MDC PARTNERS INC
Form 10-Q
November 02, 2009

---

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

---

# FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

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

---

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

| Canada<br>(State or other jurisdiction of incorporation or organization) | 98-0364441<br>(IRS Employer Identification No.) |
|---|---|
| 45 Hazelton Avenue<br>Toronto, Ontario, Canada<br>(Address of principal executive offices) | M5R 2E3<br>(Zip Code) |

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

950 Third Avenue, New York, New York 10022
(646) 429-1809

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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12(b)-2 of the Exchange Act (check one)

| | |
|---|---|
| Large Accelerated Filer ¨ | Accelerated Filer x |
| 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 x

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Act subsequent to the distributions of securities under a plan confirmed by a court. Yes ¨ No ¨

The numbers of shares outstanding as of October 28, 2009 were: 28,224,021 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. 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.

MDC PARTNERS INC.

QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS


| | | Page |
|---|---|---|
| | PART I. FINANCIAL INFORMATION | |
| Item 1. | Financial Statements | 3 |
| | Condensed Consolidated Statements of Operations (unaudited) for the Three and Nine Months Ended September 30, 2009 and 2008 | 3 |
| | Condensed Consolidated Balance Sheets as of September 30, 2009 (unaudited) and December 31, 2008 | 4 |
| | Condensed Consolidated Statements of Cash Flows (unaudited) for the Nine Months Ended September 30, 2009 and 2008 | 5 |
| | Notes to Unaudited Condensed Consolidated Financial Statements | 6 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 23 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 41 |
| Item 4. | Controls and Procedures | 41 |
| | PART II. OTHER INFORMATION | |
| Item 1. | Legal Proceedings | 42 |
| Item 1A. | Risk Factors | 42 |
| Item 2. | Unregistered Sales of Equity and Use of Proceeds | 42 |
| Item 4. | Submission of Matters to a Vote of Security Holders | 42 |
| Item 6. | Exhibits | |
| Signatures | | 43 |

Item 1. Financial Statements

MDC PARTNERS INC. AND SUBSIDIARIES

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 Reclassified (Note 1) | 2009 | 2008 Reclassified (Note 1) |
| Revenue: | | | | |
| Services | $ 134,625 | $ 142,089 | $ 396,246 | $ 439,940 |
| Operating Expenses: | | | | |
| Cost of services sold | 85,526 | 94,558 | 259,644 | 292,410 |
| Office and general expenses | 31,401 | 31,864 | 92,726 | 102,754 |
| Depreciation and amortization | 7,514 | 7,428 | 22,711 | 25,789 |
| | 124,441 | 133,850 | 375,081 | 420,953 |
| Operating profit | 10,184 | 8,239 | 21,165 | 18,987 |
| Other Income (Expenses): | | | | |
| Other income (expense) | (3,080) | 2,418 | (2,991) | 5,545 |
| Interest expense | (3,792) | (3,573) | (11,276) | (11,140) |
| Interest income | 17 | 456 | 289 | 1,350 |
| | (6,855) | (699) | (13,978) | (4,245) |
| Income from continuing operations before income taxes, equity in affiliates | 3,329 | 7,540 | 7,187 | 14,742 |
| Income tax expense | 1,149 | 2,222 | 3,373 | 6,415 |
| Income from continuing operations before equity in affiliates | 2,180 | 5,318 | 3,814 | 8,327 |
| Equity in earnings of non-consolidated affiliates | 60 | 69 | 258 | 290 |
| Income from continuing operations | 2,240 | 5,387 | 4,072 | 8,617 |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | — | (771) | (361) | (6,698) |
| Net income | 2,240 | 4,616 | 3,711 | 1,919 |
| Net income attributable to the noncontrolling interests | (2,204) | (1,366) | (3,569) | (6,533) |
| Net income (loss) attributable to MDC Partners Inc. | $ 36 | $ 3,250 | $ 142 | $ (4,614) |
| | | | | |
| Income (loss) Per Common Share: | | | | |
| Basic and Diluted: | | | | |
| Income from continuing operations attributable to MDC Partners Inc. common shareholders | $ 0.00 | $ 0.15 | $ 0.02 | $ 0.08 |
| Discontinued operations attributable to MDC Partners Inc. common shareholders | 0.00 | (0.03) | (0.01) | (0.25) |
| Net income (loss) attributable to MDC Partners Inc. common shareholders | $ 0.00 | $ 0.12 | $ 0.01 | $ (0.17) |

| | | | | |
|---|---|---|---|---|
| Weighted Average Number of Common Shares Outstanding: | | | | |
| Basic | 27,471,041 | 26,835,101 | 27,343,575 | 26,721,820 |
| Diluted | 29,009,655 | 27,290,259 | 27,838,740 | 27,235,371 |
| | | | | |
| Non cash stock-based compensation expense is included in the following line items above: | | | | |
| Cost of services sold | $ 286 | $ 236 | $ 783 | $ 778 |
| Office and general expenses | 1,945 | 1,593 | 5,390 | 4,912 |
| Total | $ 2,231 | $ 1,829 | $ 6,173 | $ 5,690 |

See notes to the unaudited condensed consolidated financial statements.

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

| | September 30, 2009 (Unaudited) | December 31, 2008 (Reclassified) (Note 1) |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 70,937 | $ 41,331 |
| Accounts receivable, less allowance for doubtful accounts of $2,570 and $2,179 | 126,281 | 106,954 |
| Expenditures billable to clients | 24,466 | 16,949 |
| Prepaid expenses | 5,955 | 5,240 |
| Other current assets | 3,643 | 5,270 |
| Total Current Assets | 231,282 | 175,744 |
| Fixed assets, at cost, less accumulated depreciation of $80,171 and $69,018 | 36,547 | 44,021 |
| Investment in affiliates | 1,792 | 1,593 |
| Goodwill | 253,284 | 238,214 |
| Other intangibles assets, net | 37,662 | 46,852 |
| Deferred tax asset | 9,871 | 11,926 |
| Other assets | 9,800 | 10,889 |
| Total Assets | $ 580,238 | $ 529,239 |
| LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | $ 79,364 | $ 75,360 |
| Accruals and other liabilities | 58,984 | 55,338 |
| Advance billings | 74,536 | 50,053 |
| Current portion of long-term debt and convertible notes | 43,059 | 1,546 |
| Deferred acquisition consideration | 2,932 | 5,538 |
| Total Current Liabilities | 258,875 | 187,835 |
| Revolving credit facility | 9,347 | 9,701 |
| Long-term debt | 131,960 | 133,305 |
| Convertible notes | — | 36,946 |
| Other liabilities | 9,728 | 6,949 |
| Deferred tax liabilities | 4,808 | 4,700 |
| | | |
| Total Liabilities | 414,718 | 379,436 |
| | | |
| Redeemable Noncontrolling Interests (Note 14) | 65,328 | 21,751 |
| Commitments, contingencies and guarantees (Note 13) | | |
| Shareholders' Equity: | | |
| Preferred shares, unlimited authorized, none issued | — | — |
| Class A Shares, no par value, unlimited authorized, 27,517,528 and 26,987,017 shares issued in 2009 and 2008 | 218,146 | 213,533 |
| Class B Shares, no par value, unlimited authorized, 2,503 shares issued in 2009 and 2008, each convertible into one Class A share | 1 | 1 |
| Additional paid-in capital | — | 33,470 |

| | | | | |
|---|---|---|---|---|
| Charges in excess of capital | | (2,593) | | — |
| Accumulated deficit | | (112,694) | | (112,836) |
| Stock subscription receivable | | (341) | | (354) |
| Accumulated other comprehensive loss | | (5,560) | | (6,633) |
| MDC Partners Inc. Shareholders' Equity | | 96,959 | | 127,181 |
| Noncontrolling Interests | | 3,233 | | 871 |
| Total Equity | | 100,192 | | 128,052 |
| Total Liabilities, Redeemable Noncontrolling Interests and Equity | $ | 580,238 | $ | 529,239 |

See notes to the unaudited condensed consolidated financial statements.

4

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income | $ 3,711 | $ 1,919 |
| Net income attributable to the noncontrolling interests | (3,569) | (6,533) |
| Net income (loss) attributable to MDC Partners Inc. | 142 | (4,614) |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | (361) | (6,698) |
| Income attributable to MDC Partners Inc. from continuing operations | 503 | 2,084 |
| Adjustments to reconcile net income attributable to MDC Partners Inc. from continuing operations to cash provided by operating activities | | |
| Depreciation | 12,073 | 12,511 |
| Amortization of intangibles | 10,638 | 13,278 |
| Non-cash stock-based compensation | 5,443 | 5,053 |
| Amortization of deferred finance charges | 979 | 1,036 |
| Deferred income taxes | 1,942 | 2,000 |
| Earnings of non-consolidated affiliates | (258) | (290) |
| Loss on sale of assets | 10 | 113 |
| Other non-current assets and liabilities | 3,483 | 949 |
| Foreign exchange | 4,432 | (5,627) |
| Changes in non-cash working capital: | | |
| Accounts receivable | (18,057) | (2,765) |
| Expenditures billable to clients | (7,517) | (6,016) |
| Prepaid expenses and other current assets | 643 | (509) |
| Accounts payable, accruals and other liabilities | 5,442 | (16,829) |
| Advance billings | 24,476 | 17,842 |
| Cash flows provided by continuing operating activities | 44,232 | 22,830 |
| Discontinued operations | (290) | (295) |
| Net cash provided by operating activities | 43,942 | 22,535 |
| Cash flows from investing activities: | | |
| Capital expenditures | (3,288) | (10,434) |
| Acquisitions, net of cash acquired | (8,059) | (10,405) |
| Proceeds from sale of assets | 23 | 439 |
| Other | 26 | (130) |
| Profit distributions from non-consolidated affiliates | 139 | 68 |
| Cash Flows used in continuing investing activities | (11,159) | (20,462) |
| Discontinued operations | — | (538) |
| Net cash used in investing activities | (11,159) | (21,000) |
| Cash flows from financing activities: | | |
| Proceeds (repayments) from revolving credit facility | (354) | 8,401 |
| Repayment of long-term debt | (1,753) | (1,612) |
| Proceeds from stock subscription receivable | 13 | 1 |
| Purchase of treasury shares | (597) | (896) |
| Net cash (used in) provided by continuing financing activities | (2,691) | 5,894 |

| | | | | |
|---|---|---|---|---|
| Effect of exchange rate changes on cash and cash equivalents | | (486) | | (356) |
| Net increase in cash and cash equivalents | | 29,606 | | 7,073 |
| Cash and cash equivalents at beginning of period | | 41,331 | | 10,410 |
| Cash and cash equivalents at end of period | $ | 70,937 | $ | 17,483 |
| | | | | |
| Supplemental disclosures: | | | | |
| Cash paid to noncontrolling partners | $ | 6,232 | $ | 9,678 |
| Cash income taxes paid | $ | 487 | $ | 936 |
| Cash interest paid | $ | 9,599 | $ | 9,225 |
| Non-cash transactions: | | | | |
| Share capital issued on acquisitions | $ | — | $ | 1,573 |
| Capital leases | $ | 288 | $ | 308 |

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, 2008.

