used \$69 thousand of cash flow from operations as compared to contributing \$896 thousand to cash flows from operations during the similar period in 2011.

**Cash provided by (used in) investing activities.** Cash provided by investing activities during the three month period ended March 31, 2012 totaled \$322 thousand due to a decision to wind down our short-term investment positions as they mature. Cash flows used in investing activities during the three month period ended March 31, 2011 of \$2.4 million were focused on significant investments in capital expenditures related to the build-out of our New York City headquarters and the Company's initial purchases of short-term investments.

**Cash used in financing activities.** Cash used in financing activities during the three month period ended March 31, 2012 totaled \$480 thousand and primarily consisted of \$419 thousand in dividends paid to our Class A common stock holders and \$63 thousand related to the purchase of treasury stock. During the three month period ended March 31, 2011, the Company paid \$414 thousand in dividends to holders of our Class A common and \$92 thousand related to final payments on term loans the Company had with JPMorgan Chase.

**Capital resources and working capital.** OTC Markets Group's working capital at March 31, 2012 was \$9.9 million, which increased \$1.1 million, or 13%, 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 three month period ended March 31, 2012 was primarily attributable to paying out the discretionary bonuses that were accrued as of December 31, 2011.

## 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.

Revenues from our Trading Services line of business are derived primarily from broker-dealer usage of the OTC Link trading system, followed by the revenues attributable to the OTC Dealer application and add-on products. Our wholly-owned subsidiary, OTC Link LLC, has filed an initial operations report on Form ATS with the SEC, indicating that it plans to begin operating the OTC Link trading system on June 1, 2012. In operating the OTC Link trading system as an ATS, we are not required to, and do not plan to, alter our Trading Services business model. Our Trading Services revenues have been increasing, but at a slower pace than our Market Data Licensing and Issuer Services revenues. The cost of compliance with regulations applicable to a FINRA-member broker-dealer and an ATS registered with the SEC may impact our financial results.

The continued development of new trading technologies in the capital markets business has resulted in increased trading automation, which has led to a greater number of OTC securities being quoted and resulted in increased quotation revenues. Automated trading products generally drive greater consumption of market data, resulting in increased demand for our market data products, which we believe is reflected in increased revenues in our Market Data Licensing business line.

Our market data continues to be consumed by a wider audience. In late 2011, OTC Markets Group entered into agreements to have its market data distributed through the NYSE Technologies' SuperFeed and NASDAQ UltraFeed data feeds, which we expect will ensure continued growth of our market data distribution network.

Our OTCQX marketplace has continued to increase the visibility and volume of OTC 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. We have seen an upswing in recognition and acknowledgement of our tiered 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 businesses.

Our Issuer Services business line, driven primarily by the OTCQX marketplace, continues to be our fastest growing business line in terms of gross revenue. The significant growth in Issuer Services revenues has continued to shift the composition of our revenue mix. For the three months ended March 31, 2012, 39% of gross revenue was generated by our Market Data Services line of business, 35% by our Trading Services line of business and 26% by our Issuer Services line of business; as compared to the three months ended March 31, 2011 when our three business lines generated 40%, 39% and 21% of gross revenue, respectively. 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, including the expansion of the OTCQX DAD/PAL program, which grew 72% to 62 advisors as of March 31, 2012. We expect the increased recognition and understanding of our OTCQX marketplace to lead to continued growth in the number of OTCQX issuers and corresponding revenue based on OTCQX application and annual subscription fees. Our OTCQB marketplace, launched in April 2010, has received increased recognition resulting from the migration of broker-dealer quotes in the securities of U.S. reporting issuers from FINRA's OTC Bulletin Board to OTC Link. We plan

to continue engaging OTCQB issuers and introducing them to our Issuer Services products and services.

## **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").

In April 2010, we formed a wholly owned subsidiary, Pink Link ATS LLC, to operate our interdealer quotation and messaging system. The name of the subsidiary was subsequently changed to OTC Link LLC. On May 7, 2010, OTC Link LLC filed with the SEC a Uniform Application for Broker-Dealer Registration (Form BD), and on August 25, 2010, a New Membership Application (Form NMA) with FINRA.

