

MDC PARTNERS INC  
Form 10-Q  
October 29, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-13178

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MDC Partners Inc.  
(Exact name of registrant as specified in its charter)

Canada  
(State or other jurisdiction of  
incorporation or organization)

98-0364441  
(IRS Employer Identification No.)

45 Hazelton Avenue  
Toronto, Ontario, Canada  
(Address of principal executive offices)

M5R 2E3  
(Zip Code)

(416) 960-9000  
Registrant's telephone number, including area code:

950 Third Avenue, New York, New York 10022  
(646) 429-1800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer; a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated Filer  Accelerated filer   
Non-accelerated Filer  (Do not check if a smaller reporting company.) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

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The numbers of shares outstanding as of October 29, 2010 were: 29,459,856 Class A subordinate voting shares and 2,503 Class B multiple voting shares.

#### Website Access to Company Reports

MDC Partners Inc.'s internet website address is [www.mdc-partners.com](http://www.mdc-partners.com). The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act, will be made available free of charge through the Company's website as soon as reasonably practical after those reports are electronically filed with, or furnished to, the Securities and Exchange Commission. The information found on, or otherwise accessible through, the Company's website is not incorporated into, and does not form a part of, this quarterly report on Form 10-Q.

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## MDC PARTNERS INC.

## QUARTERLY REPORT ON FORM 10-Q

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## Item 1. Financial Statements

## MDC PARTNERS INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(thousands of United States dollars, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenue:</b>				
Services	\$ 178,597	\$ 134,421	\$ 484,401	\$ 395,607
<b>Operating Expenses:</b>				
Cost of services sold	122,891	85,230	336,056	258,633
Office and general expenses	45,094	31,323	118,690	92,524
Depreciation and amortization	9,353	7,502	23,196	22,663
	177,338	124,055	477,942	373,820
Operating profit	1,259	10,366	6,459	21,787
<b>Other Income (Expense):</b>				
Other income (expense), net	453	(3,072)	(423)	(2,979)
Interest expense	(8,887)	(3,792)	(24,340)	(11,276)
Interest income	55	20	155	292
	(8,379)	(6,844)	(24,608)	(13,963)
Income (loss) from continuing operations before income taxes, equity in affiliates	(7,120)	3,522	(18,149)	7,824
Income tax expense	300	1,215	1,208	3,589
Income (loss) from continuing operations before equity in affiliates	(7,420)	2,307	(19,357)	4,235
Equity in earnings (loss) of non-consolidated affiliates	(1,496)	60	(1,639)	258
Income (loss) from continuing operations	(8,916)	2,367	(20,996)	4,493
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(556)	(79)	(1,410)	(625)
Net income (loss)	(9,472)	2,288	(22,406)	3,868
Net income attributable to the noncontrolling interests	(1,446)	(2,252)	(4,503)	(3,726)
Net income (loss) attributable to MDC Partners Inc.	\$ (10,918)	\$ 36	\$ (26,909)	\$ 142
<b>Income (loss) Per Common Share:</b>				
<b>Basic and Diluted:</b>				
Income (loss) from continuing operations attributable to MDC Partners Inc. common shareholders	\$ (0.36)	\$ 0.00	\$ (0.91)	\$ 0.03
Discontinued operations attributable to MDC Partners Inc. common shareholders	(0.02)	0.00	(0.05)	(0.02)
Net income (loss) attributable to MDC Partners Inc. common shareholders	\$ (0.38)	\$ 0.00	\$ (0.96)	\$ 0.01
<b>Weighted Average Number of Common Shares Outstanding:</b>				

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Basic	28,500,287	27,471,041	27,980,895	27,343,575
Diluted	28,500,287	29,009,655	27,980,895	27,838,740

Non cash stock-based compensation expense  
is included in the following line items above:

Cost of services sold	\$ 1,366	\$ 286	\$ 2,684	\$ 783
Office and general expenses	5,582	1,945	10,620	5,390
Total	\$ 6,948	\$ 2,231	\$ 13,304	\$ 6,173

See notes to the unaudited condensed consolidated financial statements.

MDC PARTNERS INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
 (thousands of United States dollars)

	September 30, 2010 (Unaudited)	December 31, 2009
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 40,995	\$ 51,926
Accounts receivable, less allowance for doubtful accounts of \$2,372 and \$2,034	190,505	118,211
Expenditures billable to clients	34,239	24,003
Other current assets	12,365	8,105
<b>Total Current Assets</b>	<b>278,104</b>	<b>202,245</b>
Fixed assets, at cost, less accumulated depreciation of \$91,390 and \$82,752	35,826	35,375
Investment in affiliates	1,014	1,547
Goodwill	458,170	301,632
Other intangibles assets, net	57,135	34,715
Deferred tax asset	12,584	12,542
Other assets	19,337	16,463
<b>Total Assets</b>	<b>\$ 862,170</b>	<b>\$ 604,519</b>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 97,478	\$ 77,450
Accruals and other liabilities	77,779	66,967
Advance billings	143,052	65,879
Current portion of long-term debt	1,385	1,456
Current portion of deferred acquisition consideration	28,823	30,645
<b>Total Current Liabilities</b>	<b>348,517</b>	<b>242,397</b>
Revolving credit facility	—	—
Long-term debt	284,756	216,490
Long-term portion of deferred acquisition consideration	53,494	—
Other liabilities	7,835	8,707
Deferred tax liabilities	8,986	9,051
<b>Total Liabilities</b>	<b>703,588</b>	<b>476,645</b>
Redeemable Noncontrolling Interests (Note 2)	36,275	33,728
Commitments, contingencies and guarantees (Note 13)		
Shareholders' Equity:		
Preferred shares, unlimited authorized, none issued	—	—
Class A Shares, no par value, unlimited authorized, 28,641,237 and 27,566,815 shares issued in 2010 and 2009	226,232	218,532
Class B Shares, no par value, unlimited authorized, 2,503 shares issued in 2010 and 2009, each convertible into one Class A share	1	1
Additional paid-in capital	—	9,174
Charges in excess of capital	(3,701)	—
Accumulated deficit	(158,069)	(131,160)
Stock subscription receivable	(217)	(341)

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Accumulated other comprehensive loss	(5,263)	(5,880)
MDC Partners Inc. Shareholders' Equity	58,983	90,326
Noncontrolling Interests	63,324	3,820
Total Equity	122,307	94,146
Total Liabilities, Redeemable Noncontrolling Interests and Equity	\$ 862,170	\$ 604,519

See notes to the unaudited condensed consolidated financial statements.

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MDC PARTNERS INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (thousands of United States dollars)

	Nine Months Ended September 30,	
	2010	2009
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (22,406)	\$ 3,868
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(1,410)	(625)
Income (loss) from continuing operations	(20,996)	4,493
Adjustments to reconcile net income (loss) from continuing operations to cash provided by operating activities		
Depreciation	11,991	12,067
Amortization of intangibles	11,205	10,596
Non-cash stock-based compensation	13,304	6,160
Amortization of deferred finance charges and debt discount	1,582	979
Adjustment to deferred acquisition consideration	3,571	—
Loss (gain) on disposition of assets	(15)	10
Deferred income taxes	(88)	1,942
Loss (earnings) of non-consolidated affiliates	1,639	(258)
Other non-current assets and liabilities	(2,007)	3,493
Foreign exchange	367	4,432
Changes in working capital:		
Accounts receivable	(39,230)	(18,696)
Expenditures billable to clients	2,135	(7,517)
Prepaid expenses and other current assets	(2,207)	638
Accounts payable, accruals and other liabilities	9,264	7,654
Advance billings	35,855	24,431
Cash flows provided by continuing operating activities	26,370	50,424
Discontinued operations	(1,097)	(250)
Net cash provided by operating activities	25,273	50,174
<b>Cash flows from investing activities:</b>		
Capital expenditures	(8,166)	(3,285)
Acquisitions, net of cash acquired	(78,046)	(8,059)
Proceeds from sale of assets	92	23
Other investments	(510)	26
Profit distributions from affiliates	249	139
Cash Flows used in continuing investing activities	(86,381)	(11,156)
Discontinued operations	(710)	(3)
Net cash used in investing activities	(87,091)	(11,159)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of 11% Senior Notes	67,600	—
Proceeds (Repayments) from revolving credit facility	—	(354)
Repayment of long-term debt	(755)	(1,753)
Proceeds from stock subscription receivable	124	13
Proceeds from exercise options	54	—
Purchase of treasury shares	(1,674)	(597)
Deferred financing costs	(1,524)	—
Distributions to noncontrolling partners	(6,958)	(6,232)

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Payment of dividends	(6,002)	—
Net cash provided by (used in) by financing activities	50,865	(8,923)
Effect of exchange rate changes on cash and cash equivalents	22	(486)
Net increase (decrease) in cash and cash equivalents	(10,931)	29,606
Cash and cash equivalents at beginning of period	51,926	41,331
Cash and cash equivalents at end of period	\$ 40,995	\$ 70,937
Supplemental disclosures:		
Cash income taxes paid	\$ 775	\$ 487
Cash interest paid	\$ 13,516	\$ 9,599
Dividends payable	\$ 295	\$ —
Non-cash transactions:		
Capital leases	\$ 336	\$ 288

See notes to the unaudited condensed consolidated financial statements.