Effective December 2008, three of the Company’s operating subsidiaries, Clifford/Bratskeir Public Relations, LLC, Ito Partners, LLC and Mobium Creative Group (a division of Colle + McVoy) have been deemed discontinued operations. All periods have been restated to reflect these discontinued operations.

Noncontrolling Interests (formerly minority interests) have been reclassified in the prior periods to conform with the current period presentation (See Note 14).

On July 1, 2009, the Company adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification. This does not alter current U.S. GAAP, but rather integrated existing accounting standards with other authoritative guidance. It provides a single source of authoritative U.S. GAAP for non governmental entities and supersedes all other previously issued non SEC accounting and reporting guidance. The adoption did not have any effect on our financial statements. All prior references to U.S. GAAP have been revised to conform with the Accounting Standards Codification.

## 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, redeemable noncontrolling interests, stock-based compensation 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.

Fair Value Measurements. The Company adopted Financial Accounting Standards related to the fair value measurements of nonfinancial assets and nonfinancial liabilities effective January 1, 2009. These standards define fair value, establish a framework for measuring fair value in GAAP, and expand disclosures about fair value measurements. These standards will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. The effect of adopting these standards did not have a material impact on the Company's financial position or results of operations.

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. However, at September 30, 2009, no clients accounted for more than 10% of the Company's consolidated accounts receivable. At December 31, 2008, one client accounted for approximately 17% of the Company's consolidated accounts receivable. This client also accounted for 15% and 17% of revenue for the three and nine months ended September 30, 2009, respectively, and 19% of revenue for the three and nine months ended September 30, 2008.

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, 2009 and December 31, 2008, is approximately $91 and $51, respectively, of cash restricted as to its use by the Company.

Redeemable Noncontrolling Interests. The Company has recorded its put options as mezzanine equity at their current estimated redemption amounts. 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. At December 31, 2008, the Company has reclassified $21,751 of the originally reflected minority interest of $22,622 to redeemable noncontrolling interests and $871 to noncontrolling interests. The amount reclassified to redeemable noncontrolling interests of $21,751 represents minority interest equity which is subject to put obligations. In addition, as of September 30, 2009, the Company has recorded $43,353 to redeemable noncontrolling interests and changes in excess of capital which represents the estimated put option redemption amounts.

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 when services are earned 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. 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. Also, the Reporting Revenue Gross as a Principal versus Net as an Agent topic of the FASB Accounting Standards Codification provides a summary on when revenue should be recorded at the gross amount billed because revenue has been earned from the sale of goods or services, or the net amount retained because a fee or commission has been earned. The Company's businesses at times acts as an agent and records revenue equal to the net amount retained, when the fee or commission is earned. The Company also follows the reimbursements received for out-of-pocket expenses topic of the FASB Accounting Standards Codification. This topic requires that reimbursements received for out-of-pocket expenses incurred should be characterized in the income statement as revenue. Accordingly, the Company has included in revenue such reimbursed expenses.

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.

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 achieved, 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.

Stock-Based Compensation . The fair value method is applied to all awards granted, modified or settled on or after January 1, 2003. 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.

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 derived using the Black-Scholes option pricing model and is recorded in operating income over the service period, which 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.

In February and March 2009, the Company issued 3,694,686 Stock Appreciation Rights (“SARs”) to its employees and directors. The SARs have an exercise price of $3.72 and one-third will vest on each of the anniversary dates of grant in 2010, 2011 and 2012. The Company will be recording a non-cash stock based compensation charge of $4,311 from the date of grant through 2012 for these SARs awards. In September 2009, the Company issued 50,000 SARs to an employee with an exercise price of $6.60 and one-third will vest on each anniversary dates of grant in 2010, 2011, and 2012.

For the three and nine months ended September 30, 2009, the Company has recorded charges of $762 and $1,770, respectively, relating to these equity incentive grants. The value of the awards was determined based on the fair market value of the underlying award using the Black-Scholes Option Pricing Model. The weighted average fair value of the awards was $1.18, based on a volatility range of 39.84% to 44.50%, risk free interest range of 1.76% to 2.49%, no dividends and an expected life range of 3 to 4 years.

A total of 681,493 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, 2009.

3 . Income Per Common Share

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator | | | | |
| Numerator for basic income per common share - income from continuing operations | $ 2,240 | $ 5,387 | $ 4,072 | $ 8,617 |
| Net income attributable to the noncontrolling interests | (2,204) | (1,366) | (3,569) | (6,533) |
| Income attributable to MDC Partners Inc. common shareholders from continuing operations | $ 36 | $ 4,021 | $ 503 | $ 2,084 |
| Effect of dilutive securities | — | — | — | — |
| Numerator for diluted income per common share – income attributable to MDC Partners Inc. common shareholders from continuing operations | $ 36 | $ 4,021 | $ 503 | $ 2,084 |
| Denominator | | | | |
| Denominator for basic income per common share - weighted average common shares | 27,471,041 | 26,835,101 | 27,343,575 | 26,721,820 |
| Effect of dilutive securities: | 1,538,614 | 455,158 | 495,165 | 513,551 |
| Denominator for diluted income per common share - adjusted weighted shares | 29,009,655 | 27,290,259 | 27,838,740 | 27,235,371 |
| Basic income per common share from continuing operations | $ 0.00 | $ 0.15 | $ 0.02 | $ 0.08 |
| Diluted income per common share from continuing operations | $ 0.00 | $ 0.15 | $ 0.02 | $ 0.08 |

The 8% convertible debentures, options and other rights to purchase 3,736,929 shares of common stock, were outstanding during the nine months ended September 30, 2009, but were not included in the computation of diluted income per common share because their effect would be antidilutive because of the market price of the stock at September 30, 2009. During the nine months ended September 30, 2008, the 8% convertible debentures, options and other rights to purchase 4,723,520 shares of common stock, were outstanding but were not included in the computation of diluted loss per common share because their effect would be antidilutive.

4.Acquisitions

2009 Acquisitions

On August 31, 2009, the Company, through HL Group Partners LLC ("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 $671 due in 2010 and 2011 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 of 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 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 Crispin Porter & Bogusky LLC ("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, currently recorded as deferred acquisition consideration. The Company has additional calls and the noncontrolling owners have reciprocal puts on the remaining 48% of the common shares, which are exercisable beginning in October 2009 and January 2012. The current estimated cost of these puts and calls is approximately $6,441 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.

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.

2008 Acquisitions

Effective December 31, 2008, the Company acquired an additional 6.3% of equity interests in Accent Marketing LLC, increasing the Company's ownership to 100%. The aggregate purchase price totaled $4,830 and was paid in cash of $995 at closing and repayment of outstanding loans of $1,830. The balance aggregate of $2,005 will be paid in 2009 and has been recorded in deferred acquisition consideration, as of September 30, 2009, $561 has been paid. In addition, an additional contingent performance payment may be paid based on Accent's financial results in 2009. The allocation of the excess purchase consideration of these step acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $1,900 (consisting of customer lists), goodwill of $365 and a stock based compensation charge of $2,285, relating to the amount paid in excess of the fair value of the equity purchase. The identified intangibles will be amortized over a seven year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. The intangibles, goodwill and stock based compensation charge are tax deductible.

Effective December 1, 2008, the Company acquired an additional 3% of equity interests in Source Marketing LLC, increasing the Company's ownership to 83%. The purchase price totaled $1,286 and was paid in cash less $42 of outstanding loans. The allocation of the excess purchase consideration of this step acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of $300 (consisting of customer lists), goodwill of $504 and a stock based compensation charge of $524, relating to the amount paid in excess of the fair value of the equity purchase. The identified intangibles will be amortized over a five year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. The intangibles, goodwill and stock based compensation charge are tax deductible.

On November 24, 2008, the Company agreed to make an early payment to KBP Management Partners LLC of the contingent payment originally due in 2009 pursuant to the purchase agreement entered into in November 2007. The additional payment totaled $16,005, of which $14,124 was paid in cash in November 2008 and $1,881 was paid in 2009. This additional payment was accounted for as additional goodwill. In addition, pursuant to an existing phantom stock arrangement a stock based compensation charge of $3,548 has been recorded for amounts paid to the phantom equity holders. The goodwill is tax deductible.

Effective November 10, 2008, the Company acquired an additional 17% of equity interests in CPB, increasing the Company's ownership to 94%. The purchase price totaled $6,823 plus a contingent payment in April of 2010 based on the financial performance of 2009. This contingent payment will be calculated in accordance with CPB's existing limited liability company agreement. The consideration was paid in cash of $6,430 and the issuance of 105,000 newly-issued shares of the Company's Class A subordinated voting stock valued at $393. For accounting purposes, the value of the Company's Class A shares issued as consideration was calculated based on the price of the Company's Class A shares over a period of two days before and after the November 10, 2008 announcement date. This acquisition represented an accelerated exercise of the Company's existing call option that was otherwise exercisable in April 2010. The allocation of the excess purchase consideration of this acquisition to the fair value of the net assets acquired resulted in $5,008 being allocated to identifiable intangibles, existing backlog. This intangible will be amortized over 14.5 month period. This intangible is tax deductible.

Effective October 10, 2008, MDC acquired an additional 8.56% of Zig Inc. and an additional 13.17% of an affiliate of Zig Inc. for cash of $1,320. These transactions increased the Company's equity ownership in Zig Inc to 74.07%. The allocation of the excess purchase consideration of these step acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $176 (consisting of customer lists and existing backlog) and goodwill of $1,196. The identified intangibles will be amortized over 30 months in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. The tax deductible portion of these transactions amounts to $253.

On June 16, 2008, CPB, acquired certain assets and assumed certain liabilities of Texture Media, Inc. Texture Media is a digital agency specializing in website development, and is based in Boulder, Colorado with approximately 50 employees. The purchase price consisted of $2,500 in cash and a non-contingent cash payment of $1,040 in one year, which is included in deferred acquisition consideration, as of September 30, 2009, $540 has been paid. The allocation of the excess purchase consideration of this acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of $150 (consisting of customer lists and covenants not to compete) and goodwill of $3,111. The identified intangibles will be amortized up to a two year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationship are realized. The intangibles and goodwill are tax deductible.