On January 19, 2012, FINRA granted OTC Link LLC's application for membership. On February 13, 2012, OTC Link LLC executed a Membership Agreement with FINRA. On March 5, 2012, FINRA issued OTC Link LLC a welcome letter making OTC Link LLC an official FINRA member. On April 27, 2012, OTC Link LLC filed an initial operations report on Form ATS with the SEC, indicating that OTC Link LLC plans to begin operating as an ATS on June 1, 2012.

On March 1, 2012, FINRA granted OTC Link LLC an exemption, under FINRA Rules 6183, 6625 and 6731, from equity trade reporting obligations and similar obligations for TRACE-eligible securities, provided OTC Link LLC continues to meet the criteria specified in the rules. Under this exemption, when OTC Link LLC begins operation as an ATS, the trade and TRACE reporting responsibilities of OTC Link LLC's subscribers will not be altered.

We anticipate that a vast majority of our Trading Services operations, including operation of our OTC Link interdealer quotation and messaging system, will be part of OTC Link LLC and therefore subject to regulation and periodic examinations by the SEC and FINRA.

Neither FINRA nor the SEC has stated that we are required to operate as an ECN or make any other fundamental changes to OTC Link's current business model, such as making quotes published by broker-dealers automatically executable orders, and we do not plan to do so.

We will continue to work with FINRA and the SEC as we prepare for OTC Link LLC to begin operating as an ATS. It is not possible at this time to determine the extent, if any, to which our registration as an ATS will affect our financial results.

### **QAP<sup>®</sup> One Statement**

OTC Markets Group has developed a service to assist our subscribers with access fees, or Quote Access Payments (QAP). We have created functionality that allows our broker-dealer subscribers to publish their access fees, pursuant to FINRA Rule 6450, with their quotes on the OTC Link trading system. All subscribers are able to dynamically set access fees or rebates, in real-time and on a per security basis through their already existing OTC Dealer or OTC FIX connections, at no charge. For electing subscribers, OTC Markets Group offers the QAP One Statement factoring service, which effectively purchases the QAP-related receivables of electing subscribers, assumes their credit risk, and collects QAP payments owed by other subscribers. OTC Markets Group introduced the QAP Service and the QAP One Statement factoring service

in December 2011. Revenues generated from this service are included in our Trading Services line of business. The QAP One Statement factoring service is an optional, fee-based service.

### **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 for OTC securities ("NBBO") 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 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 a national best bid or offer 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 trading system, so that FINRA could provide an NBBO for OTC securities for inclusion in the NASDAQ UTP Level One feed. During the first three months of 2012 and 2011, approximately 44% and 47%, respectively, of our total Market Data Licensing revenues were derived from the OTC-BBO. If the SEC approves the QCF Proposal, we expect that we will lose substantially all of this revenue.

Under the QCF Proposal, FINRA would charge its members an additional "per quote" fee of \$4.00 per month (the "FINRA Quote Fee") for each security quoted on an interdealer quotation system such as OTC Link. The FINRA Quote Fee would likely negatively impact our 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 May 8, 2012, 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 to the NASDAQ NMS Plan. 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.

In late 2011, OTC Markets Group entered into agreements to have its market data distributed through the NYSE Technologies' SuperFeed™ and NASDAQ UltraFeed<sup>SM</sup> data feeds. We expect that these data feeds will provide a consolidated feed of OTC securities to the same network of subscribers that would be reached through the NASDAQ UTP Level One feed.

As of May 8, 2012, 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.

### **BX Venture Market**

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. Issuers listed on the BX Venture Market must 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 will also be subject to quantitative listing standards that will be less stringent than those imposed on NASDAQ listed companies. To avoid confusion with NASDAQ listed companies, the BX Venture Market may not hold itself out to be a NASDAQ related market, and companies listing on the BX Venture Market may not state or imply that they are listed on a NASDAQ market.

We expect that the BX Venture Market will 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 issuers, 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 U.S. marketplace, like the BX Venture Market, requires that companies meet financial and qualitative criteria. The OTCQX U.S. standards are designed to support entrepreneurial, owner-operated companies that are seeking a marketplace on which to engage with investors. The BX Venture Market, by contrast, requires companies to meet stringent corporate governance standards typically associated with large companies listed on a national securities exchange.

NASDAQ OMX Group, Inc. has announced that the BX Venture Market is expected to launch during 2012. It is not possible at this time to determine the extent, if any, to which competition from the BX Venture Market will affect our financial results.