MDC PARTNERS INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(thousands of United States dollars, unless otherwise stated)

1. Basis of Presentation

MDC Partners Inc. (the “Company”) has prepared the unaudited condensed consolidated interim financial statements included herein pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) of the United States of America (“US GAAP”) have been condensed or omitted pursuant to these rules.

The accompanying financial statements reflect all adjustments, consisting of normally recurring accruals, which in the opinion of management are necessary for a fair presentation, in all material respects, of the information contained therein. Results of operations for interim periods are not necessarily indicative of annual results.

These statements should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 31, 2009.

Effective September 2010, one of the Company’s operating subsidiaries, Zig (USA) LLC has been deemed a discontinued operation. All periods have been restated to reflect the discontinued operation.

2. Significant Accounting Policies

The Company’s significant accounting policies are summarized as follows:

**Principles of Consolidation .** The accompanying condensed consolidated financial statements include the accounts of MDC Partners Inc. and its domestic and international controlled subsidiaries that are not considered variable interest entities, and variable interest entities for which the Company is the primary beneficiary. Intercompany balances and transactions have been eliminated in consolidation.

**Use of Estimates.** The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities including goodwill, intangible assets, valuation allowances for receivables and deferred tax assets, and the reported amounts of revenue and expenses during the reporting period. The estimates are evaluated on an ongoing basis and estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Actual results could differ from those estimates.

**Concentration of Credit Risk .** The Company provides marketing communications services to clients who operate in most industry sectors. Credit is granted to qualified clients in the ordinary course of business. Due to the diversified nature of the Company’s client base, the Company does not believe that it is exposed to a concentration of credit risk; the Company did not have a client that accounted for more than 10% of the Company’s consolidated accounts receivable at September 30, 2010 and December 31, 2009. Furthermore, the Company did not have a client that accounted for more than 10% of the Company’s revenue for the three and nine months ended September 30, 2010. However, one client accounted for 15% and 17% of revenue for the three and nine months ended September 30, 2009.

**Cash and Cash Equivalents.** The Company’s cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. The Company has a concentration risk in that there are cash deposits in excess of federally insured amounts. Included in cash and cash equivalents at September 30,

2010 and December 31, 2009, is approximately \$93 and \$67, respectively, of cash restricted as to withdrawal pursuant to a collateral agreement and a customer's contractual requirements.

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MDC PARTNERS INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(thousands of United States dollars, unless otherwise stated)

2. Significant Accounting Policies – (continued)

**Business Combinations.** Valuation of acquired companies are based on a number of factors, including specialized know-how, reputation, competitive position and service offerings. The Company's acquisition strategy has been focused on acquiring the expertise of an assembled workforce in order to continue to build upon the core capabilities of its various strategic business platforms to better serve the Company's clients. Consistent with the acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed in 2010 and 2009 included an initial payment at the time of closing and provide for future additional contingent purchase price payments. Contingent payments for these transactions, as well as certain acquisitions completed in prior years, are derived using the performance of the acquired entity and are based on pre-determined formulas. Contingent purchase price obligations for acquisitions completed prior to January 1, 2009 are accrued when the contingency is resolved and payment is certain. Contingent purchase price obligations related to acquisitions completed subsequent to December 31, 2008 are recorded as liabilities at estimated value and are remeasured at each reporting period and changes in estimated value are recorded in results of operations. For the nine months ended September 30, 2010 and 2009, \$2,975 and nil, respectively, and for the three months ended September 30, 2010 and 2009, \$1,664 and nil, respectively, related to changes in estimated value, have been charged to operating income. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests are recorded as Redeemable Noncontrolling Interests. As of January 1, 2009, the Company expenses acquisition related costs in accordance with the Accounting Standard's Codification's new guidance on acquisition accounting. For the three and nine months ended September 30, 2010, \$939 and \$1,669, respectively, of acquisition related costs have been charged to operations. For the three and nine months ended September 30, 2009, no acquisition related costs were charged to operating.

For each acquisition, the Company undertakes a detailed review to identify other intangible assets and a valuation is performed for all such identified assets. The Company uses several market participant measurements to determine estimated value. This approach includes consideration of similar and recent transactions, as well as utilizing discounted expected cash flow methodologies. Like most service businesses, a substantial portion of the intangible asset value that the Company acquires is the specialized know-how of the workforce, which is treated as part of goodwill and is not required to be valued separately. The majority of the value of the identifiable intangible assets that the Company acquires is derived from customer relationships, including the related customer contracts, as well as trade names. In executing the acquisition strategy, one of the primary drivers in identifying and executing a specific transaction is the existence of, or the ability to, expand the Company's existing client relationships. The expected benefits of the acquisitions are typically shared across multiple agencies and regions.

**Redeemable Noncontrolling Interest .** The minority interest shareholders of certain subsidiaries have the right to require the Company to acquire their ownership interest under certain circumstances pursuant to a contractual arrangement and the Company has similar call options under the same contractual terms. The amount of consideration under the put and call rights is not a fixed amount, but rather is dependent upon various valuation formulas and on future events, such as the average earnings of the relevant subsidiary through the date of exercise, the growth rate of the earnings of the relevant subsidiary through the date of exercise, etc. as described in Note 13.

The Company has recorded its put options as mezzanine equity at their current estimated redemption amounts. The Company accounts for the put options with a charge to noncontrolling interests to reflect the excess, if any, of the estimated exercise price over the estimated fair value of the noncontrolling interest shares at the date of the option being exercised. Changes in the estimated redemption amounts of the put options are adjusted at each reporting period with a corresponding adjustment to equity. These adjustments will not impact the calculation of earnings per share.



MDC PARTNERS INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(thousands of United States dollars, unless otherwise stated)

## 2. Significant Accounting Policies – (continued)

The following table presents changes in Redeemable Noncontrolling Interests.

	Nine Months Ended September 30, 2010	
Beginning Balance as of December 31, 2009	\$	33,728
Redemptions		(3,567)
Granted		4,301
Changes in redemption value		1,229
Currency Translation Adjustments		584
Ending Balance as of September 30, 2010	\$	36,275

## Revenue Recognition

The Company's revenue recognition policies are as required by the Revenue Recognition topics of the FASB Accounting Standards Codification, and accordingly, revenue is generally recognized as services are provided or upon delivery of the products when ownership and risk of loss has transferred to the customer, the selling price is fixed or determinable and collection of the resulting receivable is reasonably assured. The Company follows the Revenue Arrangements with Multiple Deliverables topic of the FASB Accounting Standards Codification issued. This topic addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities and how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. The Company recognizes revenue based on the contracted value of each multiple deliverable when delivered. The Company also follows the topic of the FASB Accounting Standards Codification Reporting Revenue Gross as a Principal versus Net as an Agent. This issue summarizes the EITF's views on when revenue should be recorded at the gross amount billed because it has earned revenue from the sale of goods or services, or the net amount retained because it has earned a fee or commission. The Company also follows Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred, for reimbursements received for out-of-pocket expenses. This issue summarizes the EITF's views that reimbursements received for out-of-pocket expenses incurred should be characterized in the income statement as revenue. Accordingly, the Company has included such reimbursed expenses in revenue.

The Company earns revenue from agency arrangements in the form of retainer fees or commissions; from short-term project arrangements in the form of fixed fees or per diem fees for services; and from incentives or bonuses.

Non refundable retainer fees are generally recognized on a straight line basis over the term of the specific customer contract. Commission revenue is earned and recognized upon the placement of advertisements in various media when the Company has no further performance obligations. Fixed fees for services are recognized upon completion of the earnings process and acceptance by the client. Per diem fees are recognized upon the performance of the Company's services. In addition, for certain service transactions, which require delivery of a number of service acts, the Company uses the Proportional Performance model, which generally results in revenue being recognized based on the straight-line method due to the acts being non-similar and there being insufficient evidence of fair value for each service provided.





MDC PARTNERS INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(thousands of United States dollars, unless otherwise stated)

2. Significant Accounting Policies – (continued)

Fees billed to clients in excess of fees recognized as revenue are classified as Advanced Billings.