On February 12, 2008, the Company's Bratskeir subsidiary purchased the net assets of Clifford PR for $2,050 in cash and the issuance of 30,444 newly issued shares of the Company's Class A stock valued at $249, plus a 10% membership interest in Clifford/Bratskeir. For accounting purposes, the value of the Company's Class A shares issued as consideration was calculated based on the price of the Company's Class A shares on the date of the acquisition. The accounting value of the 10% membership interest in Clifford/Bratskeir was valued at $400. The allocation of the excess purchase consideration of this acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of $1,031 (consisting of customer lists, backlog and covenants not to compete) and goodwill of $1,432. The identified intangibles will be amortized over a period of up to five years in a manner represented by the pattern in which the economic benefits of the customer contracts/relationship are realized. Effective December 31, 2008, the Company transferred the ownership of the Clifford PR assets to HL Group Partners, LLC. As part of this transfer, the Company issued 45,000 Class A Shares valued at $137 which have been recorded as stock based compensation expense. In connection with that transaction, the Company purchased the 10% membership interest in Clifford/Bratskeir for $400 less an adjustment for working capital of $88. This net amount will be paid over a three-year period and is included in deferred acquisition consideration, as of September 30, 2009, $45 has been paid. The intangibles and goodwill are tax deductible.

In January 2008, the Company's 62% owned subsidiary, Zyman Group, purchased certain assets of Core Strategy Group and DMG Inc. The aggregate purchase price paid at closing consisted of $1,000 paid in cash and the issuance of 126,478 newly issued shares of the Company's Class A stock valued at $1,110. In addition, the principals of Core Strategy Group and DMG received 1,000,000 newly-issued Restricted Class C units of Zyman Group, which will

entitle them to a profit interest of 15% of Zyman Group's pre-tax income in excess of a specified threshold amount. For accounting purposes, the value of the Company's Class A shares issued as consideration was calculated based on the price of the Company's Class A share on the date of the acquisitions. The accounting value of the Restricted Class C units of Zyman Group was determined based on a Black-Scholes value of $1,001. The allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $497 (consisting of customer lists and covenants not to compete) and goodwill of $2,626. The identified intangibles will be amortized up to a five year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationship are realized. The intangibles and goodwill are tax deductible.

Throughout 2008, the Company completed 16 equity acquisitions with various shareholders of Allard Johnson Communications Inc. ("Allard"). The aggregate purchase price for the 16 transactions was cash equal to $3,442. These transactions increased the Company's equity ownership in Allard to 75.06%, an increase of 14.8%. The allocation of the excess purchase consideration of these step acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $247 (consisting of customer lists and existing backlog), goodwill of $2,752 and a stock based compensation charge of $467, relating to amounts paid in excess of the fair value of the equity purchased. The identified intangibles will be amortized over a five year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationship are realized. The intangible and goodwill are not 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, 2008 assume that the acquisition of the operating assets of the significant businesses acquired during 2008 had occurred on January 1, 2008. For the three and nine months ended September 30, 2009, there were no significant businesses acquired. 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, 2008 | Nine Months Ended September 30, 2008 |
|---|---|---|
| Revenues | $ 142,089 | $ 439,940 |
| Net income (loss) attributable to MDC Partners Inc. | $ 3,731 | $ (3,582) |
| Income (Loss) per common share: | | |
| Basic – net income (loss) attributable to MDC Partners Inc. | $ 0.14 | $ (0.13) |
| Diluted – net income (loss) attributable to MDC Partners Inc. | $ 0.14 | $ (0.13) |

5.Accrued and Other Liabilities

At September 30, 2009 and December 31, 2008, 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 $3,383 and $4,856, respectively.

6. 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 losses of nil and $361, respectively. The results of operations, net of income tax benefits, for the three and nine months ended September 30, 2008, were losses of $505 and $1,822, respectively. This entity had been previously included in the Company's Specialized Communication Service segment.

Effective December 3, 2008, Colle & McVoy, LLC ("Colle'), completed the sale of certain assets of its Mobium division. Mobium's results of operations, net of income tax benefits for the three and nine months ended September 30, 2008, were a loss of $266 and $1,036, respectively. This entity had been previously included in the Company's Strategic Marketing Service segment.

Effective June 30, 2008, the Company sold its 60% interest in The Ito Partnership ("Ito"), a start-up operation formed in 2006. Ito's results of operations, net of income tax benefits for the three and nine months ended September 30, 2008, were a loss of nil and $806, respectively. This entity had been previously included in the Company's Specialized Communication service segment.

In 2007, the Company ceased all operations relating to Margeotes Fertitta Powell, LLC ("MFP") and accordingly have classified these operations as discontinued. The results of operations of MFP for the three and nine months ended September 30, 2008 was a loss, net of income tax benefits of nil and $3,034 and consists primarily of the accrual of lease abandonment costs and severance costs.

11

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue | $ — | $ 1,339 | $ 481 | $ 5,845 |
| Operating loss | $ — | $ (902) | $ (549) | $ (6,572) |
| Other expense | $ — | $ (346) | $ — | $ (1,878) |
| Net loss from discontinued operations attributable to MDC Partners Inc., net of taxes | $ — | $ (771) | $ (361) | $ (6,698) |

7. Comprehensive Income (Loss)

Total comprehensive income (loss) and its components were:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Net income for the period | $ 2,240 | $ 4,616 | $ 3,711 | $ 1,919 |
| Other comprehensive income, net of tax: | | | | |
| Foreign currency cumulative translation adjustment | 1,016 | (2,446) | 1,086 | (5,423) |
| Comprehensive income (loss) | 3,256 | 2,170 | 4,797 | (3,504) |
| Comprehensive income attributable to the noncontrolling interest | (2,210) | (1,357) | (3,582) | (6,518) |
| Comprehensive income (loss) attributable to MDC Partners Inc. | $ 1,046 | $ 813 | $ 1,215 | $ (10,022) |

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

Debt consists of:

| | September 30, 2009 | December 31, 2008 |
|---|---|---|
| Revolving credit facility | $ 9,347 | $ 9,701 |
| 8% convertible debentures | 41,597 | 36,946 |
| Term loans | 130,000 | 130,000 |
| Notes payable and other bank loans | 1,801 | 2,789 |
| | 182,745 | 179,436 |
| Obligations under capital leases | 1,621 | 2,062 |
| | 184,366 | 181,498 |
| Less: | | |
| Current portions | 43,059 | 1,546 |
| Long term portion | $ 141,307 | $ 179,952 |

MDC Financing Agreement and Debentures

Financing Agreement

On June 18, 2007, MDC Partners Inc. (the “Company”) and its material subsidiaries entered into a $185,000 senior secured financing agreement (the “Fortress Financing Agreement”) with Fortress Credit, an affiliate of Fortress Investment Group, as collateral agent and Wells Fargo Bank, as administrative agent, and a syndicate of lenders.

The Fortress Financing Agreement consisted of a $55,000 revolving credit facility, a $60,000 term loan and a $70,000 delayed draw term loan. Borrowings under the Financing Agreement bear interest 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. In addition, the Company is required to pay a facility fee of 50 basis points. At September 30, 2009, the weighted average interest rate was 7.1%.

At September 30, 2009, $40,940 remained available under the Fortress Financing Agreement to support the Company's future cash requirements. The Company's obligations under the Fortress Financing Agreement were guaranteed by the material subsidiaries as defined and secured by all assets of the Company. The Fortress Financing Agreement was subject to various covenants, including a senior leverage ratio, fixed charges ratio, limitations on debt incurrence, limitation on liens and limitation on dividends and other payments.

At September 30, 2009, the Company was in compliance with all of the terms and conditions of the Fortress Financing Agreement.

Effective October 23, 2009, the Company repaid all outstanding amounts under the Fortress Financing Agreement. See Note 15.

Management believes, based on its current financial projections, that the Company will be in compliance with all covenants under the new Credit Agreement over the next twelve months, see Note 15.

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 will mature on June 30, 2010. The Debentures bear interest at an annual rate of 8.00% payable semi-annually, in arrears, on June 30 and December 31 of each year, commencing December 31, 2005. Unless an event of default has occurred and is continuing, the Company may elect, from time to time, subject to applicable regulatory approval, to issue and deliver Class A subordinate voting shares to the Debenture trustee in order to raise funds to satisfy all or any part of the Company's obligations to pay interest on the Debentures in accordance with the indenture in which holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Class A subordinate voting shares by the Debenture trustee.

The Debentures are convertible at the holder's option into fully-paid, non-assessable and freely tradable Class A subordinate voting shares of the Company, at any time prior to maturity or redemption, subject to the restrictions on transfer, at a conversion price of $12.94 (C$14.00) per Class A subordinate voting share being a ratio of approximately 71.4286 Class A subordinate voting shares per $924.39 (C$1,000.00) principal amount of Debentures.

From July 1, 2009 until the maturity of the Debentures, the Debentures may be redeemed by the Company at a price equal to the principal amount of the Debenture plus accrued and unpaid interest, if any. The Company may elect to satisfy the redemption consideration, in whole or in part, by issuing Class A subordinate voting shares of the Company to the holders, the number of which will be determined by dividing the principal amount of the Debenture by 95% of the current market price of the Class A subordinate voting shares on the redemption date.

Effective October 26, 2009, the Company gave notice of redemption of all outstanding Debentures at a redemption price equal to principal plus accrued interest to the redemption date on November 26, 2009. See Note 15.

9. Total Equity

During the nine months ended September 30, 2009, Class A share capital increased by $4,613, as the Company issued 686,992 Class A shares related to vested restricted stock and stock appreciation rights. During the nine months ended September 30, 2009, “Additional paid-in capital” decreased by $5,209 related to the vested restricted stock, and stock appreciation rights, by $36,149 relating to the recording of existing put options (Note 14), and $213 related to acquisitions offset by $5,442 related to an increase from stock-based compensation that was expensed during the same period and a reclassification of the $2,593 to charges in excess of capital.

Throughout 2009, the Company purchased and retired 156,481 Class A shares for $596 from employees in connection with the required tax withholding resulting from the vesting of shares of restricted stock.

Total equity decreased $27,860, which is comprised of the put options of $36,149, treasury stock purchases of $596, and acquisition related adjustments of $213, offset in part by an increase in stock-based compensation of $5,442, the addition of noncontrolling interests relating to acquisitions of $2,431, net income attributable to MDC Partners of $142, and an increase in total accumulated other comprehensive income of $1,073, and other transactions of $10.

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.

Assets measured at fair value on a recurring basis include the following as of September 30, 2009:

| | Fair Value Measurement at September 30, 2009 Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets | Significant Other Observable Inputs | Significant Unobservable Inputs | Total Carrying Value at September 30, |

| (In Thousands) | (Level 1) | (Level 2) | (Level 3) | 2009 |
|---|---|---|---|---|
| Put options | $ — | $ — | $ 43,353 | $ 43,353 |

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.