### **Sale of FINRA OTC Bulletin Board**

In September 2009, FINRA announced its intention to sell certain Internet properties (the “FINRA OTC Bulletin Board Assets”) related to the FINRA OTC Bulletin Board and withdraw from the business of operating an interdealer quotation system. During 2010 and the first half of 2011, many broker-dealers in OTC equity securities ceased the publication of priced quotations on the FINRA OTC Bulletin Board.

Rodman and Renshaw Capital Group Inc. (“Rodman”) announced on September 14, 2010 that it had entered into an agreement to purchase the FINRA OTC Bulletin Board Assets, subject to completion of definitive agreements. Rodman’s September 2010 announcement stated that the transaction was expected to close during the first quarter of 2011.

On April 12, 2011, the United States Patent and Trademark Office (“USPTO”) refused trademark registration of the terms “OTCBB” and “OTC Bulletin Board”, noting that each term is merely descriptive and appears to be generic. As of August 10, 2011, these terms remain unregistered with the USPTO.

On August 1, 2011, Rodman announced that it had hired two people, including Carl Giangrasso, a former OTC Markets Group employee, to manage an “OTCBB” venture that is intended to be a venue for the trading of unlisted securities. The announcement also indicated that more

information regarding Rodman's purchase of the FINRA OTC Bulletin Board Assets would not be available until early 2012. FINRA does not own, and therefore is not selling, the interdealer quotation system currently operated by FINRA. Accordingly, it is not possible at this time to determine the extent to which Rodman will seek to compete with OTC Link or other services offered by OTC Markets Group.

## **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 the OTC market. 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 of 1933 (the "Securities Act"), (ii) raising the threshold for offerings of securities relying on Regulation A under the Securities Act from \$5 million to \$50 million, (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 502 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. For example, the SEC must propose rules relating to general solicitation within 90 days of the JOBS Act's April 5<sup>th</sup> enactment, and must propose rules regarding crowdfunding within 270 days. SEC rules relating to the increased Regulation A threshold are also required, but the JOBS Act does not impose a timeline on this rulemaking. In addition to mandatory rulemaking, the SEC must also conduct a study of whether "decimalization," or the pricing of securities in increments of pennies rather than in 1/16 fractions of a dollar, originally implemented in 2001, has had an adverse impact on the number of public offerings of small and mid-sized companies.

Depending on the outcome of the mandatory SEC rulemaking and related studies, the JOBS Act may create more securities available to be traded on our platform, which may have a material impact on our business. Specifically, raising the Regulation A offering threshold may create additional capital raising opportunities for companies with securities that will trade on the OTC market. 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 principal of our marketplace platform.

We will continue to follow the progress of the SEC's JOBS Act related rulemaking efforts to assess its ultimate effect on OTC issuers and the OTC market generally. 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

issuers to register securities with the SEC, to the costs of compliance with Section 404(b), which generally requires subject issuers 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 issuers 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 issuers 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 issuers 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 products and services, including OTCQX and the OTC Disclosure and News Service, target SEC reporting issuers and non-reporting issuers, including issuers choosing to deregister with the SEC. OTC Markets Group believes 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. issuers choosing to qualify for OTCQX have been SEC reporting. Accordingly, OTC Markets Group has not discerned any effect on the demand for inclusion on OTCQX or a weakening of demand for the OTC Disclosure and News Service based on the Dodd-Frank Section 404 exemption.

### **Other Recently Proposed FINRA Rules Affecting the OTC Equity Markets**

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, which was subsequently amended by FINRA on April 17, 2012, would have significantly reduced tier sizes, and decreased the number of tier sizes from nine to six. 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. 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 by ATS systems that are not covered under the current version of the rule. On November 10, 2011, OTC Markets Group filed a comment letter regarding FINRA's proposal supporting the expansion of Rule 6433 to all quotations displayed in an interdealer quotation system, but opposing the reduction in tier sizes, and asking that the SEC and FINRA conduct further study of the issue.

On November 30, 2011, the SEC published as a comment letter an email from a member of FINRA's staff arguing against the points raised in OTC Markets Group's November 10 letter and the similar points noted in a comment letter from a large FINRA-member market maker. OTC Markets Group responded to the FINRA email in a comment letter dated December 29, 2011, in which we noted the flaws in FINRA's reasoning and detailed the results of our internal data analysis relating to tier size.