A small portion of the Company's contractual arrangements with customers includes performance incentive provisions, which allows the Company to earn additional revenues as a result of its performance relative to both quantitative and qualitative goals. The Company recognizes the incentive portion of revenue under these arrangements when specific quantitative goals are assured, or when the company's clients determine performance against qualitative goals has been achieved. In all circumstances, revenue is only recognized when collection is reasonably assured. The Company records revenue net of sales and other taxes due to be collected and remitted to governmental authorities.

**Interest Expense .** Interest expense primarily consists of the cost of borrowing on the revolving credit facility and the 11% Senior Notes. The Company uses the effective interest method to amortize the original issue discount and original issue premium on the 11% Senior Notes. At September 30, 2010 and December 31, 2009, \$660 and \$204 was amortized, respectively, net of amortized premium of \$123 and nil, respectively. The Company amortizes deferred financing costs using the effective interest method over the life of the 11% Senior Notes and straight line over the life of the revolving credit facility. The total net deferred financing costs, included in Other Assets on the balance sheet, as of September 30, 2010 and December 31, 2009 were \$10,393 and \$9,790, net of accumulated amortization of \$1,216 and \$295, respectively. During the nine months of 2010, the Company recorded \$1,524 of deferred financing costs primarily relating to the 2010 additional debt issuance.

**Stock-Based Compensation.** Under the fair value method, compensation cost is measured at fair value at the date of grant and is expensed over the service period, that is the award's vesting period. When awards are exercised, share capital is credited by the sum of the consideration paid together with the related portion previously credited to additional paid-in capital when compensation costs were charged against income or acquisition consideration.

The Company uses its historical volatility derived over the expected term of the award, to determine the volatility factor used in determining the fair value of the award. The Company uses the "simplified" method to determine the term of the award due to the fact that historical share option exercise experience does not provide a reasonable basis upon which to estimate the expected term.

Stock-based awards that are settled in cash or may be settled in cash at the option of employees are recorded as liabilities. The measurement of the liability and compensation cost for these awards is based on the fair value of the award, and is recorded into operating income over the service period, that is the vesting period of the award. Changes in the Company's payment obligation prior to the settlement date are recorded as compensation cost in operating income in the period of the change. The final payment amount for such awards is established on the date of the exercise of the award by the employee.

Stock-based awards that are settled in cash or equity at the option of the Company are recorded at fair value on the date of grant and recorded as additional paid-in capital. The fair value measurement of the compensation cost for these awards is based on using the Black-Scholes option pricing-model and is recorded in operating income over the service period, that is the vesting period of the award.

It is the Company's policy for issuing shares upon the exercise of an equity incentive award to verify the amount of shares to be issued, as well as the amount of proceeds to be collected (if any) and delivery of new shares to the exercising party.

The Company has adopted the straight-line attribution method for determining the compensation cost to be recorded during each accounting period. However, awards based on performance conditions are recorded as compensation expense when the performance conditions are expected to be met.

The Company treats benefits paid by shareholders to employees as a stock based compensation charge with a corresponding credit to additional paid-in-capital.

During the nine months ended September 30, 2010, the Company issued 1,000,594 restricted stock units and restricted stock shares ("RSUs") to its employees and directors. The RSUs have an aggregate grant date fair value of \$9,111 and generally vest on the third anniversary date with certain awards subjected to accelerated vesting based on the financial performance of the Company.

For the nine months ended September 30, 2010, the Company has recorded a \$2,777 charge relating to these equity incentive grants.

A total of 861,218 Class A shares of restricted stock, granted to employees as equity incentive awards, are included in the Company's calculation of Class A shares outstanding as of September 30, 2010.

Reclassifications. Certain reclassifications have been made to prior period amounts to conform to the current period financial statement presentation. These reclassification did not have any effect on the prior year net loss.

## 3. Income (loss) Per Common Share

The following table sets forth the computation of basic and diluted income (loss) per common share from continuing operations.

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2009					
<b>Numerator</b>								
Numerator for basic income (loss) per common share - income (loss) from continuing operations	\$	(8,916)	\$	2,367	\$	(20,996)	\$	4,493
Net income attributable to the noncontrolling interests		(1,446)		(2,252)		(4,503)		(3,726)
Income (loss) attributable to MDC Partners Inc. common shareholders from continuing operations	\$	(10,362)	\$	115	\$	(25,499)	\$	767
Effect of dilutive securities				—				—
Numerator for diluted income (loss) per common share – income (loss) attributable to MDC Partners Inc. common shareholders from continuing operations	\$	(10,362)	\$	115	\$	(25,499)	\$	767
<b>Denominator</b>								
Denominator for basic income (loss) per common share - weighted average common shares		28,500,287		27,471,041		27,980,895		27,343,575
Effect of dilutive securities:		—		1,538,614		—		495,165
Denominator for diluted income (loss) per common share - adjusted weighted shares		28,500,287		29,009,655		27,980,895		27,838,740
Basic income (loss) per common share from continuing operations attributable to MDC Partners Inc.	\$	(0.36)	\$	0.00	\$	(0.91)	\$	0.03
Diluted income (loss) per common share from continuing operations attributable to MDC Partners Inc.	\$	(0.36)	\$	0.00	\$	(0.91)	\$	0.03

During the three and nine months ended September 30, 2010, options and other rights to purchase 4,939,113 shares of common stock, which includes 1,342,601 shares of non-vested restricted stock and restricted stock units, were outstanding but were not included in the computation of diluted loss per common share because their effect would be antidilutive.

During the three and nine months ended September 30, 2009, the 8% convertible debentures, options and other rights to purchase 3,736,929 shares of common stock, were outstanding but were not included in the computation of diluted income per common share because their effect would be antidilutive.

## 4. Acquisitions

## Third Quarter 2010 Acquisitions

During the quarter ended September 30, 2010, the Company completed a number of acquisitions. The Company purchased a 60% equity interest in Relevant Group, LLC (“Relevant”), a 60% equity interest in Kwittken & Company,

LLC (“Kwittken”), and certain assets and liabilities of Think 360 Inc. (“Think 360”). Relevent is a full service marketing, special events, production and promotions company that builds brands with consumers through experiential lifestyle, entertainment and relationship marketing programs. Kwittken is a full service public relations and marketing agency. Think 360 is an integrated marketing agency. The aggregate purchase price paid for these acquisitions consisted of total closing cash payments of \$15,085, plus additional contingent payments of up to \$15,000 that are based on the actual financial results of the underlying businesses from 2010 to 2014, with final payments due in 2015. An allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of \$4,974, consisting primarily of customer lists and covenants not to compete, and goodwill of \$41,694 representing the value of the assembled workforce. The identified intangibles will be amortized ranging from a two to seven-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. The fair value of the noncontrolling interest not acquired at the acquisition date was \$18,415 based in the Company’s evaluation of the companies acquired and the purchase price paid by the Company. The amounts paid and to be paid will be tax deductible.

The actual adjustments that the Company will ultimately make in analyzing the allocation of purchase price to the fair value of the net assets acquired, will depend on a number of factors, including additional information such as changes in the unaudited financial statements.

The Company has also increased ownership to 100% of Zig Inc. (now known as Crispin Porter + Bogusky Canada Inc. (“CPB Canada”)) and purchased an additional 25% of Bruce Mau Design Inc. The purchase aggregate price paid for these step-ups consisted of total closing cash payments of \$3,115, plus additional deferred acquisition consideration of \$692. In relation to these step-ups, the Company recorded an entry to reduce redeemable noncontrolling interests by \$1,365 and an entry to reduce noncontrolling interests by \$144. The Company recorded a reduction of additional paid-in-capital of \$2,296 representing the difference between the fair value of the interest and the value of the redeemable noncontrolling interests. The amounts paid and to be paid will not be tax deductible.

#### Second Quarter 2010 Acquisitions

Effective May 6, 2010, the Company, through a wholly-owned subsidiary, purchased 75% of the total outstanding membership interests in Integrated Media Solutions, LLC (“IMS”), which expands the Company’s direct response marketing capabilities. At closing, the Company paid cash of \$20,000 plus additional contingent deferred acquisition consideration, based on actual results from 2010 to 2015 with final payments due in 2016, with a current estimated present value of \$19,658. An initial estimated allocation of the excess purchase consideration of this acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of \$9,081 (consisting of primarily customer lists and a covenant not to compete) and goodwill of \$44,598 representing the value of the assembled workforce. The fair value of the noncontrolling interest not acquired at the acquisition date was \$13,219 based in the Company’s evaluation of the Company being acquired and the purchase price paid by the Company. The identified intangibles will be amortized ranging from a five to seven-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. The intangibles and goodwill are tax deductible.