As of September 30, 2009, the Company has estimated the redemption amounts of the Company's outstanding put options, as described in Note 13. The following table presents a reconciliation of the Company's Redeemable Noncontrolling Interests measured at fair value on a recurring basis using unobservable inputs (Level 3):

| | Level 3 (Unobservable Inputs) Put Options |
|---|---|
| Balance, January 1, 2009 | $ 37,849 |
| Transfers to Level 3 | — |
| Put options exercised | (1,275) |
| Put options granted | 6,441 |
| Currency translation | 2,038 |
| Gains and losses: | |
| Reported in earnings | — |
| Reported in additional paid in capital | (1,700) |
| Balance, September 30, 2009 | $ 43,353 |

11. Other Income (Expense)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Other income (expense) | $ 3 | $ 30 | $ (19) | $ 76 |
| Foreign currency transaction gain (loss) | (3,078) | 2,498 | (2,962) | 5,582 |
| Loss on sale of assets | (5) | (110) | (10) | (113) |
| | $ (3,080) | $ 2,418 | $ (2,991) | $ 5,545 |

12. Segmented Information

The Company reports in three segments plus Corporate. The segments are as follows:

- The Strategic Marketing Services ("SMS") segment consists of integrated marketing consulting services firms that offer a 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 SMS 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 Customer Relationship Management ("CRM") segment provides marketing services that interface directly with the consumer of a client's product or service. These services include the design, development and implementation of a complete customer service and direct marketing initiative intended to acquire, retain and develop a client's customer base.

- The Specialized Communication Services ("SCS") segment includes all of the Company's other marketing services firms that are normally engaged to provide a single or a few specific marketing services to regional, national and global clients. These firms provide

niche solutions by providing world class expertise in select marketing services.

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 SCS segment is an "Other" segment pursuant the Segment Reporting topic of the FASB Accounting Standards Codification.

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

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

| | Strategic Marketing Services | Customer Relationship Management | Specialized Communication Services | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 86,302 | $ 26,276 | $ 22,047 | $ — | $ 134,625 |
| Cost of services sold | 50,284 | 18,682 | 16,560 | — | 85,526 |
| Office and general expenses | 17,700 | 5,006 | 3,977 | 4,718 | 31,401 |
| Depreciation and amortization | 5,245 | 1,732 | 422 | 115 | 7,514 |
| Operating Profit/(Loss) | 13,073 | 856 | 1,088 | (4,833) | 10,184 |
| Other Income (Expense): | | | | | |
| Other expense, net | | | | | (3,080) |
| Interest expense, net | | | | | (3,775) |
| Income from continuing operations before income taxes, equity in affiliates | | | | | 3,329 |
| Income tax expense | | | | | 1,149 |
| Income from continuing operations before equity in affiliates | | | | | 2,180 |
| Equity in earnings of non-consolidated affiliates | | | | | 60 |
| Income from continuing operations | | | | | 2,240 |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | | | | | — |
| Net Income | | | | | 2,240 |
| Net income attributable to the noncontrolling interests | (1,817) | — | (387) | — | (2,204) |
| Net income attributable to MDC Partners Inc. | | | | | $ 36 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Non cash stock based compensation | $ | 705 | $ | 44 | $ | 248 | $ | 1,234 | $ | 2,231 |
| | | | | | | | | | | |
| Supplemental Segment Information: | | | | | | | | | | |
| | | | | | | | | | | |
| Capital expenditures | $ | 684 | $ | 289 | $ | 195 | $ | 33 | $ | 1,201 |
| | | | | | | | | | | |
| Goodwill and intangibles | $ | 225,731 | $ | 30,462 | $ | 34,753 | $ | — | $ | 290,946 |
| | | | | | | | | | | |
| Total assets | $ | 375,155 | $ | 57,405 | $ | 78,861 | $ | 68,817 | $ | 580,238 |

Three Months Ended September 30, 2008
(thousands of United States dollars)

Restated for Discontinued Operations

| | Strategic Marketing Services | Customer Relationship Management | Specialized Communication Services | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 81,279 | $ 32,673 | $ 28,137 | $ — | $ 142,089 |
| Cost of services sold | 49,611 | 23,888 | 21,059 | — | 94,558 |
| Office and general expense | 18,108 | 5,780 | 5,077 | 2,899 | 31,864 |
| Depreciation and amortization | 4,872 | 1,845 | 642 | 69 | 7,428 |
| Operating Profit/(Loss) | 8,688 | 1,160 | 1,359 | (2,968) | 8,239 |
| Other Income (Expense): | | | | | |
| Other income, net | | | | | 2,418 |
| Interest expense, net | | | | | (3,117) |
| Income from continuing operations before income taxes, equity in affiliates | | | | | 7,540 |
| Income tax expense | | | | | 2,222 |
| Income from continuing operations before equity in affiliates | | | | | 5,318 |
| Equity in earnings of non-consolidated affiliates | | | | | 69 |
| Income from continuing operations | | | | | 5,387 |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | | | | | (771) |
| Net Income | | | | | 4,616 |
| Net income attributable to the noncontrolling interests | (1,180) | (60) | (126) | — | (1,366) |
| Net income attributable to MDC Partners Inc. | | | | | $ 3,250 |
| Non cash stock based compensation | $ 475 | $ 31 | $ 174 | $ 1,149 | $ 1,829 |
| Supplemental Segment Information: | | | | | |
| Capital expenditures | $ 1,319 | $ 302 | $ 198 | $ 23 | $ 1,842 |

| | | | | | |
|---|---|---|---|---|---|
| Goodwill and intangibles | $ 198,462 | $ 28,872 | $ 44,307 | $ — | $ 271,641 |
| Total assets | $ 347,907 | $ 69,197 | $ 101,812 | $ 9,799 | $ 528,715 |

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

| | Strategic Marketing Services | Customer Relationship Management | Specialized Communication Services | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 247,675 | $ 85,702 | $ 62,869 | $ — | $ 396,246 |
| Cost of services sold | 148,349 | 62,771 | 48,524 | — | 259,644 |
| Office and general expenses | 53,298 | 15,802 | 10,857 | 12,769 | 92,726 |
| Depreciation and amortization | 15,826 | 5,340 | 1,257 | 288 | 22,711 |
| Operating Profit/(Loss) | 30,202 | 1,789 | 2,231 | (13,057) | 21,165 |
| Other Income (Expense): | | | | | |
| Other expense, net | | | | | (2,991) |
| Interest expense, net | | | | | (10,987) |
| Income from continuing operations before income taxes, equity in affiliates | | | | | 7,187 |
| Income tax expense | | | | | 3,373 |
| Income from continuing operations before equity in affiliates | | | | | 3,814 |
| Equity in earnings of non-consolidated affiliates | | | | | 258 |
| Income from continuing operations | | | | | 4,072 |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | | | | | (361) |
| Net Income | | | | | 3,711 |
| Net income attributable to the noncontrolling interests | (2,965) | — | (604) | — | (3,569) |
| Net income attributable to MDC Partners Inc. | | | | | $ 142 |
| Non cash stock based compensation | $ 1,509 | $ 92 | $ 574 | $ 3,998 | $ 6,173 |
| Supplemental Segment Information: | | | | | |
| Capital expenditures | $ 2,051 | $ 782 | $ 363 | $ 92 | $ 3,288 |
| Goodwill and intangibles | $ 225,731 | $ 30,462 | $ 34,753 | $ — | $ 290,946 |

| | | | | | |
|---|---|---|---|---|---|
| Total assets | $ 375,155 | $ 57,405 | $ 78,861 | $ 68,817 | $ 580,238 |

18

Nine Months Ended September 30, 2008
(thousands of United States dollars)

Restated for Discontinued Operations

| | Strategic Marketing Services | Customer Relationship Management | Specialized Communication Services | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 246,383 | $ 104,179 | $ 89,378 | $ — | $ 439,940 |
| Cost of services sold | 152,943 | 75,936 | 63,531 | — | 292,410 |
| Office and general expense | 56,681 | 18,011 | 15,935 | 12,127 | 102,754 |
| Depreciation and amortization | 18,085 | 5,550 | 1,950 | 204 | 25,789 |
| Operating Profit/(Loss) | 18,674 | 4,682 | 7,962 | (12,331) | 18,987 |
| Other Income (Expense): | | | | | |
| Other income, net | | | | | 5,545 |
| Interest expense, net | | | | | (9,790) |
| Income from continuing operations before income taxes, equity in affiliates | | | | | 14,742 |
| Income tax expense | | | | | 6,415 |
| Income from continuing operations before equity in affiliates | | | | | 8,327 |
| Equity in earnings of non-consolidated affiliates | | | | | 290 |
| Income from continuing operations | | | | | 8,617 |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | | | | | (6,698) |
| Net Income | | | | | 1,919 |
| Net income attributable to the noncontrolling interests | (3,708) | (247) | (2,578) | — | (6,533) |
| Net loss attributable to MDC Partners Inc. | | | | | $ (4,614) |
| Non cash stock based compensation | $ 1,492 | $ 98 | $ 648 | $ 3,452 | $ 5,690 |
| Supplemental Segment Information: | | | | | |
| Capital expenditures | $ 6,818 | $ 2,415 | $ 1,141 | $ 60 | $ 10,434 |
| Goodwill and intangibles | $ 198,462 | $ 28,872 | $ 44,307 | $ — | $ 271,641 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total assets | $ | 347,907 | $ | 69,197 | $ | 101,812 | $ | 9,799 | $ | 528,715 |

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 |
|---|---|---|---|---|
| Revenue | | | | |
| Three Months Ended September 30, | | | | |
| 2009 | $ 112,107 | $ 19,630 | $ 2,888 | $ 134,625 |
| 2008 | $ 117,898 | $ 20,865 | $ 3,326 | $ 142,089 |
| Nine Months Ended September 30, | | | | |
| 2009 | $ 335,046 | $ 56,169 | $ 5,031 | $ 396,246 |
| 2008 | $ 360,867 | $ 68,765 | $ 10,308 | $ 439,940 |

13. Commitments, Contingencies and Guarantees

Deferred Acquisition Consideration. In addition to the consideration paid by the Company with respect of certain of its acquisitions made prior to January 1, 2009, additional consideration may be payable, or may be potentially payable based on the achievement of certain threshold levels of earnings. Should the current level of earnings be maintained by these acquired companies, no additional consideration, in excess of the deferred acquisition consideration reflected on the Company's balance sheet at September 30, 2009, would be expected to be owed in 2009.

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 2009 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, 2009, 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 $39,668 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 $3,636 by the issuance of share capital. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately $3,684 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. The aggregate amount of these options $43,353 has been recorded on the balance at September 30, 2009 and is included in Redeemable Noncontrolling Interests.

On October 5, 2009, the Company exercised its call and acquired the remaining 6% equity interest in CPB. The estimated contingent cost of this acquisition was $8,596, which amount was included in Redeemable Noncontrolling Interests. (See Note 15.)

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, 2009 and 2008, 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 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. The Company has commitments to fund $69 in one investment fund over a period of up to two years. At September 30, 2009, the Company has issued $4,713 of undrawn outstanding letters of credit.