On January 17, 2012, the SEC issued an Order Instituting Proceedings to Determine Whether to Disapprove the Tier Size Proposal. OTC Markets Group submitted a comment letter on the SEC's Order on February 14, 2012, in which we supported the SEC's Order and indicated that we would provide the SEC with quote and trade data from our platform from the month of October 2011. The data provided would allow the SEC to conduct a full-scale analysis of the potential effects of the Tier Size Proposal on the OTC market.

On April 17, 2012, the SEC published FINRA's proposal to amend the Tier Size Proposal (the "Amended Tier Size Proposal"). The Amended Tier Size Proposal increases the proposed minimum tier sizes for quotes in securities priced less than \$1.00, and proposes a 1 year pilot program applicable to all securities displayed on an interdealer quotation system. On May 7, 2012, OTC Markets Group submitted a comment letter pointing out the potential negative impact of the Amended Tier Size Proposal on liquidity and volatility in the OTC market, questioning the data analysis conducted by FINRA, and suggesting that the JOBS Act decimalization study be combined with an in-depth analysis of the Amended Tier Size Proposal's likely effects.

While the Amended Tier Size Proposal, if adopted as proposed, may increase the number of quotations published on OTC Link and therefore may have a short-term positive effect on revenue, we believe that the proposed tier size reduction will degrade market quality, which would have a longer-term adverse effect on the subscribers that use our trading services.

**Item 5. Legal proceedings**

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

**Item 6. Defaults upon senior securities**

None

**Item 7. Other information**

None

**Item 8. Exhibits**

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

**Item 9. Certifications**

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

**EXHIBIT 3.1**

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

	March 31,	December 31,
	2012	2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 11,725	\$ 10,170
Short-term investments	920	1,297
Accounts receivable, net of allowance for doubtful accounts of \$283 and \$268	5,669	7,194
Prepaid income taxes	471	307
Prepaid expenses and other current assets	771	417
Deferred tax assets	293	293
<b>Total current assets</b>	<b>19,849</b>	<b>19,678</b>
Property and equipment, net	4,790	5,143
Goodwill	251	251
Intangible assets, net	40	40
Security deposits	209	209
<b>Total Assets</b>	<b>\$ 25,139</b>	<b>\$ 25,321</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities		
Accounts payable	\$ 591	\$ 629
Accrued expenses and other	1,691	3,066
Dividend payable	532	419
Income tax payable	1,003	-
Income tax reserve	109	109
Deferred revenue	6,015	6,628
<b>Total current liabilities</b>	<b>9,941</b>	<b>10,851</b>
Deferred rent	895	926
Deferred tax liabilities, net	328	475
Income tax reserve	197	197
<b>Total Liabilities</b>	<b>11,361</b>	<b>12,449</b>
<b>Stockholders' equity</b>		
Common stock - par value \$0.01 per share		
Class A - 14,000,000 authorized, 10,746,578 issued, 10,632,003 outstanding at March 31, 2012;		
10,589,170 issued, 10,484,595 outstanding at December 31, 2011	107	106
Class C - 130,838 shares authorized, issued and outstanding at March 31, 2012 and December 31, 2011		
	1	1
Additional paid-in capital	5,246	5,027
Retained earnings	9,024	8,276
Treasury stock - 114,575 shares at March 31, 2012 and 104,575 shares at December 31, 2011	( 595 )	( 532 )
Accumulated other comprehensive loss	( 5 )	( 6 )
<b>Total Stockholders' Equity</b>	<b>13,778</b>	<b>12,872</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 25,139</b>	<b>\$ 25,321</b>