The actual adjustments that the Company will ultimately make in finalizing the allocation of the purchase price of IMS to the fair value of the net assets acquired at May 6, 2010 will depend on a number of factors, including additional information such as changes in the unaudited consolidated financial statements.

During the quarter ended June 30, 2010, the Company completed a number of acquisitions. The Company purchased a 51% equity interest in Allison & Partners LLC (“Allison”), a 75% equity interest in Sloane & Company LLC (“Sloane”), and certain assets and liabilities of CSC – ADPLUS, LLC (d.b.a. Infolure) (“Infolure”). Allison is a full service public relations and corporate communications agency. Sloane is a communication firm focused on corporate positioning and communications, financial public relations and investor relations, and crisis and transactions communications. Infolure is a direct marketing firm. The purchase price paid for these acquisitions consisted of aggregate cash

payments of \$17,632 plus additional contingent payments of \$15,795 that are based on actual results from 2010 to 2015 with final payments due in 2016. An allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of \$9,431 consisting primarily of customer lists and covenants not to compete, and goodwill of \$36,286 representing the value of the assembled workforce. The identified intangibles will be amortized ranging from a five to seven-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded \$2,506, the present value of redeemable noncontrolling interests in relation to Sloane. The Sloane acquisition has put rights that could increase the Company's ownership to 100% in 2015. The amounts paid and to be paid will be tax deductible.

The actual adjustments that the Company will ultimately make in analyzing the allocation of purchase price to the fair value of the net assets acquired, will depend on a number of factors, including additional information such as changes in the unaudited financial statements.

#### First Quarter 2010 Acquisitions

Effective March 1, 2010, the Company, through a wholly-owned subsidiary, purchased 60% of the total outstanding membership interests in Team Holdings LLC ("Team"), which expands the Company's experiential marketing capabilities. At closing, the Company paid cash of \$11,000 plus additional contingent deferred acquisition consideration, based on actual results from 2010 to 2012 with final payments in 2013, with a current estimated present value of \$12,656, and the Company paid a working capital true-up estimated at an additional \$253 at March 31, 2010. An initial estimated allocation of the excess purchase consideration of this acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of \$5,220 (consisting of primarily customer lists and a covenant not to compete) and goodwill of \$32,830 representing the value of the assembled workforce. The fair value of the noncontrolling interest not acquired at the acquisition date was \$15,771 based in the Company's evaluation of the Company being acquired and the purchase price paid by the Company. The identified intangibles will be amortized up to a seven-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company amended the purchase agreement to include additional deferred acquisition consideration, with a current present value of \$3,071, with final payments due in 2012. The additional deferred acquisition consideration resulted in additional intangibles of \$3,071. The intangibles and goodwill are tax deductible.

The actual adjustments that the Company will ultimately make in analyzing the allocation of purchase price to the fair value of the net assets acquired, will depend on a number of factors, including additional information such as changes in the unaudited financial statements.

During the three months ended March 31, 2010, the Company completed a number of acquisitions and step-ups in ownership. The Company purchased a 76% equity interest in Communifx Partners LLC ("Communifx"), substantially all of the assets of Plaid Inc. ("Plaid"), an additional 15% equity interest in Fletcher Martin, LLC ("Fletcher Martin"), an additional 49% equity interest in Trend Core, LLC ("Trend Core"), and an additional 1% equity interest in HL Group Partners, LLC ("HL Group"). Communifx builds and manages large-scale customer database solutions to enable the planning, execution, and measurement of multi-channel marketing and advertising programs. Plaid is a marketing services business with a concentration in the digital communication and social media arena. The Company purchased the additional equity interests in Fletcher Martin and HL Group pursuant to the exercise of outstanding puts. The purchase price paid for these acquisitions and step-ups consisted of aggregate cash payments of \$4,921 plus additional contingent payments of \$580 that are based on actual results from 2010 to 2015 with final payments due in 2016. An allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of \$1,851 consisting primarily of customer lists and a covenant not to compete, and goodwill of \$2,426 representing the value of the assembled workforce. The identified intangibles will be amortized up to a seven-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded \$710, the present value of redeemable

noncontrolling interests in relation to Communifx. The Communifx acquisition has put/call rights that could increase the Company's ownership to 100% in 2013. In relation to the step up acquisitions, the Company recorded an entry to reduce Redeemable Noncontrolling Interests by \$1,116. The amount paid to the employee over fair value, \$608, was recorded as a stock-based compensation charge. The Company recorded a reduction of additional paid-in capital of \$1,029 representing the difference between the fair value of the shares and the value of the Redeemable Noncontrolling Interests. The amounts paid and to be paid will be tax deductible.

The actual adjustments that the Company will ultimately make in analyzing the allocation of purchase price to the fair value of the net assets acquired, will depend on a number of factors, including additional information such as changes in the unaudited financial statements.

## 2009 Acquisitions

In December 2009, the Company paid an additional \$38,974 pursuant to the CPB purchase agreement originally entered into in November 2008 with the founders of Crispin Porter & Bogusky LLC (“CPB”). In connection with this transaction, the Company recorded \$14,067 as deferred acquisition consideration, \$1,450 was paid in January 2010, \$433 was reversed as an adjustment and the balance was paid in April 2010. This purchase price payment was pursuant to an accelerated exercise of a call option that was exercised by the Company in November 2008 (the Company increased its ownership from 77% to 94%). Because CPB was originally consolidated as a Variable Interest Entity, the Company reduced Redeemable Noncontrolling Interests by \$17,809. The Company recorded additional goodwill of \$31,253 and identifiable intangible backlog of \$3,979. The amount recorded related to the 17% step up from November 2008. The backlog was amortized over one month. In addition, the Company recorded a stock-based charge of \$3,074 for amounts paid by the former shareholder to CPB employees. The goodwill will be tax deductible.

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4. Acquisitions – (continued)

On December 31, 2009, the Company acquired an additional 3% interest in VitroRobertson increasing its holdings from 79% to 82%. The purchase price totaled \$845 and was paid in cash. The Company recorded an entry to reduce Redeemable Noncontrolling Interests by \$266. The amount paid to the employee over fair value, \$370, was recorded as a stock-based compensation charge. The Company recorded a reduction of additional paid-in capital of \$209 representing the difference between the fair value of the shares and the value of the Redeemable Noncontrolling Interests. As this purchase was pursuant to the exercise of an existing put/call option, no additional intangibles have been recorded. The goodwill will be tax deductible.

On December 1, 2009, the Company agreed to make an early payment to KBP Management Partners LLC originally due in March 2010 pursuant to the purchase agreement entered into in November 2007. The additional payment totaled \$14,870, of which \$10,140 was paid in cash in December 2009, \$4,215 was paid in March 2010 with the balance due in March 2011, recorded as deferred acquisition consideration. This additional payment was accounted for as additional goodwill. In addition, pursuant to an existing phantom stock arrangement, a stock-based compensation charge of \$3,028 has been recorded for amounts paid by KBP Management Partners to phantom equity holders. The goodwill will be tax deductible.

On October 5, 2009, the Company purchased the remaining 6% outstanding interest in CPB for an estimated fixed and contingent purchase price. The estimated purchase price of \$9,818 is included in deferred acquisition consideration and includes \$518 of fixed payments to be paid in 2013. The Company recorded a reduction of \$8,596 to Redeemable Noncontrolling Interests and \$704 to additional paid in capital. The fixed payments of \$518 are allocated to identifiable intangibles and will be amortized over three years.

On August 31, 2009, the Company, through HL Group, acquired a 51% interest in Attention Partners LLC (“Attention”), a social media agency that further expands HL Group’s business capabilities. At closing, the HL Group paid \$1,000 and made a capital contribution of \$400 to Attention. In addition, HL Group recorded estimated contingent payments totaling \$1,313, of which \$1,022 was paid in cash in March 2010 with the balance due in 2010 as deferred acquisition consideration. The allocation of the excess purchase consideration of this acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of \$544 (consisting primarily of customer lists and a covenant not to compete) and goodwill of \$3,057 representing the value of the assembled workforce. The fair value of the noncontrolling interests not acquired at the acquisition date was \$2,431 based on the Company’s evaluation of the Company being acquired, the purchase paid by the Company. The identified intangibles will be amortized up to a three-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. The intangibles and goodwill are tax deductible.