14. New Accounting Pronouncements

In June 2009, the FASB introduced the FASB Accounting Standards Codification and issued the revised guidance on Hierarchy of Generally Accepted Accounting Principles, which is effective for the Company July 1, 2009. This standard does not alter current U.S. GAAP, but rather integrates existing accounting standards with other authoritative guidance. Under this standard there will be a single source of authoritative U.S. GAAP for nongovernmental entities and will supersede all other previously issued non-SEC accounting and reporting guidance.

In May 2009, the FASB issued revised guidance on Subsequent Events, which is effective for the Company June 30, 2009. These standards provide guidance for disclosing events that occur after the balance sheet date, but before financial statements are issued or available to be issued. The adoption of this standard did not have a significant impact on our Consolidated Financial Statements.

In December 2007, FASB issued revised guidance on Business Combinations. These revised standards retain some fundamental concepts of the current standard, including the acquisition method of accounting (known as the “purchase method”) for all business combinations but revised guidance broadens the definitions of both businesses and business combinations, resulting in the acquisition method applying to more events and transactions. This guidance also requires the acquirer to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values. Both acquisition-related costs and restructuring costs are required to be recognized separately from the acquisition and be expensed as incurred. In addition, acquirers will record contingent consideration at fair value on the acquisition date as either a liability or equity. Subsequent changes in fair value will be recognized in the income statement for any contingent consideration recorded as a liability. This revised guidance is to be applied prospectively for financial statements issued for fiscal years beginning on or after December 15, 2008. Early application is prohibited. The adoption of these revised standards did not have a material effect on our financial statements.

In December 2007, FASB issued guidance that now requires the classification of noncontrolling (minority) interests and dispositions of noncontrolling interests as equity within the consolidated financial statements. The income statement will now be required to show net income/loss with and without adjustments for noncontrolling interests. The reclassifications must be applied prospectively for financial statements issued for fiscal years beginning on or after December 15, 2008 and interim periods within those years. However, this statement requires companies to apply the presentation and disclosure requirements retrospectively to comparative financial statements. Early application was prohibited. The guidance was expanded in 2008 to require the recording of put options as a liability and a reduction of equity. The adoption of these new standards has resulted in the Company recording the estimated redemption amount of its outstanding put options as a reduction of Additional Paid in Capital and an increase in Redeemable Noncontrolling Interests of $37,849 as of January 1, 2009. As of December 31, 2008, the Company has reclassified $21,751 of minority interest to Redeemable Noncontrolling Interest, representing Noncontrolling Interests which could be purchased by the Company pursuant to the exercise of an existing Put option. In addition, as of December 31, 2008, a portion of minority interest, which is not subject to put options, has been reclassified as part of Equity-Noncontrolling Interest. Changes in the estimated redemption amounts of the put options are adjusted at each reporting period with a corresponding adjustment to Equity. For the three and nine months ended September 30, 2008, the Company reclassified net income attributable to the noncontrolling interests below net income (loss), as a result net income for the three month period was increased by $1,366 and the net loss was reduced by $6,533, respectively. These adjustments will not impact the calculation of earnings per share. At September 30, 2009, the Company reduced its estimated redemption amounts by $1,700.

In March 2008, the FASB issued guidance relating to "Disclosures about Derivative Instruments and Hedging Activities (previously in SFAS No. 161 and currently included in ACS 815-10-65)," which requires enhanced disclosures for derivative and hedging activities. The additional disclosures became effective beginning with our first quarter of 2009. Early adoption is permitted. The adoption of this statement did not have a material effect on our financial statements.

In November 2008, the EITF issued guidance on Equity Method Investment Accounting Considerations, which is effective for the Company January 1, 2009. This standard addresses the impact that revised Guidance on Business Combinations and Noncontrolling Interests might have on the accounting for equity method investments, including how the initial carrying value of an equity method investment should be determined, how an impairment assessment of an underlying indefinite lived intangible asset of an equity method investment should be performed and how to account for a change in an investment from the equity method to the cost method. The adoption of this guidance did not have an impact on our financial statements.

In April 2008, the FASB issued revised guidance on the topic of Determination of the Useful Life of Intangible Assets. The revised guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible. The intent of this revision is to improve the consistency between the useful life of a recognized intangible asset under previous guidance, and the period of expected cash flows used to measure the fair value of the asset. These changes were effective for fiscal years beginning after December 15, 2008 and are to be applied prospectively to intangible assets acquired subsequent to its effective date. Accordingly, we adopted these provisions on January 1, 2009. The impact that this adoption may have on our financial position and results of operations will depend on the nature and extent of any intangible assets acquired subsequent to its effective date. Accordingly, we adopted the provisions of this statement on January 1, 2009. The impact that the adoption may have on our financial position and results of operations will depend on the nature and extent of any intangible assets acquired subsequent to its effective date.

In May 2008, the FASB issued standards relating to the Accounting for Convertible Debt Instruments That May Be Settled In Cash Upon Conversion (Including Partial Cash Settlement), which is now included in the Accounting Standards Codification Topic Debt with Convertible and Other Options. The guidance addresses the accounting for convertible debt instruments that, by their stated terms, may be settled in cash upon conversion including partial cash settlement. This guidance is effective for fiscal years beginning after December 15, 2008 and interim periods within those years. The adoption of this guidance did not have a material effect on our financial statements.

In June 2009, the FASB issued revised guidance on the topic of Accounting for Variable Interest Entities, which we will adopt effective January 1, 2010. This guidance revises factors that should be considered by a reporting entity when determining whether an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated and also includes revised financial statement disclosures regarding the reporting entity's involvement and risk exposure. We believe that this will not have a material impact on our financial statements.

15. Subsequent Event

The Company has evaluated subsequent events through the filing of this Form 10-Q on November 2, 2009, and determined there have not been any events that have occurred that would require adjustments to our unaudited Consolidated Financial Statements. However, the following items require disclosure:

Purchase of Equity in Subsidiary

On October 5, 2009, the Company purchased the remaining 6% equity interest in CPB. In accordance with the terms of the underlying limited liability company agreement, the estimated fixed and contingent purchase price of $9,115 will be paid in future periods beginning in April 2011. Following the closing of this transaction, the Company's ownership in CPB is 100%.

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% and underwriter fees. 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 will redeem its outstanding 8% C$45,000 convertible debentures on or about November 26, 2009.

The Company may, at its option, redeem the 11% Notes in whole at any time or in part from time to time, 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, 2013, at a redemption price of 102.750% of the principal amount thereof if redeemed during the twelve-month period beginning on November 1, 2014 and at a redemption price of 100% of the principal amount thereof if redeemed during the twelve-month period beginning on November 1, 2015. 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 11% 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.

New Credit Agreement

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, Wells Fargo Foothill, Inc., as administrative agent. Advances under the WF Credit Agreement will 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 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. 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 will write-off approximately $2,240 of deferred financing costs relating to its prior Fortress Financing Agreement.

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 1 of that year and ending December 31 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, 2009 and 2008, and the financial condition of the Company as of September 30, 2009. 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, 2008 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.

We manage 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.

We conduct our businesses through the Marketing Communications Group. Within the Marketing Communications Group, there are three reportable operating segments: Strategic Marketing Services ("SMS"), Customer Relationship Management ("CRM") and Specialized Communication Services ("SCS"). In addition, MDC has a "Corporate Group" which provides certain administrative, accounting, financial 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.

We measure 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. The 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 2008 to 2009 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, 2009
(thousands of United States dollars)

| | Strategic Marketing Services | Customer Relationship Management | Specialized Communication Services | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 86,302 | $ 26,276 | $ 22,047 | $ — | $ 134,625 |
| Cost of services sold | 50,284 | 18,682 | 16,560 | — | 85,526 |
| Office and general expenses | 17,700 | 5,006 | 3,977 | 4,718 | 31,401 |
| Depreciation and amortization | 5,245 | 1,732 | 422 | 115 | 7,514 |
| Operating Profit/(Loss) | 13,073 | 856 | 1,088 | (4,833) | 10,184 |
| Other Income (Expense): | | | | | |
| Other expense, net | | | | | (3,080) |
| Interest expense, net | | | | | (3,775) |
| Income from continuing operations before income taxes, equity in affiliates | | | | | 3,329 |
| Income tax expense | | | | | 1,149 |
| Income from continuing operations before equity in affiliates | | | | | 2,180 |
| Equity in earnings of non-consolidated affiliates | | | | | 60 |
| Income from continuing operations | | | | | 2,240 |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | | | | | — |
| Net income | | | | | 2,240 |
| Net income attributable to the noncontrolling interests | (1,817) | — | (387) | — | (2,204) |
| Net income attributable to MDC Partners Inc. | | | | | $ 36 |
| Non cash stock based compensation. | $ 705 | $ 44 | $ 248 | $ 1,234 | $ 2,231 |

Results of Operations:
For the Three Months Ended September 30, 2008
(thousands of United States dollars)

Restated for Discontinued Operations

| | Strategic Marketing Services | Customer Relationship Management | Specialized Communication Services | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 81,279 | $ 32,673 | $ 28,137 | $ — | $ 142,089 |
| Cost of services sold | 49,611 | 23,888 | 21,059 | — | 94,558 |
| Office and general expenses | 18,108 | 5,780 | 5,077 | 2,899 | 31,864 |
| Depreciation and amortization | 4,872 | 1,845 | 642 | 69 | 7,428 |
| Operating Profit/(Loss) | 8,688 | 1,160 | 1,359 | (2,968) | 8,239 |
| Other Income (Expense): | | | | | |
| Other income, net | | | | | 2,418 |
| Interest expense, net | | | | | (3,117) |
| Income from continuing operations before income taxes, equity in affiliates | | | | | 7,540 |
| Income tax expense | | | | | 2,222 |
| Income from continuing operations before equity in affiliates | | | | | 5,318 |
| Equity in earnings non-consolidated affiliates | | | | | 69 |
| Income from continuing operations | | | | | 5,387 |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | | | | | (771) |
| Net Income | | | | | 4,616 |
| Net income attributable to the noncontrolling interests | (1,180) | (60) | (126) | — | (1,366) |
| Net Income attributable to MDC Partners, Inc. | | | | | $ 3,250 |
| Non cash stock based compensation | $ 475 | $ 31 | $ 174 | $ 1,149 | $ 1,829 |