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

**OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(in thousands, except per share data)  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Gross revenues</b>	\$ 8,568	\$ 7,749
Redistribution fees and rebates	( 484 )	( 608 )
<b>Net revenues</b>	<u>8,084</u>	<u>7,141</u>
<b>Operating expenses</b>		
Compensation and benefits	3,230	3,090
Computer operations and data communications	797	872
Professional and consulting services	508	542
Marketing and advertising	469	303
Occupancy costs	353	341
Depreciation and amortization	409	266
General, administrative and other	186	153
Total operating expenses	<u>5,952</u>	<u>5,567</u>
<b>Income from operations</b>	<u>2,132</u>	<u>1,574</u>
<b>Other income/(expense)</b>		
Interest income	7	9
Miscellaneous expense	( 2 )	-
<b>Income before provision for income taxes</b>	<u>2,137</u>	<u>1,583</u>
Provision for income taxes	857	593
<b>Net Income</b>	<u>\$ 1,280</u>	<u>\$ 990</u>
Net income per share		
Basic	\$ 0.12	\$ 0.09
Diluted	\$ 0.12	\$ 0.09
Other comprehensive income:		
Unrealized holding gain (loss) on securities arising during period	1	2
<b>Other comprehensive income</b>	<u>\$ 1,281</u>	<u>\$ 992</u>

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

**OTC MARKETS GROUP INC. (formerly Pink OTC Markets Inc.)**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, except number of shares)  
(Unaudited)

Par Value - \$0.01

	Total	Class A	Class B	Class C	Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss
<b>Balance, December 31, 2009</b>	\$ 7,713	\$ 84	\$ 19	\$ 1	\$ 3,785	\$ 3,824	\$ -	\$ -
Net income	2,935					2,935		
Conversion of Class B shares to Class A	-	19	( 19 )					
Issuance of restricted shares, net of forfeitures	92	-			92			
Issuance of common shares, net upon exercise of vested stock options	( 13 )	1			( 14 )			
Issuance of shares to Directors	186	-			186			
Compensation expense for stock options	347				347			
Tax benefit on stock option exercises	59				59			
Dividends	( 1,659 )					( 1,659 )		
Repurchase of common stock for treasury stock	( 400 )						( 400 )	
<b>Balance, December 31, 2010</b>	<u>\$ 9,260</u>	<u>\$ 104</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 4,455</u>	<u>\$ 5,100</u>	<u>\$ ( 400 )</u>	<u>\$ -</u>
<b>Comprehensive income:</b>								
Net income	4,852	-		-	-	4,852	-	-
Unrealized gain (loss) on marketable securities	( 6 )	-		-	-	-	-	( 6 )
<b>Total comprehensive income</b>	<b>4,846</b>							
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 )	
<b>Balance, December 31, 2011</b>	<u>\$ 12,872</u>	<u>\$ 106</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 5,027</u>	<u>\$ 8,276</u>	<u>\$ ( 532 )</u>	<u>\$ ( 6 )</u>
<b>Comprehensive income:</b>								
Net income	1,280					1,280		
Unrealized gain (loss) on marketable securities	1							1
<b>Total comprehensive income</b>	<b>1,281</b>							
Issuance of restricted shares, net of forfeitures	119	1			118			
Issuance of common shares, net upon exercise of vested stock options	1	-			1			
Compensation expense for stock option vesting	99				99			
Tax benefit on stock-based compensation expense	1				1			
Dividends	( 532 )					( 532 )		
Repurchase of common stock for treasury stock	( 63 )						( 63 )	
<b>Balance, March 31, 2012</b>	<u>\$ 13,778</u>	<u>\$ 107</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 5,246</u>	<u>\$ 9,024</u>	<u>\$ ( 595 )</u>	<u>\$ ( 5 )</u>

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

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

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 1,280	\$ 990
Adjustments to reconcile net cash provided by operating activities		
Depreciation and amortization	409	266
Provision for bad debts	45	15
Share-based compensation	218	125
Excess tax benefit from share-based compensation	( 1 )	( 52 )
Deferred rent	( 22 )	-
Deferred income taxes	( 147 )	( 48 )
Changes in working capital:		
Accounts receivable	1,480	1,111
Prepaid expenses and other current assets	( 354 )	( 234 )
Prepaid income taxes	( 164 )	-
Accounts payable and other	( 38 )	653
Accrued expenses and other	( 1,384 )	( 901 )
Income tax payable	1,004	418
Deferred revenue	( 613 )	( 151 )
<b>Cash provided by operating activities</b>	<b>1,713</b>	<b>2,192</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	( 56 )	( 612 )
Purchases of short-term investments	-	( 1,985 )
Sales of short-term investments	378	230
<b>Cash provided by (used in) investing activities</b>	<b>322</b>	<b>( 2,367 )</b>
<b>Cash flows from financing activities</b>		
Payments on term loans	-	( 92 )
Dividends paid	( 419 )	( 414 )
Proceeds from the exercise of stock options	5	-
Withholding taxes paid related to cashless exercise of stock options	( 4 )	( 50 )
Excess tax benefits from the exercise of non-qualified stock options	1	52
Purchase of treasury stock	( 63 )	-
<b>Cash used in financing activities</b>	<b>( 480 )</b>	<b>( 504 )</b>
Net increase in cash	1,555	( 679 )
Cash at beginning of period	10,170	6,703
Cash at end of period	<u>\$ 11,725</u>	<u>\$ 6,024</u>
<b>Cash paid during period for:</b>		
Interest	\$ -	\$ 2
Income taxes	\$ 183	\$ 170
<b>Non-cash investing and financing activities:</b>		
Accrued dividends	\$ 532	\$ 419