On July 1, 2009, the Company, through CPB, acquired 100% of the preferred shares and 52% of the common shares of Crispin Porter & Bogusky Europe AB (formerly known as “daddy”), a digital agency based in Sweden that has created a foothold in Europe for CPB. At closing, CPB paid \$3,052 plus an additional \$50 deferred payment. Also in December 2009, CPB called an additional 24% and made a payment of 80% of the purchase price of \$188. An additional amount of \$50 is recorded as deferred acquisition consideration. The Company has additional calls and the noncontrolling owners have reciprocal puts on the remaining 24% of the common shares, which are exercisable beginning January 2012. The current estimated cost of these puts and calls is approximately \$6,600 and has been recorded as Redeemable Noncontrolling Interests. The allocation of the excess purchase consideration of this acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of \$650 (consisting primarily of customer lists and a covenant not to compete) and goodwill of \$8,533 representing the value of the assembled



workforce. The identified intangibles will be amortized up to a three-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. The intangibles and goodwill are not tax deductible. Accordingly, CPB recorded a deferred tax liability of \$221 representing the future tax benefits relating to the amortization of the identified intangibles.

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## 4. Acquisitions – (continued)

Effective January 22, 2009, the Company acquired an additional 8.9% of equity interests in HL Group, thereby increasing MDC's ownership to 64.9%. The purchase price totaled \$1,100 and was paid in cash at closing. The Company recorded an entry to reduce Redeemable Noncontrolling Interests, as this purchase was pursuant to the early exercise of an existing put/call option. Accordingly, no additional intangibles have been recorded. However, the amount of the purchase price will be tax deductible.

## Pro forma Information

The following unaudited pro forma results of operations of the Company for the three and nine months ended September 30, 2010 and 2009 assume that the acquisition of the operating assets of Team and IMS acquired as of the beginning of each year. These unaudited pro forma results are not necessarily indicative of either the actual results of operations that would have been achieved had the companies been combined during these periods, or are they necessarily indicative of future results of operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues	\$ 178,597	\$ 157,172	\$ 501,151	\$ 455,094
Net income (loss) attributable to MDC Partners Inc.	\$ (10,918)	\$ 1,859	\$ (26,456)	\$ 4,158
Income (loss) per common share:				
Basic – net income (loss) attributable to MDC Partners Inc.	\$ (0.38)	\$ 0.07	\$ (0.95)	\$ 0.15
Diluted – net income (loss) attributable to MDC Partners Inc.	\$ (0.38)	\$ 0.06	\$ (0.95)	\$ 0.15

Net Income Attributable to MDC Partners Inc. and  
Transfers (to) from the Noncontrolling Interest

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Net Loss attributable to MDC Partners Inc.	\$ (10,918)	\$ (26,909)
Transfers (to) from the noncontrolling interest		
Decrease in MDC Partners Inc. paid-in capital for purchase of equity interests in excess of Redeemable Noncontrolling Interests	(1,153)	(3,003)
Decrease in MDC Partners Inc. paid-in-capital from issuance of profits interests	(122)	(282)
Net transfers (to) from noncontrolling interest	\$ (1,275)	\$ (3,285)
Change from net income attributable to MDC Partners Inc. and transfers (to) from noncontrolling interest	\$ (12,193)	\$ (30,194)

## 5. Accrued and Other Liabilities

At September 30, 2010 and December 31, 2009, accrued and other liabilities included amounts due to noncontrolling interest holders, for their share of profits, which will be distributed within the next twelve months of \$4,949 and \$4,058, respectively.

6. Discontinued Operations

In September 2010, the Company discontinued Zig (USA) LLC (“Zig US”). As a result, the Company has classified the entity’s results as discontinued operations. Zig US’s results of operations, net of income tax benefits, for the three and nine months ended September 30, 2010 were losses of \$556 and \$762, respectively. The results of operations net of income tax benefits, for the three and nine months ended September 30, 2009, were losses of \$79 and \$265, respectively. This entity has been previously included on the Company’s Strategic Marketing Services segment.

In June 2010, the Company discontinued a start up called Fearless Progression LLC (“Fearless”). As a result, the Company wrote off its investment in Fearless of \$710. The Company has classified this entity’s results as discontinued operations.

In December 2008, the Company entered into negotiations to sell certain remaining assets in Bratskeir to management. This transaction was completed in April 2009. As a result of this transaction, the Company has classified this entity’s results as discontinued operations. Bratskeir’s results of operations, net of income tax benefits, for the three and nine months ended September 30, 2009 were nil and \$361, respectively.

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Included in discontinued operations in the Company's consolidated statements of operations for the three and nine months ended September 30, were the following:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenue	\$ 122	\$ 204	\$ 488	\$ 1,120
Operating loss	\$ (831)	\$ (184)	\$ (2,183)	\$ (1,170)
Other expense	\$ 11	\$ (10)	\$ 54	\$ (13)
Net loss from discontinued operations attributable to MDC Partners Inc., net of taxes	\$ (556)	\$ (79)	\$ (1,410)	\$ (625)

7. Comprehensive (Loss) Income

Total comprehensive (loss) income and its components were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss) for the period	\$ (9,472)	\$ 2,288	\$ (22,406)	\$ 3,868
Other comprehensive income, net of tax:				
Foreign currency cumulative translation adjustment	161	1,016	618	1,086
Comprehensive (loss) income	(9,311)	3,304	(21,788)	4,954
Comprehensive loss attributable to the noncontrolling interest	(1,450)	(2,258)	(4,504)	(3,739)
Comprehensive (loss) income attributable to MDC Partners Inc.	\$ (10,761)	\$ 1,046	\$ (26,292)	\$ 1,215

8. Short-Term Debt, Long-Term Debt and Convertible Debentures

Debt consists of:

	September 30, 2010	December 31, 2009
Revolving credit facility	\$ —	\$ —
11% Senior Notes due 2016	290,000	225,000
Original issue discount	(7,031)	(10,291)
Notes payable and other bank loans	1,800	1,800
	284,769	216,509
Obligations under capital leases	1,372	1,437
	286,141	217,946
Less:		
Current portions	1,385	1,456
Long term portion	\$ 284,756	\$ 216,490

MDC Financing Agreement and Senior Notes

Issuance of 11% Senior Notes

On October 23, 2009, the Company and its wholly-owned subsidiaries, as guarantors, issued and sold \$225,000 aggregate principal amount of 11% Senior Notes due 2016 (the "11% Notes"). The 11% Notes bear interest at a rate of 11% per annum, accruing from October 23, 2009. Interest is payable semiannually in arrears in cash on May 1 and November 1 of each year, beginning on May 1, 2010. The 11% Notes will mature on November 1, 2016, unless earlier redeemed or repurchased. The Company received net proceeds before expenses of \$208,881, which included an original issue discount of approximately 4.7% or \$10,494, and underwriter fees of \$5,624. The 11% Notes were sold in a private placement in reliance on exemptions from registration under the Securities Act of 1933, as amended. The Company used the net proceeds of this offering to repay the outstanding balance and terminate its prior Fortress Financing Agreement, and redeemed its outstanding 8% C\$45,000 convertible debentures on November 26, 2009.

On May 14, 2010, the Company and its wholly-owned subsidiaries, as guarantors issued and sold \$65,000 aggregate principal amount of 11% Senior Notes due 2016. The additional notes were issued under the Indenture governing the 11% notes and treated as a single series with the original 11% notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of \$67,208, which included an original issue premium of \$2,600, and underwriter fees of \$392. The Company used the net proceeds of the offering to repay the outstanding balance under the Company's revolving credit facility described elsewhere herein, and for general corporate purposes, including acquisitions.

At September 30, 2010, the Company had issued \$6,018 of undrawn outstanding Letters of Credit.

The Company may, at its option, redeem the 11% Notes (including the additional notes) in whole at any time or in part, on and after November 1, 2013 at a redemption price of 105.500% of the principal amount thereof. If redeemed during the twelve-month period beginning on November 1, 2014, at a redemption price of 102.750% of the principal amount thereof or if redeemed during the twelve-month period beginning on or after November 1, 2015 at a redemption price of 100% of the principal amount thereof. Prior to November 1, 2013, the Company may, at its option, redeem some or all of the 11% Notes at a price equal to 100% of the principal amount of the Notes plus a “make whole” premium and accrued and unpaid interest. The Company may also redeem, at its option, prior to November 1, 2012, up to 35% of the 11% Notes with the proceeds from one or more equity offerings at a redemption price of 111% of the principal amount thereof. If the Company experiences certain kinds of changes of control (as defined in the Indenture), holders of the 11% Notes may require the Company to repurchase any 11% Notes held by them at a price equal to 101% of the principal amount of the 11% Notes plus accrued and unpaid interest. The indenture governing the 11% Notes contains certain events of default and restrictive covenants which are customary with respect to non-investment grade debt securities, including limitations on the incurrence of additional indebtedness, dividends, sales of assets and transactions with affiliates.