Results of Operations:
For the Nine Months Ended September 30, 2009
(thousands of United States dollars)

| | Strategic Marketing Services | Customer Relationship Management | Specialized Communication Services | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 247,675 | $ 85,702 | $ 62,869 | $ — | $ 396,246 |
| Cost of services sold | 148,349 | 62,771 | 48,524 | — | 259,644 |
| Office and general expenses | 53,298 | 15,802 | 10,857 | 12,769 | 92,726 |
| Depreciation and amortization | 15,826 | 5,340 | 1,257 | 288 | 22,711 |
| Operating Profit/(Loss) | 30,202 | 1,789 | 2,231 | (13,057) | 21,165 |
| Other Income (Expense): | | | | | |
| Other expense, net | | | | | (2,991) |
| Interest expense, net | | | | | (10,987) |
| Income from continuing operations before income taxes, equity in affiliates | | | | | 7,187 |
| Income tax expense | | | | | 3,373 |
| Income from continuing operations before equity in affiliates | | | | | 3,814 |
| Equity in earnings of non-consolidated affiliates | | | | | 258 |
| Income from continuing operations | | | | | 4,072 |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | | | | | (361) |
| Net income | | | | | 3,711 |
| Net income attributable to the noncontrolling interests | (2,965) | — | (604) | — | (3,569) |
| Net income attributable to MDC Partners Inc. | | | | | $ 142 |
| Non cash stock based compensation. | $ 1,509 | $ 92 | $ 574 | $ 3,998 | $ 6,173 |

Results of Operations:
For the Nine Months Ended September 30, 2008
(thousands of United States dollars)

Restated for Discontinued Operations

| | Strategic Marketing Services | Customer Relationship Management | Specialized Communication Services | Corporate | Total |
|---|---|---|---|---|---|
| Revenue | $ 246,383 | $ 104,179 | $ 89,378 | $ — | $ 439,940 |
| Cost of services sold | 152,943 | 75,936 | 63,531 | — | 292,410 |
| Office and general expenses | 56,681 | 18,011 | 15,935 | 12,127 | 102,754 |
| Depreciation and amortization | 18,085 | 5,550 | 1,950 | 204 | 25,789 |
| Operating Profit/(Loss) | 18,674 | 4,682 | 7,962 | (12,331) | 18,987 |
| Other Income (Expense): | | | | | |
| Other income, net | | | | | 5,545 |
| Interest expense, net | | | | | (9,790) |
| Income from continuing operations before income taxes, equity in affiliates | | | | | 14,742 |
| Income tax expense | | | | | 6,415 |
| Income from continuing operations before equity in affiliates | | | | | 8,327 |
| Equity in earnings of non-consolidated affiliates | | | | | 290 |
| Income from continuing operations | | | | | 8,617 |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | | | | | (6,698) |
| Net Income | | | | | 1,919 |
| Net income attributable to the noncontrolling Interests | (3,708) | (247) | (2,578) | — | (6,533) |
| Net loss attributable to MDC Partners, Inc. | | | | | $ (4,614) |
| Non cash stock based compensation | $ 1,492 | $ 98 | $ 648 | $ 3,452 | $ 5,690 |

Three Months Ended September 30, 2009, Compared to Three Months Ended September 30, 2008

Revenue was $134.6 million for the quarter ended September 30, 2009, representing a decrease of $7.5 million, or 5.3%, compared to revenue of $142.1 million for the quarter ended September 30, 2008. This revenue decrease relates primarily to a decrease in organic revenues of $6.3 million. In addition, a strengthening of the US dollar, primarily versus the Canadian dollar during the quarter ended September 30, 2009, resulted in decreased revenues of $1.2 million.

Operating profit for third quarter of 2009 was $10.2 million, compared to $8.2 million for 2008. The increase in operating profit was primarily the result of an increase in operating profit of $4.4 million in the Strategic Marketing Services (“SMS”) segment. This was partially offset by decreases in operating profits of $0.3 million in both the Specialized Communication Services (“SCS”) and Customer Relationship Management (“CRM”) segments. In addition, Corporate operating expenses increased by $1.9 million.

The income from continuing operations attributable to MDC Partners Inc. for the third quarter of 2009 was $0.1 million, compared to $4.0 million in 2008. This decrease in income of $3.9 million was primarily the result of an increase in unrealized losses on foreign currency transactions of $5.5 million, an increase in net interest expense of $0.7 million, and an increase in net income attributable to noncontrolling interests of $0.8 million. These amounts were offset by an increase in operating profit of $2.0 million and a decrease in income tax expense of $1.1 million.

Marketing Communications Group

The components of revenues for the third quarter of 2009 attributable to the Marketing Communications Group, which consists of three reportable segments — SMS, CRM, and SCS are shown in the following table:

| | Revenue | |
|---|---|---|
| | $000’s | % |
| Quarter ended September 30, 2008 | $ 142,089 | — |
| Organic | (6,251) | (4.4)% |
| Foreign exchange impact | (1,213) | (0.9)% |
| Quarter ended September 30, 2009 | $ 134,625 | (5.3)% |

The geographic mix in revenues was consistent between 2009 and 2008 and is demonstrated in the following table:

| | 2009 | 2008 |
|---|---|---|
| US | 83% | 83% |
| Canada | 15% | 15% |
| UK and other | 2% | 2% |

The operating profit of the Marketing Communications Group increased by approximately 34.0% to $15.0 million from $11.2 million. Operating margins increased by 3.3% and were 11.2% for the third quarter of 2009, compared to 7.9% for the third quarter of 2008. Operating margins increased due primarily to a decrease in direct costs (excluding staff costs) as a percentage of revenues from 14.2% in 2008 to 13.5% in 2009 due to a decrease in reimbursed client related direct costs. Total staff costs as a percentage of revenues decreased from 60.1% in 2008, to 58.1% in 2009. General and administrative costs decreased as a percentage of revenue from 20.4% in 2008 to 19.8% in 2009.

Strategic Marketing Services (“SMS”)

Revenues attributable to SMS in the third quarter of 2009 were $86.3 million, compared to $81.3 million in 2008. The year-over-year increase of $5.0 million or 6.2% was attributable primarily to organic growth as a result of net new business wins.

The operating profit of SMS for the third quarter of 2009 increased by approximately 50.5% to $13.1 million in 2009, from $8.7 million in 2008. Operating margins increased to 15.1% in 2009, from 10.7% in 2008. Operating profit increased due primarily to a decrease in total staff costs as a percentage of revenue from 57.9% in 2008 to 55.3% in 2009 as a result of managing costs. In addition, direct costs (excluding staff costs) as a percentage of revenues decreased from 10.9% of revenue in 2008, to 10.7% of revenue in 2009. General and administrative costs decreased as a percentage of revenue from 22.3% in the third quarter of 2008, to 20.5% in 2009, as a result of managing these costs.

Customer Relationship Management (“CRM”)

Revenues reported by the CRM segment for the third quarter of 2009 were $26.3 million, a decrease of $6.4 million or 19.6% compared to the $32.7 million reported for 2008. This decrease was a result of existing clients reducing their outsourcing needs.

Operating profit earned by CRM decreased to $0.9 million in 2009, from $1.2 million for the third quarter of 2008. Operating margins were 3.3% for the third quarter of 2009 as compared to 3.6% for the third quarter of 2008. The decrease in margins is primarily attributable to a decrease in revenue. Cost of services sold decreased from 73.1% in 2008, to 71.1% in 2009. In addition, general and administrative costs as a percentage of revenue increased from 17.7% in 2008, to 19.1% in 2009 as a result of relatively fixed costs against a decrease in revenues.

Specialized Communication Services (“SCS”)

SCS generated revenues of $22.0 million for the third quarter of 2009, a decrease of $6.1 million, or 21.6% lower than revenues of $28.1 million in 2008. The period over period decrease was attributable primarily to reduced revenue of $5.3 million as a result of the reduction and delays of client project spending. A strengthening of the US dollar versus the Canadian dollar and British pound in 2009 compared to 2008 resulted in a $0.8 million decrease in revenues from the division’s Canadian and UK-based operations.

The operating profit of SCS decreased to $1.1 million in the third quarter of 2009, from $1.4 million in the third quarter of 2008, with operating margins of 4.9% in 2009 compared to 4.8% in 2008. The decrease in operating profit and increase in operating margin is primarily attributable to the decrease in revenue and decrease in direct costs (excluding staff costs) as a percentage of revenue from 36.7% in 2008 to 35.7% in 2009. In addition, total staff costs as a percentage of revenue increased from 45.6% in 2008, to 45.8% in 2009. However, actual staff costs decreased by $2.7 million as the decrease in revenue outpaced these reductions. General and administrative costs as a percentage of revenue was 18.0% in both 2008 and 2009.

Corporate

Operating costs related to the Company’s Corporate operations totaled $4.8 million in the third quarter of 2009 compared to $3.0 million in the third quarter of 2008. This increase is primarily due to a 2008 reduction in the third quarter of the corporate bonus accrual and increased travel and entertainment costs in 2009.

Other Income, Net

Other income, net decreased to a net expense of $3.1 million in the third quarter of 2009, compared to a net income of $2.4 million in the third quarter of 2008. The 2009 expense is primarily comprised of a net, foreign exchange loss of $3.1 million for 2009, compared to a gain of $2.5 million recorded in 2008. This unrealized loss was due primarily to the weakening in the US dollar during 2009 and 2008 compared to the Canadian dollar primarily on its US dollar denominated intercompany balances with its Canadian subsidiaries compared to June 30, 2009. At September 30, 2009, the exchange rate was 1.08 Canadian dollars to one US dollar, compared to 1.16 at June 30, 2009.

Net Interest Expense

Net interest expense for the third quarter of 2009 was $3.8 million, an increase of $0.7 million over the $3.1 million net interest expense incurred during the third quarter of 2008. Interest expense remained relatively flat year over year as a result of higher average outstanding debt in 2009, offset by lower interest rates. Interest income was $0.5 million for 2008 and minimal in 2009.

Income Taxes

Income tax expense was $1.1 million in the third quarter of 2009, compared to $2.2 million for the third quarter of 2008. The Company’s effective tax rate was consistent with the statutory rate in 2009 and lower than the statutory rate in 2008 due to noncontrolling interest charges, offset by non-deductible stock based compensation and the establishment of a valuation allowance on certain deferred tax assets.

The Company’s US operating units are generally structured as limited liability companies, which are treated as partnerships for tax purposes. The Company is only taxed on its share of profits, while noncontrolling holders are responsible for taxes on their share of the profits.

Equity in Affiliates

Equity in affiliates represents the income attributable to equity-accounted affiliate operations. For the third quarter of 2009 and 2008, income of $0.1 million was recorded.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was $2.2 million for the third quarter of 2009, an increase of $0.8 million from the $1.4 million of noncontrolling interest expense incurred during the third quarter of 2008. Such increase was primarily due to the increased profitability in the subsidiaries within the SMS and SCS operating segments who are not 100% owned.

Discontinued Operations Attributable to MDC Partners Inc.

For the third quarter of 2009, the Company incurred no discontinued operations charges, however, in 2008; the Company incurred $0.8 million of such charges.

2008 Discontinued Operations

The operating loss of Bratskeir was $0.5 million net of income tax benefits.

The loss net of taxes from discontinued operations was $0.3 million from Mobium, a division of Colle & McVoy, LLC (“Colle”).

Net income (loss) attributable to MDC Partners Inc .

As a result of the foregoing, net income attributable to MDC Partners Inc. recorded for 2009 was minimal compared to a net income attributable to MDC Partners Inc. of $3.3 million or $0.12 per diluted share reported for 2008.