See accompanying notes to Unaudited Condensed Consolidated Financial Statements

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

**NOTE 1. DESCRIPTION OF BUSINESS**

*Overview*

OTC Markets Group Inc. (“OTC Markets Group” or the “Company” and formerly known as Pink OTC Markets Inc.) operates the world’s largest Open, Transparent and Connected marketplace platform, delivering price transparency in almost 10,000 OTC securities.

The Company’s OTC Link<sup>®</sup> trading system directly links broker-dealers that provide liquidity and execution services. The Company organizes the wide spectrum of OTC-traded equity securities into three marketplaces to inform investors of opportunities and risks – OTCQX<sup>®</sup> - The Intelligent Marketplace for the Best OTC Companies; OTCQB<sup>®</sup> - The Venture Marketplace; and OTC Pink<sup>®</sup> - The Open Marketplace.

The Company’s information-driven platform provides the information to intelligently trade through any broker at the best possible price, and empowers companies to build the best markets for their investors.

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

- Trading Services – OTC Markets Group, through its interdealer quotation and messaging system, OTC Link, provides the electronic communication and connectivity technology to its Financial Industry Regulatory Authority (“FINRA”) member broker-dealer subscribers.
- Market Data Licensing – OTC Markets Group, as a central source of real-time and historical OTC market data, 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 OTC issuers products and services that are designed to facilitate public disclosure and communication with investors, promote greater transparency, and mitigate market risk. The primary suite of products and services offered to OTC issuers are OTCQX, the OTC Disclosure and News Service, and Real-Time Level 2 Quote Display.

The Company also operates [www.otcmarkets.com](http://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](http://www.otcmarkets.com) to promote investor awareness of their respective products and services.

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

*Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) and include the accounts of the Company and its wholly-owned subsidiary, OTC Link LLC (formerly Pink Link ATS LLC) and reflect all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair statement of the results for the period. All significant intercompany transactions have been eliminated in consolidation. Certain information and footnote disclosures normally required in financial

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

(in thousands, except per share information)

statements under U.S. GAAP, have been condensed or omitted; however, management believes that the disclosures are adequate to make the information presented not misleading. Refer to Note 2, *Summary of Significant Accounting Policies*, from the Company's 2011 Annual report for a full discussion of significant accounting policies.

The condensed consolidated financial statements are unaudited and should be read in conjunction with the audited financial statements of OTC Markets Group Inc. as of and for the year ended December 31, 2011. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

*Use of estimates*

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

In September 2011, the Financial Accounting Standards Board ("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 has elected to early adopt the standards update effective October 1, 2011.

*Recently Issued Accounting Standards*

In May 2011, the 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' 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 Condensed Consolidated Statements of Income and Comprehensive Income.

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

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

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 three month periods ended March 2012 and 2011, market data revenues earned through one market data redistributor amounted to approximately 14% of gross revenues, respectively. Additionally, as of March 31, 2012 and December 31, 2011, accounts receivable from that same subscriber amounted to 18% and 14% of accounts receivable, respectively.

In November 2009, FINRA filed with the SEC a proposed rule change to create a Quotation Consolidation Facility (“QCF”) that would serve as a commercial data consolidator and disseminator for quote data in the OTC equity market (the “QCF Proposal”), which, if approved, would reduce the Company’s ability to generate revenues from market data licensing. Market data licensing revenues represented approximately 39% of the Company’s gross revenues for the three month period ended March 31, 2012. If the QCF Proposal is adopted it would negatively impact approximately 44% of market data licensing revenues.

**NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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.

The Company had no transfers between fair value levels during the three months ended March 31, 2012 or the year ended December 31, 2011.

The following table presents the Company’s fair value hierarchy of assets that are measured at fair value as of March 31, 2012 and December 31, 2011 are as follows:

(in thousands)	March 31, 2012			
	Total	Level 1	Level 2	Level 3
Money market funds <sup>(1)</sup>	1,097	1,097	-	-
Marketable securities	920	920	-	-
	<b>\$ 2,017</b>	<b>\$ 2,017</b>	<b>\$ -</b>	<b>\$ -</b>

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

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

(1) amounts are included in cash and cash equivalents

**NOTE 5. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

(in thousands)	March 31,	December 31,	Estimated useful lives (Years)
	2012	2011	
Computer software	\$ 957	\$ 943	2 - 3
Computer equipment	1,668	1,626	3 - 5
Furniture and fixtures	802	802	5 - 7
Leasehold improvements	4,306	4,306	Term of lease
Total property and equipment	7,733	7,677	
Accumulated depreciation and amortization	( 2,943 )	( 2,534 )	
<b>Total property and equipment, net</b>	<b>\$ 4,790</b>	<b>\$ 5,143</b>	

Depreciation and amortization on property and equipment, included in the consolidated statements of income, amounted to \$409 and \$253 for the three month period ended March 31, 2012 and 2011, respectively.

**NOTE 6. GOODWILL AND INTANGIBLE ASSETS**

Goodwill and intangible assets consisted of the following:

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

Finite-lived intangible assets were fully amortized as of December 31, 2011; therefore no amortization expense was recorded in the consolidated statement of income for the three month period ended March 31, 2012. During the three month period ended March 31, 2011, \$13 of amortization expense of finite-lived intangible assets was recorded in the consolidated statement of income.

We test for impairment during the fourth quarter of our fiscal year using October 1<sup>st</sup> carrying values. On March 31, 2012, we considered the need to update our most recent annual goodwill impairment test and concluded that none of the impairment indicators triggered a revised impairment analysis. There was no impairment of goodwill or indefinite-lived intangible assets for the three months ended March 31, 2012 and 2011.

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

**NOTE 7. ACCRUED EXPENSES AND OTHER**

Accrued expenses and other current liabilities consisted of the following:

(in thousands)	March 31, 2012	December 31, 2011
Payroll and employee withholdings	\$ 697	\$ 1,944
Deferred compensation	161	155
Accrued operating expenses	582	725
Accrued sales tax reserve	137	137
Deferred rent	114	105
<b>Total accrued expenses and other</b>	<b>\$ 1,691</b>	<b>\$ 3,066</b>

**NOTE 8. STOCK-BASED COMPENSATION**

OTC Markets Group grants stock options and restricted stock awards (“RSAs”) to employees. The grant date fair value of each stock option is estimated using the Black-Scholes option pricing model and is then amortized into compensation expense on a straight-line basis over the requisite sever 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 three months ended March 31, 2012 is as follows:

	Stock options	Weighted-average exercise price	Aggregate intrinsic value	contractual term (years)
Outstanding, December 31, 2011	820	4.59	1,025	7.73
Granted	40	6.63	8	9.88
Exercised	( 6 )	2.76	18	5.67
Forfeited	( 39 )	6.69	8	N/A
Outstanding, March 31, 2012	815	4.60	1,811	7.57
Exercisable, March 31, 2012	304	\$ 3.43	\$ 1,028	6.33

The Company recognized compensation expense related to stock options, net of estimated forfeitures, of \$99 and \$112 for the three months ended March 31, 2012 and 2011, 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.

As of March 31, 2012, unrecognized compensation cost related to non-vested stock options was \$931, which will be recognized ratably over approximately four years.

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

A summary of the Company's restricted stock activity for the three months ended March 31, 2012 is as follows:

	Restricted stock	Weighted-average fair value	Aggregate intrinsic value
Outstanding, December 31, 2011	134	\$ 5.74	\$ 718
Granted	162	5.82	1,100
Vested	( 35 )	5.60	N/A
Forfeited	( 8 )	5.82	52
Outstanding, March 31, 2012	253	\$ 5.81	\$ 1,722

The Company recognized compensation expense, net of estimated forfeitures, of \$92 and \$13 for the three months ended March 31, 2012 and 2011, 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 \$27 for the three months ended March 31, 2012 related to the issuance of restricted stock and performance awards to the Board of Directors.