In connection with these transactions, the Company wrote-off \$323 of deferred financing costs relating to its prior convertible debentures in December 2009.

The fair value for the 11% Senior Notes was \$316,100 as of September 30, 2010.

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8. Bank Debt, Long-Term Debt and Convertible Notes – (continued)

New Credit Facility

On October 23, 2009, the Company and its subsidiaries entered into a new \$75,000 five year senior secured revolving credit facility (the “WF Credit Agreement”) with Wells Fargo Foothill, LLC, as agent, and the lenders from time to time party thereto. The WF Credit Agreement replaced the Company’s existing \$185,000 senior secured financing agreement with Fortress Credit Corp., as collateral agent, and Wells Fargo Foothill, Inc., as administrative agent. Advances under the WF Credit Agreement bear interest as follows: (a)(i) LIBOR Rate Loans bear interest at the LIBOR Rate and (ii) Base Rate Loans bear interest at the Base Rate, plus (b) an applicable margin. The initial applicable margin for borrowing is 3.00% in the case of Base Rate Loans and 3.25% in the case of LIBOR Rate Loans. The applicable margin may be reduced subject to the Company achieving certain trailing twelve month earning levels, as defined. In addition to paying interest on outstanding principal under the WF Credit Agreement, the Company is required to pay an unused revolver fee to the lender under the WF Credit Agreement in respect of unused commitments thereunder.

The WF Credit Agreement is guaranteed by all of the Company’s present and future subsidiaries, other than immaterial subsidiaries (as defined) and is secured by all of the assets of the Company. The WF Credit Agreement includes covenants that, among other things, restrict the Company’s ability and the ability of its subsidiaries to incur or guarantee additional indebtedness; pay dividends on or redeem or repurchase the capital stock of MDC; make certain types of investments; impose limitations on dividends or other amounts from the Company’s subsidiaries; incur certain liens, sell or otherwise dispose of certain assets; enter into transactions with affiliates; enter into sale and leaseback transactions; and consolidate or merge with or into, or sell substantially all of the Company’s assets to, another person. These covenants are subject to a number of important limitations and exceptions. The WF Credit Agreement also contains financial covenants, including a senior leverage ratio, a fixed charge coverage ratio and a minimum earnings level, as defined.

In connection with these transactions, the Company incurred a termination fee of \$1,850 and wrote-off \$2,240 of deferred financing costs relating to its prior Fortress Financing Agreement in December 2009.

The Company is currently in compliance with all of the terms and conditions of its WF Credit Agreement, and management believes, based on its current financial projections, that the Company will be in compliance with the covenants over the next twelve months. At September 30, 2010, the weighted average interest rate was 6.0%.

Prior Financing Agreement

The prior Fortress Financing Agreement consisted of a \$55,000 revolving credit facility, a \$60,000 term loan and a \$70,000 delayed draw term loan. Interest payable under the Financing Agreement was as follows: (a) LIBOR Rate Loans bear interest at applicable interbank rates and Reference Rate Loans bear interest at the rate of interest publicly announced by the Reference Bank in New York, New York, plus (b) a percentage spread ranging from 0% to a maximum of 4.75% depending on the type of loan and the Company’s Senior Leverage Ratio.

Effective October 23, 2009, the Company repaid all outstanding amounts under the Fortress Financing Agreement.

8% Convertible Unsecured Subordinated Debentures

On June 28, 2005, the Company completed an offering in Canada of convertible unsecured subordinated debentures amounting to \$36,723 (C\$45,000) (the “Debentures”). The Debentures bore interest at an annual rate of 8.00% payable semi-annually, in arrears, on June 30 and December 31 of each year.

The Company repaid the Debentures on November 26, 2009.



## 9. Total Equity

During the nine months ended September 30, 2010, Class A share capital increased by \$7,700, as the Company issued 1,136,767 shares related to vested restricted stock, and 86,656 shares related to the exercise of outstanding stock appreciation rights and 6,006 related to the exercise of options. During the nine months ended September 30, 2010, "Additional paid-in capital" decreased by \$9,319 related to the vested restricted stock and stock appreciation rights, and \$4,412 related to changes in ownership not resulting in change of control, and by \$2,864 related to changes in put options (Note 2 and Note 13), and dividends accrued and paid of \$6,297 offset by \$10,019 related to an increase from stock-based compensation that was expensed during the same period, and a reclassification of \$3,701 to charges in excess of capital.

During the nine months ended September 30, 2010, the Company purchased and retired 155,007 Class A shares for \$1,674 from employees in connection with the required tax withholding resulting from the vesting of shares of restricted stock and stock appreciation rights.

Total equity increased \$28,161, which is comprised of a \$59,630 increase in noncontrolling interests related to acquisitions, an increase in stock-based compensation of \$10,019, an increase in accumulated other comprehensive loss of \$617 and an exercise of stock options of \$53, a reduction of subscriptions receivable of \$124, offset in part by a net loss attributable to MDC Partners of \$26,909, dividends accrued and paid of \$6,297, \$4,412 related to changes in ownership not resulting in change of control, \$1,674 of treasury stock purchases, changes in put options of \$2,864, and a decrease of \$127 noncontrolling interests related to dispositions.

## 10. Fair Value Measurements

Effective January 1, 2008, the Company adopted guidance regarding accounting for Fair Value Measurements, for financial assets and liabilities. This guidance defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The statement indicates, among other things, that a fair value measurement assumes a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

In order to increase consistency and comparability in fair value measurements, the guidance establishes a hierarchy for observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

On a nonrecurring basis, the Company uses fair value measures when analyzing asset impairment. Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the

remaining amortization periods, their carrying values are reduced to estimated fair value. Measurements based on undiscounted cash flows are considered to be level 3 inputs. During the fourth quarter of each year, the Company evaluates goodwill and indefinite-lived intangibles for impairment at the reporting unit level. For each acquisition, the Company performed a detailed review to identify intangible assets and a valuation is performed for all such identified assets. The Company used several market participant measurements to determine estimated value. This approach includes consideration of similar and recent transactions, as well as utilizing discounted expected cash flow methodologies. The amounts allocated to assets acquired and liabilities assumed in the acquisitions were determined using level 3 inputs. Fair value for property and equipment was based on other observable transactions for similar property and equipment. Accounts receivable represents the best estimate of balances that will ultimately be collected, which is based in part on allowance for doubtful accounts reserve criteria and an evaluation of the specific receivable balances.

The following table presents changes in Deferred Acquisition Consideration.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
Beginning Balance as of January 1, 2010	\$	30,645
Payments		(21,528)
Grants		69,633
Redemption value adjustments		3,567
Ending Balance as of September 30, 2010	\$	82,317

Level 3 payments relate to payments made for deferred acquisition consideration. Level 3 grants relate to contingent purchase price obligations related to acquisitions. The Company records the initial liability of the estimated present value. The estimated liability is determined in accordance with various contractual valuation formulas that may be dependent on future events, such as the growth rate of the earning of the relevant subsidiary during the contractual period, and, in some cases, the currency exchange rate of the date of payment. Level 3 redemption value adjustments relate to the remeasurement and change in these various contractual valuation formulas as well as adjustments of present value.

#### 11. Other Income (Expense)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Other income (expense)	\$ 100	\$ (5)	\$ 95	\$ (16)
Foreign currency transaction gain (loss)	351	(3,073)	(533)	(2,953)
Gain (loss) on sale of assets	2	6	15	(10)
	\$ 453	\$ (3,072)	\$ (423)	\$ (2,979)

#### 12. Segmented Information

As a result of changing client demand and the Company's focus on driving return on marketing investment, the Company changed its segment reporting to conform it more closely with how the Chief Operating Decision Maker ("CODM") and management are building and managing the Company's business segments. This will simplify the Company's financial reporting and make its results more consistent with the current manner of how the CODM and the Board of Directors view the business. The Company is focused on expanding its capabilities in database marketing

and data analytics in order to position the Company for future business development efforts and revenue growth.

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MDC PARTNERS INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(thousands of United States dollars, unless otherwise stated)

12. Segmented Information

– (continued)

In order to position this strategic focus along the lines of how the CODM and management will base their business decisions, the Company has now reorganized its segment reporting. Decisions regarding allocation of resources are made and will be made based not only on the individual operating results of the subsidiaries but also on the overall performance of the reportable segments. These reportable segments are the aggregation of various reporting segments. The Company changed to the current presentation during the fourth quarter of 2009 and all prior periods have been recast.