Nine Months Ended September 30, 2009, Compared to Nine Months Ended September 30, 2008

Revenue was $396.2 million for the nine months ended September 30, 2009, representing a decrease of $43.7 million, or 9.9%, compared to revenue of $439.9 million for the nine months ended September 30, 2008. This revenue decrease relates primarily to a decrease in organic revenues of $34.7 million. In addition, a strengthening of the US Dollar, primarily versus the Canadian dollar during the nine months ended September 30, 2009, resulted in decreased revenues of $9.0 million.

Operating profit for the nine months ended September 30, 2009 was $21.2 million, compared to $19.0 million for the nine months ended September 30, 2008. The increase in operating profit was primarily the result of an increase in operating profit of the SMS segment of $11.5 million offset by decreases in operating profit of $2.9 million and $5.7 million from the CRM and SCS segments, respectively. In addition, corporate expenses increased by $0.7 million.

The income from continuing operations attributable to MDC Partners Inc. for the first nine months of 2009 was $0.5 million, compared to $2.1 million in 2008. This decrease in income of $1.6 million was primarily the result of a decrease in unrealized gains on foreign currency transactions of $8.5 million and an increase in net interest expense of $1.2 million. These amounts were offset by an increase in operating profits of $2.2 million, a decrease in income tax expense of $3.0 million and a decrease in net income attributable to noncontrolling interests of $3.0 million.

Marketing Communications Group

The components of revenues for the first nine months of 2009 attributable to the Marketing Communications Group, which consists of three reportable segments — SMS, CRM, and SCS are shown in the following table:

| | Revenue | |
|---|---|---|
| | $000's | % |
| Nine months ended September 30, 2008 | $ 439,940 | — |
| Organic | (34,719) | (7.9)% |
| Foreign exchange impact | (8,975) | (2.0)% |
| Nine months ended September 30, 2009 | $ 396,246 | (9.9)% |

The geographic mix in revenues was consistent between 2009 and 2008 and is demonstrated in the following table:

| | 2009 | 2008 |
|---|---|---|
| US | 85% | 82% |
| Canada | 14% | 16% |
| UK and other | 1% | 2% |

The operating profit of the Marketing Communications Group increased by approximately 9.3% to $34.2 million from $31.3 million. Operating margins increased by 1.5% and were 8.6% for the first nine months of 2009 compared to 7.1% for the first nine months of 2008. The increase in operating profit and operating margin is primarily attributable to a decrease in depreciation and amortization of $3.2 million primarily related to the SMS segment and the decrease in revenue. In addition, direct costs (excluding staff costs) decreased as a percentage of revenues from 14.3% of revenue in 2008 to 13.6% of revenue in 2009 due to a decrease in reimbursed client related direct costs. However, total staff costs as a percentage of revenues increased from 59.7% in 2008 to 60.3% in 2009. Total staff costs decreased by $23.6 million, as a result of managing these costs as the decrease in revenue outpaced these reductions. General and administrative costs decreased as a percentage of revenue from 20.6% in 2008 to 20.2% in 2009 as a

result of managing these costs as revenue has decreased.

Strategic Marketing Services (“SMS”)

Revenues attributable to SMS for the first nine months of 2009 were $247.7 million, compared to $246.4 million in 2008. The year-over-year increase of $1.3 million or 0.5% was attributable primarily to organic growth of $4.3 million. A strengthening of the US dollar versus the Canadian dollar in 2009 compared to 2008 resulted in a decrease of $3.0 million in revenues from the division’s Canadian-based operations.

The operating profit of SMS for the first nine months of 2009 increased by approximately 61.7% to $30.2 million in 2009 from $18.7 million in 2008, while operating margins increased to 12.2% in 2009 from 7.6% in 2008. Operating profit increased due primarily to decreased depreciation and amortization of $2.3 million, which relates to the amortization of certain intangibles resulting from the CPB and KBP step-up acquisitions during the fourth quarter of 2007. In addition, direct costs (excluding staff costs) as a percentage of revenues decreased from 12.2% of revenue in 2008, to 11.0% of revenue in 2009. Total staff costs as a percentage of revenue decreased from 57.7% in 2008 to 57.3% in 2009. General and administrative costs decreased as a percentage of revenue from 23.0% in the first nine months of 2008 to 21.5% in 2009, as a result of managing these costs as revenues decreased.

Customer Relationship Management (“CRM”)

Revenues reported by the CRM segment for the first nine months of 2009 were $85.7 million, a decrease of $18.5 million or 17.7% compared to the $104.2 million reported for 2008. This decrease was a result of reduced revenues from existing clients as a result of clients reducing their outsourcing needs and the conversion of a customer care center to a new program which began in the fourth quarter of 2008.

Operating profit earned by CRM decreased to $1.8 million for the first nine months of 2009 from $4.7 million for the first nine months of 2008. Operating margins were 2.1% for 2009 as compared to 4.5% for 2008. The decrease in margins is primarily due to an increase in cost of services sold from 72.9% in 2008 to 73.2% in 2009, and an increase in general and administrative costs as a percentage of revenue from 17.3% in 2008 to 18.4% in 2009. These increases relate primarily to relatively fixed costs against a decrease in revenue.

Specialized Communication Services (“SCS”)

SCS generated revenues of $62.9 million for the first nine months of 2009, a decrease of $26.5 million, or 29.7% lower than revenues of $89.4 million for the first nine months of 2008. The period over period decrease was attributable primarily to reduced revenue of $20.6 million as a result of the reduction and delays of client project spending. A strengthening of the US dollar versus the Canadian dollar and British pound in 2009 compared to 2008 resulted in a $5.9 million decrease in revenues from the division’s Canadian and UK-based operations.

The operating profit of SCS decreased to $2.2 million in the first nine months of 2009, from $8.0 million in the first nine months of 2008, with operating margins of 3.5% in 2009 compared to 8.9% in 2008. The decrease in operating margin in 2009 was due primarily to an increase in direct costs as a percentage of revenue from 32.7% in 2008 to 36.1% in 2009, and an increase in total staff costs as a percentage of revenue from 45.3% in 2008, to 47.2% in 2009. Direct costs decreased by $6.6 million and total staff costs decreased by $10.8 million. However, revenue decreases outpaced the reduction of staff costs and direct costs.

Corporate

Operating costs related to the Company’s Corporate operations totaled $13.1 million in the first nine months of 2009 compared to $12.3 million in 2008. Non-cash stock based compensation charges increased by $0.5 million from $3.5 million in 2008 to $4.0 million in 2009. Increases in travel and entertainment and promotional expenses accounted for the remaining increase.

Other Income, Net

Other income decreased to net expense of $3.0 million during the first nine months of 2009 compared to net income of $5.5 million in the first nine months of 2008. The 2009 expense is primarily comprised of a net foreign exchange loss of $3.0 million, compared to a gain of $5.6 million recorded in 2008. The 2009 loss included a $1.3 million realized cash gain on foreign currency transactions and an unrealized loss of approximately $4.3 million, which was due primarily to the weakening in the US dollar during 2009 and 2008 compared to the Canadian dollar primarily on its US dollar denominated intercompany balances with its Canadian subsidiaries compared to December 31, 2008. At September 30, 2009, the exchange rate was 1.08 Canadian dollars to one US dollar, compared to 1.22 at the end of 2008.

Net Interest Expense

Net interest expense for the first nine months of 2009 was $11.0 million, an increase of $1.2 million over the $9.8 million net interest expense incurred during the first nine months of 2008. Interest expense increased $0.1 million in 2009 due to higher average outstanding debt in 2009, offset by lower interest rates. Interest income was $1.4 million for 2008 and $0.3 million in 2009, due to income recorded on the notes receivable from the sale of SPI, which were fully collected in May 2009.

Income Taxes

Income tax expense was $3.4 million in the first nine months of 2009 compared to $6.4 million for the first nine months of 2008. The Company's effective tax rate was substantially higher than the statutory rate in 2009 and 2008 due to noncontrolling interest charges, offset by non-deductible stock based compensation and the establishment of a valuation allowance on certain deferred tax assets.

The Company's US operating units are generally structured as limited liability companies, which are treated as partnerships for tax purposes. The Company is only taxed on its share of profits, while noncontrolling holders are responsible for taxes on their share of the profits.

Equity in Affiliates

Equity in affiliates represents the income attributable to equity-accounted affiliate operations. For the first nine months of 2009 and 2008, income of $0.3 million was recorded.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was $3.6 million for the first nine months of 2009, down $2.9 million from the $6.5 million of noncontrolling interest expense incurred during the first nine months of 2008. Such decrease was primarily due to the Company's 2008 step-up in ownership of CPB and Accent and increased profitability in the subsidiaries within the SMS segment offset by decreases in profitability in subsidiaries within the SCS operating segment who are not 100% owned.

Discontinued Operations Attributable to MDC Partners Inc.

2009 Discontinued Operations

The loss, net of an income tax benefit of $0.4 million from discontinued operations in the first nine months of 2009, resulted from the operating results of Clifford/Bratskeir Public Relations LLC ("Bratskeir"), which was discontinued in 2008 with the completion of the sale of Bratskeir's remaining assets in April 2009.

2008 Discontinued Operations

The 2008 loss from discontinued operations of $6.7 million consisted of the following:

The operating loss of Bratskeir for 2008 was $1.8 million net of income tax benefits.

Effective December 3, 2008, Colle completed the sale of certain assets of its Mobium division. The operating loss was $1.0 million, net of income tax benefits.

Effective June 30, 2008, the Company completed the sale of its equity interests in Ito. The operating loss of Ito for 2008 was $0.8 million.

In 2007, the Company ceased operation of MFP. In 2008, the Company recorded a loss of $3.0 million, net of income tax benefits resulting primarily from the accrual of lease abandonment costs and severance at MFP.

Net Income (loss) attributable to MDC Partners Inc .

As a result of the foregoing, net income attributable to MDC Partners Inc. recorded for 2009 was $0.1 million or $0.1 per diluted share, compared to a net loss attributable to MDC Partners Inc. of $4.6 million or $0.17 per diluted share reported for 2008.

Liquidity and Capital Resources:

Liquidity

The following table provides summary information about the Company's liquidity position:

| | As of and for the | As of and for the | As of and for the |
|---|---|---|---|

| | nine months ended September 30, 2009 (000's except ratios) | nine months ended September 30, 2008 (000's except ratios) | year ended December 31, 2008 (000's except ratios ) |
|---|---|---|---|
| Cash and cash equivalents | $ 70,937 | $ 17,483 | $ 41,331 |
| Working capital deficit | $ (27,593) | $ (12,811) | $ (12,091) |
| Cash from operations | $ 43,942 | $ 22,535 | $ 57,446 |
| Cash from investing | $ (11,159) | $ (21,000) | $ (50,186) |
| Cash from financing | $ (2,691) | $ 5,894 | $ (23,510) |
| Long-term debt to total equity ratio | 1.84 | 1.36 | 1.42 |
| Fixed charge coverage ratio | 1.48 | 1.97 | 2.01 |

As of September 30, 2009, and December 31, 2008, $15.9 million and $8.4 million, respectively, of the consolidated cash position was held by subsidiaries, which, although available for the subsidiaries' use, does not represent cash that is distributable as earnings to MDC Partners for use to reduce its indebtedness. It is the Company's intent through its cash management system to reduce outstanding borrowings and to fund acquisitions and related payments.