As of March 31, 2012, unrecognized compensation cost related to non-vested restricted stock and performance shares was \$1.3 million.

**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, 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 March 31, 2012, future minimum lease payments under the leases are as follows:

Fiscal year	Payments due
2012	\$ 922
2013	1,261
2014	1,298
2015	1,336
2016	1,289
2017	616
<b>Total</b>	<b>\$ 6,722</b>

Occupancy expense included in the consolidated statements of income was \$353 and \$341 for the three months ended March 31, 2012 and 2011.

Total security deposits on the Company's office leases were \$209 as of March 31, 2012 and December 31, 2011, respectively.

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

*Legal Matters*

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

**NOTE 10. STOCKHOLDERS' EQUITY**

*Common Stock*

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"). 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 March 31, 2012 there were a total of 10,877,416 shares issued and 10,762,841 shares outstanding; the latter was comprised of 10,632,003 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. In February 2012, the Company repurchased 10,000 shares of Class A Common Stock, which are held in treasury. Under the announced stock repurchase programs, there are approximately 264,000 shares remaining to be purchased under the plans.

*Dividends*

The Company declared a cash dividend of \$0.05 per Class A share during the three months ended March 31, 2012 versus a \$0.04 cash dividend per Class A share during the three months ended March 31, 2011. Dividends payable recorded on the consolidated balance sheets relating to the Company's quarterly dividends totaled \$532 and \$419 at March 31, 2012 and December 31, 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 8 "Stock-

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

Based Compensation”). In November 2011, the Board of Directors authorized the increase in the number of shares available for issues under the Plan by 200,000 shares.

**NOTE 11. INCOME TAXES**

The Company had income tax expense of \$857 for the three months ended March 31, 2012, as compared to \$593 for the three months ended March 31, 2011. During 2011, the Company recorded discrete benefits related to refunds from the results of an Internal Revenue Service (“IRS”) examination of our fiscal year 2008 federal tax return.

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. The gross amount of unrecognized tax benefits as of March 31, 2012 and December 31, 2011 was \$280 and \$252, respectively, and was classified in income taxes reserve. It is reasonably possible that the amount of unrecognized benefit with respect to certain of the Company’s unrecognized tax positions will significantly decrease within the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of tax expense. During the three month periods ended March 31, 2012 and 2011, the Company recognized \$8 and \$4 in interest and penalties, respectively.

**NOTE 12. 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 (see Note 8) 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*

(in thousands, except shares and per share data)	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net income available to common shareholders	\$ 1,280	\$ 990
Less: Undistributed earnings allocated to unvested RSAs	( 28 )	( 7 )
Less: Dividend equivalents on unvested RSAs	( 12 )	( 5 )
Net Income allocated to common shareholders	1,240	978
Shares of common stock and common stock equivalents		
Weighted-average common shares outstanding	10,516,411	10,457,880
Basic earnings per share	\$ 0.12	\$ 0.09

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

*Diluted Earnings per common share*

(in thousands, except shares and per share data)	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net income available to common shareholders	\$ 1,280	\$ 990
Less: Undistributed earnings allocated to unvested RSAs	( 28 )	( 7 )
Less: Dividend equivalents on unvested RSAs	( 12 )	( 5 )
Net Income allocated to common shareholders	1,240	978
Shares of common stock and common stock equivalents		
Weighted-average common shares outstanding	10,516,411	10,457,880
Dilutive effect of employee stock options and restricted stock units	37,205	69,982
Weighted-average shares used in diluted computation	10,553,616	10,527,862
Diluted earnings per share	\$ 0.12	\$ 0.09

**NOTE 13. SUBSEQUENT EVENTS**

For purposes of disclosure in the financial statements, the Company has evaluated subsequent events through May 14, 2012, the date the financial statements were available to be issued.

On May 8, 2012 the Board of Directors authorized and approved a quarterly cash dividend of \$0.05 per share of Class A common stock.

**EXHIBIT 9.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

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

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

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

May 14, 2012  
Date

**EXHIBIT 9.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

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

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

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

May 14, 2012  
Date