The Company reports in two segments plus corporate. The segments are as follows:

- The Strategic Marketing Services segment includes Crispin Porter & Bogusky and kirshenbaum bond senecal + partners among others. This segment consists of integrated marketing consulting services firms that offer a full complement of marketing consulting services including advertising and media, marketing communications including direct marketing, public relations, corporate communications, market research, corporate identity and branding, interactive marketing and sales promotion. Each of the entities within the Strategic Marketing Services Group share similar economic characteristics, specifically related to the nature of their respective services, the manner in which the services are provided and the similarity of their respective customers. Due to the similarities in these businesses, they exhibit similar long term financial performance and have been aggregated together.
- The Performance Marketing Services segment includes firms that provide consumer insights to satisfy the growing need for targetable, measurable solutions or cost effective means of driving return on marketing investment. These services interface directly with the consumer of a client's product or service. Such services include the design, development, research and implementation of consumer service and direct marketing initiatives. Each of the entities within the Performance Marketing Services Group share similar economic characteristics specifically related to the nature of their respective services, the manner in which the services are provided, and the similarity of their respective customers. Due to the similarities in these businesses, the services provided to the customer exhibit similar long term financial performance and have been aggregated together.

The significant accounting policies of these segments are the same as those described in the summary of significant accounting policies included in the notes to the consolidated financial statements. The Company continues to evaluate its Corporate Group and the services provided by the Corporate Group to the operating segments. The Company has determined that additional amounts should be allocated to the operating segments based on additional services provided. The Company will continue to evaluate the services and amount of time spent directly on the operating segments business operations, and adjust accordingly.

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Summary financial information concerning the Company's operating segments is shown in the following tables:

Three Months Ended September 30, 2010  
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 110,582	\$ 68,015	\$ —	\$ 178,597
Cost of services sold	74,933	47,958	—	122,891
Office and general expenses	23,614	13,960	7,520	45,094
Depreciation and amortization	4,277	4,990	86	9,353
Operating Profit/(Loss)	7,758	1,107	(7,606)	1,259
<b>Other Income (Expense):</b>				
Other income, net				453
Interest expense, net				(8,832)
Loss from continuing operations before income taxes, equity in affiliates				(7,120)
Income tax expense				300
Loss from continuing operations before equity in affiliates				(7,420)
Equity in loss of non-consolidated affiliates				(1,496)
Loss from continuing operations				(8,916)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(556)
Net loss				(9,472)
Net income attributable to the noncontrolling interests	(597)	(849)	—	(1,446)
Net loss attributable to MDC Partners Inc.				\$ (10,918)
Non cash stock based compensation	\$ 2,376	\$ 483	\$ 4,089	\$ 6,948
<b>Supplemental Segment Information:</b>				
Capital expenditures	\$ 1,464	\$ 949	\$ 33	\$ 2,446
Goodwill and intangibles	\$ 322,160	\$ 193,145	\$ —	\$ 515,305
Total assets	\$ 502,639	\$ 305,975	\$ 53,556	\$ 862,170



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Three Months Ended September 30, 2009  
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 92,476	\$ 41,945	\$ —	\$ 134,421
Cost of services sold	53,727	31,503	—	85,230
Office and general expenses	19,027	7,578	4,718	31,323
Depreciation and amortization	5,374	2,013	115	7,502
Operating Profit/(Loss)	14,348	851	(4,833)	10,366
Other Income (Expense):				
Other expense, net				(3,072)
Interest expense, net				(3,772)
Income from continuing operations before income taxes, equity in affiliates				3,522
Income tax expense				1,215
Income from continuing operations before equity in affiliates				2,307
Equity in earnings of non-consolidated affiliates				60
Income from continuing operations				2,367
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(79)
Net income				2,288
Net income attributable to the noncontrolling interests	(2,120)	(132)	—	(2,252)
Net income attributable to MDC Partners Inc.			\$	\$ 36
Non cash stock based compensation	\$ 705	\$ 292	\$ 1,234	\$ 2,231
Supplemental Segment Information:				
Capital expenditures	\$ 853	\$ 315	\$ 33	\$ 1,201
Goodwill and intangibles	\$ 232,580	\$ 58,366	\$ —	\$ 290,946
Total assets	\$ 393,818	\$ 117,603	\$ 68,817	\$ 580,238





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Nine Months Ended September 30, 2010  
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 308,722	\$ 175,679	\$ —	\$ 484,401
Cost of services sold	207,411	128,645	—	336,056
Office and general expenses	64,732	36,107	17,851	118,690
Depreciation and amortization	11,788	11,137	271	23,196
Operating Profit/(Loss)	24,791	(210)	(18,122)	6,459
Other Income (Expense):				
Other expense, net				(423)
Interest expense, net				(24,185)
Loss from continuing operations before income taxes, equity in affiliates				(18,149)
Income tax expense				1,208
Loss from continuing operations before equity in affiliates				(19,357)
Equity in loss of non-consolidated affiliates				(1,639)
Loss from continuing operations				(20,996)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(1,410)
Net loss				(22,406)
Net income attributable to the noncontrolling interests	(2,948)	(1,555)		(4,503)
Net loss attributable to MDC Partners Inc.				\$ (26,909)
Non cash stock based compensation	\$ 5,207	\$ 1,248	\$ 6,849	\$ 13,304
Supplemental Segment Information:				
Capital expenditures	\$ 4,430	\$ 3,412	\$ 324	\$ 8,166
Goodwill and intangibles	\$ 322,160	\$ 193,145	\$ —	\$ 515,305
Total assets	\$ 502,639	\$ 305,975	\$ 53,556	\$ 862,170

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Nine Months Ended September 30, 2009  
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 264,753	\$ 130,854	\$ —	\$ 395,607
Cost of services sold	158,453	100,180	—	258,633
Office and general expenses	57,032	22,723	12,769	92,524
Depreciation and amortization	16,191	6,184	288	22,663
Operating Profit/(Loss)	33,077	1,767	(13,057)	21,787
Other Income (Expense):				
Other expense, net				(2,979)
Interest expense, net				(10,984)
Income from continuing operations before income taxes, equity in affiliates				7,824
Income tax expense				3,589
Income from continuing operations before equity in affiliates				4,235
Equity in earnings of non-consolidated affiliates				258
Income from continuing operations				4,493
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(625)
Net Income				3,868
Net income attributable to the noncontrolling interests	(3,882)	156		(3,726)
Net income attributable to MDC Partners Inc.			\$	142
Non cash stock based compensation	\$ 1,509	\$ 666	\$ 3,998	\$ 6,173
Supplemental Segment Information:				
Capital expenditures	\$ 2,299	\$ 894	\$ 92	\$ 3,285
Goodwill and intangibles	\$ 232,580	\$ 58,366	\$ —	\$ 290,946
Total assets	\$ 393,818	\$ 117,603	\$ 68,817	\$ 580,238

A summary of the Company's revenue by geographic area, based on the location in which the services originated, is set forth in the following table:

	United States	Canada	Other	Total
<b>Revenue</b>				
<b>Three Months Ended</b>				
September 30,				
2010	\$ 150,826	\$ 23,789	\$ 3,982	\$ 178,597
2009	\$ 111,903	\$ 19,630	\$ 2,888	\$ 134,421
<b>Nine Months Ended</b>				
September 30,				
2010	\$ 405,908	\$ 66,261	\$ 12,232	\$ 484,401
2009	\$ 334,407	\$ 56,169	\$ 5,031	\$ 395,607

### 13. Commitments, Contingencies and Guarantees

**Deferred Acquisition Consideration.** In addition to the consideration paid by the Company in respect of certain of its acquisitions at closing, additional consideration may be payable, or may be potentially payable based on the achievement of certain threshold levels of earnings. See Note 2 and Note 4.

**Put Options.** Owners of interests in certain subsidiaries have the right in certain circumstances to require the Company to acquire the remaining ownership interests held by them. The owners' ability to exercise any such "put option" right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise. In addition, these rights cannot be exercised prior to specified staggered exercise dates. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund the related amounts during the period 2010 to 2018. It is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights.

The amount payable by the Company in the event such rights are exercised is dependent on various valuation formulas and on future events, such as the average earnings of the relevant subsidiary through the date of exercise, the growth rate of the earnings of the relevant subsidiary during that period, and, in some cases, the currency exchange rate at the date of payment.

Management estimates, assuming that the subsidiaries owned by the Company at September 30, 2010, perform over the relevant future periods at their trailing twelve-months earnings levels, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate amount of approximately \$31,365 to the owners of such rights to acquire such ownership interests in the relevant subsidiaries. Of this amount, the Company is entitled, at its option, to fund approximately \$2,412 by the issuance of share capital. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately \$10,446 only upon termination of such owner's employment with the applicable subsidiary. The ultimate amount payable relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised.

**Natural Disasters.** Certain of the Company's operations are located in regions of the United States and Caribbean which typically are subject to hurricanes. During the three and nine months ended September 30, 2010 and 2009, these operations did not incur any costs related to damages resulting from hurricanes.

**Guarantees.** In connection with certain dispositions of assets and/or businesses in 2001 and 2003, the Company has provided customary representations and warranties whose terms range in duration and may not be explicitly defined.

The Company has also retained certain liabilities for events occurring prior to sale, relating to tax, environmental, litigation and other matters. Generally, the Company has indemnified the purchasers in the event that a third party asserts a claim against the purchaser that relates to a liability retained by the Company. These types of indemnification guarantees typically extend for a number of years.

In connection with the 2003 sale of the Company's investment in CDI, the amounts of indemnification guarantees were limited to the total sale price of approximately \$84,000. For the remainder, the Company's potential liability for these indemnifications are not subject to a limit as the underlying agreements do not always specify a maximum amount and the amounts are dependent upon the outcome of future contingent events.

Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees. The Company continues to monitor the conditions that are subject to guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under any guarantees or indemnifications in the period when those losses are probable and estimable.

For guarantees and indemnifications entered into after January 1, 2003, in connection with the sale of the Company's investment in CDI, the Company has estimated the fair value of its liability, which was insignificant.

**Legal Proceedings.** The Company's operating entities are involved in legal proceedings of various types. While any litigation contains an element of uncertainty, the Company has no reason to believe that the outcome of such proceedings or claims will have a material adverse effect on the financial condition or results of operations of the Company.

Commitments. At September 30, 2010, the Company had issued \$6,018 of undrawn outstanding letters of credit.

#### 14. New Accounting Pronouncements

In April 2010, the FASB issues ASU 2010-17, "Revenue Recognition-Milestone Method." ASU 2010-17 provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. The amendments in ASU 2010-17 are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The adoption will not have an impact on our financial statements.

In April 2010, the FASB issued ASU 2010-13, "Compensation - Stock Compensation Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades." ASU 2010-13 provides amendments to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in ASU 2010-13 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The adoption of this standard will not have an effect on our results of operation or our financial position.

In February 2010, The FASB issued an additional Accounting Standards Update on Subsequent Events to clarify the updated guidance issued in May 2009. This Guidance clarifies that SEC filers must evaluate subsequent events through the date the financial statements are issued. However, an SEC filer is not required to disclose the date through which subsequent events have been evaluated. The amendment is effective June 15, 2010. The adoption did not have an impact on our financial statements.

In January 2010, the FASB issued an Accounts Standards Update on Consolidation — Accounting and Reporting for Decreases in Ownership of a Subsidiary — A Scope Clarification. This Guidance clarifies the scope of the decrease in ownership provisions and expands the disclosure requirements about deconsolidation of a subsidiary or de-recognition of a group of assets. It is effective beginning in the first interim annual reporting period ending on or after December 15, 2009. The adoption did not have an impact on our financial statements.

In January 2010, the FASB issued Fair Value Measurements and Disclosures — Improving Disclosures about Fair Value Measurements. This Guidance requires new disclosures and clarifies certain existing disclosure requirements about fair value measurements. It requires a reporting entity to disclose significant transfers in and out of Level 1 and Level 2 fair value measurements, to describe the reasons for the transfers and to present separately information about purchases, sales, issuances and settlements for fair value measurements using significant unobservable inputs. This Guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which is effective for interim and annual reporting periods beginning after December 15, 2010; early adoption is permitted. The adoption did not have a material effect on our financial statements.

In October 2009, the FASB issued revised guidance on the topic of Multiple — Deliverable Revenue Arrangements. The revised guidance amends certain accounting for revenue with multiple deliverables. In particular when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, the revised guidance allows use of a best estimate of the selling price to allocate the arrangement consideration among them. This guidance is effective for the first quarter of 2011, with early adoption permitted. The adoption did not have a material

impact on our financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated, references to the "Company" mean MDC Partners Inc. and its subsidiaries, and references to a fiscal year means the Company's year commencing on January 1st of that year and ending December 31st of that year (e.g., fiscal 2009 means the period beginning January 1, 2009, and ending December 31, 2009).

The Company reports its financial results in accordance with generally accepted accounting principles ("GAAP") of the United States of America ("US GAAP"). However, the Company has included certain non-US GAAP financial measures and ratios, which it believes, provide useful information to both management and readers of this report in measuring the financial performance and financial condition of the Company. One such term is "organic revenue" which means growth in revenues from sources other than acquisitions or foreign exchange impacts. These measures do not have a standardized meaning prescribed by US GAAP and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other titled measures determined in accordance with US GAAP.

The following discussion focuses on the operating performance of the Company for the three and nine months ended September 30, 2010 and 2009, and the financial condition of the Company as of September 30, 2010. This analysis should be read in conjunction with the interim condensed consolidated financial statements presented in this interim report and the annual audited consolidated financial statements and Management's Discussion and Analysis presented in the Annual Report to Shareholders for the year ended December 31, 2009 as reported on Form 10-K. All amounts are in U.S. dollars unless otherwise stated.

## Executive Summary

The Company's objective is to create shareholder value by building market-leading subsidiaries and affiliates that deliver innovative, value-added marketing communications and strategic consulting services to their clients. Management believes that shareholder value is maximized with an operating philosophy of "Perpetual Partnership" with proven committed industry leaders in marketing communications.

MDC manages the business by monitoring several financial and non-financial performance indicators. The key indicators that we review focus on the areas of revenues and operating expenses and capital expenditures. Revenue growth is analyzed by reviewing the components and mix of the growth, including: growth by major geographic location; existing growth by major reportable segment (organic); growth from currency changes; and growth from acquisitions.

MDC conducts its businesses through the Marketing Communications Group. Within the Marketing Communications Group, there are two reportable operating segments: Strategic Marketing Services and Performance Marketing Services. In addition, MDC has a "Corporate Group" which provides certain administrative, accounting, financial, human resources and legal functions. Through our operating "partners", MDC provides advertising, consulting, customer relationship management, and specialized communication services to clients throughout the United States, Canada, Europe, and Jamaica.

The operating companies earn revenue from agency arrangements in the form of retainer fees or commissions; from short-term project arrangements in the form of fixed fees or per diem fees for services; and from incentives or bonuses. Additional information about revenue recognition appears in Note 2 of the Notes to the Unaudited Condensed Consolidated Financial Statements.

MDC measures operating expenses in two distinct cost categories: cost of services sold, and office and general expenses. Cost of services sold is primarily comprised of employee compensation related costs and direct costs related primarily to providing services. Office and general expenses are primarily comprised of rent and occupancy costs and administrative service costs including related employee compensation costs. Also included in operating expenses is depreciation and amortization.

Because we are a service business, we monitor these costs on a percentage of revenue basis. Cost of services sold tends to fluctuate in conjunction with changes in revenues, whereas office and general expenses and depreciation and amortization, which are not directly related to servicing clients, tend to decrease as a percentage of revenue as revenues increase because a significant portion of these expenses are relatively fixed in nature.

We measure capital expenses as either maintenance or investment related. Maintenance capital expenses are primarily composed of general upkeep of our office facilities and equipment that are required to continue to operate our businesses. Investment capital expenses include expansion costs, the build out of new capabilities, technology or call centers, or other growth initiatives not related to the day to day upkeep of the existing operations. Growth capital expenses are measured and approved based on the expected return of the invested capital.

### Certain Factors Affecting Our Business

**Acquisitions and Dispositions ..** Our strategy includes acquiring ownership stakes in well-managed businesses with strong reputations in the industry. We engaged in a number of acquisition and disposal transactions during the 2009 to 2010 period, which affected revenues, expenses, operating income and net income. Additional information regarding material acquisitions is provided in Note 4 "Acquisitions" and information on dispositions is provided in Note 6 "Discontinued Operations" in the Notes to the Unaudited Condensed Consolidated Financial Statements.



Foreign Exchange Fluctuations .. Our financial results and competitive position are affected by fluctuations in the exchange rate between the US dollar and non-US dollars, primarily the Canadian dollar. See also “Quantitative and Qualitative Disclosures About Market Risk — Foreign Exchange.”

Seasonality . Historically, with some exceptions, we generate the highest quarterly revenues during the fourth quarter in each year. The fourth quarter has historically been the period in the year in which the highest volumes of media placements and retail related consumer marketing occur.

Results of Operations:  
 For the Three Months Ended September 30, 2010  
 (thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 110,582	\$ 68,015	\$ —	\$ 178,597
Cost of services sold	74,933	47,958	—	122,891
Office and general expenses	23,614	13,960	7,520	45,094
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Other income, net				453
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