Due to the adoption of a new accounting pronouncement, in January 2009, the Company was required to record its outstanding Put Options on the Company's balance sheet. As of September 30, 2009, the result of recording these Put Options reduced total equity by $36.2 million.

Working Capital

At September 30, 2009, the Company had a working capital deficit of $27.6 million compared to a deficit of $12.1 million at December 31, 2008. The decrease in working capital is primarily due to the reclassification of the convertible notes to current liabilities offset by seasonal shifts in the amounts collected from clients, and paid to suppliers, primarily media outlets. In addition, the Company has implemented improvements in its billing and collecting practices. The Company includes amounts due to noncontrolling interest holders, for their share of profits, in accrued and other liabilities. At September 30, 2009, $3.4 million remains outstanding to be distributed to noncontrolling interest holders over the next twelve months.

The Company intends to maintain sufficient cash and availability of funds under its WF Credit Agreement at any particular time to adequately fund such working capital deficits should there be a need to do so from time to time.

Cash Flows

Operating Activities

Cash flow provided by continuing operations, including changes in non-cash working capital, for the nine months ended September 30, 2009 was $44.2 million. This was attributable primarily to income from continuing operations attributable to MDC Partners of $0.5 million, depreciation and amortization and non-cash stock-based compensation of $29.1 million, an increase in accounts payable, accruals, advanced billings to clients, prepaids and other non-current assets and liabilities of $34.0 million and foreign exchange of $4.4 million. This cash provided by continuing operations was partially offset by an increase in accounts receivable of $18.1 million and an increase in expenditures billable to clients of $7.5 million. Discontinued operations attributable to MDC Partners used cash of $0.3 million in the nine months ended September 30, 2009.

Cash flow provided by continuing operations, including changes in non-cash working capital, for the nine months ended September 30, 2008 was $22.8 million. This was attributable primarily to depreciation and amortization and non-cash stock-based compensation of $31.9 million and an increase in advanced billing to clients of $17.8 million, partially offset by a decrease in accounts payable and accrued liabilities of $16.8, an increase in accounts receivable of $2.8 million and an increase in expenditures billable to clients of $6.0 million. Discontinued operations attributable to MDC Partners used cash of $0.3 million in the nine months ended September 30, 2008.

Investing Activities

Cash flows used in investing activities were $11.2 million for the nine months ended September 30, 2009, compared with $21.0 million in the nine months ended September 30, 2008.

In the nine months ended September 30, 2009, capital expenditures totaled $3.3 million, of which $2.1 million was incurred by the SMS segment, $0.8 million was incurred by the CRM segment and $0.4 million was incurred by the SCS segment. These expenditures consisted primarily of computer equipment and furniture and fixtures. Expenditures for capital assets in the nine months ended September 30, 2008 were $10.4 million. Of this amount, $6.8 million was incurred by the SMS segment, $2.4 million was incurred by the CRM segment and $1.1 million was incurred by the SCS segment. These expenditures consisted primarily of computer equipment and leasehold improvements.

In the nine months ended September 30, 2009, cash flow used for acquisitions was $8.1 million and related to the settlement of put options, earn-out payments, and acquisitions net of cash acquired. Cash flow used in acquisitions was $10.4 million in the nine months ended September 30, 2008 and related to the settlement of put options, earn-out payments and acquisitions net of cash acquired.

Discontinued operations used cash of $0.5 million in 2008 primarily related to capital asset purchases.

Financing Activities

During the nine months ended September 30, 2009, cash flows used in financing activities amounted to $2.7 million, and consisted primarily of repayments of long-term debt and advances under the Fortress Financing Agreement of $2.1 million and the purchase of treasury shares for income tax withholding requirements of $0.6 million. During the nine months ended September 30, 2008, cash flows provided by financing activities amounted to $5.9 million, and primarily consisted of borrowings under the Fortress Financing Agreement of $8.4 million, repayments of long-term debt of $1.6 million and the purchase of treasury shares for income tax withholding requirements of $0.9 million.

As of September 30, 2009, the Fortress Financing Agreement consisted of a $55 million revolving credit facility, a $60 million term loan and a $70 million delayed draw term loan. Borrowings under the Fortress Financing Agreement bear interest 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. In addition, the Company was required to pay a facility fee of 50 basis points. The weighted average interest rate at September 30, 2009 was 7.1%.

The Fortress Financing Agreement was guaranteed by the material subsidiaries as defined of the Company and matures on June 17, 2012. The Fortress Financing Agreement was subject to various covenants, including a senior leverage ratio, fixed charges ratio, limitations on debt incurrence, limitation on liens and limitation on dividends and other payments. On October 23, 2009, the Company repaid all amounts due under the Fortress Financing Agreement.

Debt as of September 30, 2009 was $184.4 million, an increase of $2.9 million compared with the $181.5 million outstanding at December 31, 2008, primarily as a result of the weakening of the US dollar, as the Company's 8% convertible debentures are payable in Canadian dollars. At September 30, 2009, $40.9 million was available under the Fortress Financing Agreement.

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 covenants over the next twelve months.

If the Company loses all or a substantial portion of its lines of credit under the WF Credit Agreement, it will be required to seek other sources of liquidity. If the Company were unable to find these sources of liquidity, for example through an equity offering or access to the capital markets, the Company's ability to fund its working capital needs and any contingent obligations with respect to put options would be adversely affected.

Pursuant to the Fortress Financing Agreement, the Company was required to comply with certain financial covenants including, among other things, covenants for (i) total debt ratio, (ii) fixed charges ratio, (iii) minimum earnings before interest, taxes and depreciation and amortization, and (iv) limitations on capital expenditures, in each case as such term was specifically defined in the Fortress Financing Agreement. For the period ended September 30, 2009, the Company's calculation of each of these covenants, and the specific requirements under the Fortress Financing Agreement, respectively, were as follows:

| | | September 30, 2009 |
|---|---|---|
| Total Senior Leverage Ratio | | 1.42 |
| Maximum per covenant | | 3.25 |
| | | |
| Fixed Charges Ratio | | 3.65 |
| Minimum per covenant | | 1.30 |
| | | |
| Minimum earnings before interest, taxes, depreciation and amortization | $ | 67.0 million |
| Minimum per covenant | $ | 45.4 million |

These ratios are not based on generally accepted accounting principles and are not presented as alternative measures of operating performance or liquidity. They are presented here to demonstrate compliance with the covenants in the Company's Fortress Financing Agreement, as non-compliance with such covenants would have had a material adverse effect on the Company.

On October 23, 2009, the Company and its wholly-owned subsidiaries, as guarantors, issued and sold $225 million 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 $209 million which included an original issue discount of approximately 4.7% and underwriter fees. 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 will redeem its outstanding 8% C$45 million convertible debentures on or about November 26, 2009.

The Company may, at its option, redeem the 11% Notes in whole at any time or in part from time to time, 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, 2013, at a redemption price of 102.750% of the principal amount thereof if redeemed during the twelve-month period beginning on November 1, 2014 and at a redemption price of 100% of the principal amount thereof if redeemed during the twelve-month period beginning on November 1, 2015. 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 11% 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.

On October 23, 2009, the Company and its subsidiaries entered into a new $75 million 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 million senior secured financing agreement with Fortress Credit Corp., as collateral agent, Wells Fargo Foothill, Inc., as administrative agent. Advances under the WF Credit Agreement will 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 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. 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.

Deferred Acquisition Consideration (Earnouts)

Acquisitions of businesses by the Company may include commitments to pay contingent deferred purchase consideration to the seller. These contingent purchase obligations are generally payable within a one to three-year period following the acquisition date, and are based on achievement of certain thresholds of future earnings and, in certain cases, also based on the rate of growth of those earnings. The contingent consideration is recorded as an obligation of the Company when the contingency is resolved and the amount is reasonably determinable. At September 30, 2009, there was $2.9 million of deferred consideration included in the Company's balance sheet. Based on the various assumptions as to future operating results of the relevant entities, management estimates that approximately $55.9 million of additional deferred purchase obligations could be triggered during 2009 or thereafter, including approximately $3.5 million which may be paid in the form of issuance by the Company of its Class A shares. The actual amount that the Company pays in connection with the obligations may differ materially from this estimate.

Other-Balance Sheet Commitments

Put Rights of Subsidiaries' Noncontrolling Shareholders

Owners of interests in certain of the Marketing Communications Group 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 of 2009 to 2018. It is not determinable, at this time, if or when the owners of these put option rights will exercise all or a portion of these rights.

The amount payable by the Company in the event such put option rights are exercised is dependent on various valuation formulas and on future events, such as the average earnings of the relevant subsidiary through that 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, 2009, perform over the relevant future periods at their trailing twelve-month earnings level, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate amount of approximately $39.7 million 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 $3.6 million by the issuance of the Company's Class A subordinate voting shares. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately $3.7 million only upon termination of such owner's employment with such applicable subsidiary. The Company intends to finance the cash portion of these contingent payment obligations using available cash from operations, borrowings under its Financing Agreement (and refinancings thereof) and, if necessary, through incurrence of additional debt. The ultimate amount payable and the incremental operating income in the future 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. Approximately $9.8 million of the estimated $39.7 million that the Company would be required to pay subsidiaries noncontrolling shareholders' upon the exercise of outstanding put option rights, relates to rights exercisable within the next twelve months. Upon the settlement of the total amount of such put options, the Company estimates that it would receive incremental operating income before depreciation and amortization of $5.0 million.

On October 5, 2009, the Company exercised its call and acquired the remaining 6% equity interest in CPB. The estimated cost of this equity included in the above is $8.6 million.

The following table summarizes the potential timing of the consideration and incremental operating income before depreciation and amortization based on assumptions as described above.

| Consideration (4) | 2009 | 2010 | 2011 | 2012 | 2013 & Thereafter | Total |
|---|---|---|---|---|---|---|
| | | | ($ Millions) | | | |
| Cash | $ 9.2 | $ 1.6 | $ 1.4 | $ 8.7 | $ 15.2 | $ 36.1 |
| Shares | 0.6 | 0.1 | 0.6 | 0.9 | 1.4 | 3.6 |
| | $ 9.8 | $ 1.7 | $ 2.0 | $ 9.6 | $ 16.6 | $ 39.7(1) |
| Operating income before depreciation and amortization to be received(2) | $ 1.3 | $ 0.3 | $ 0.7 | $ 1.6 | $ 1.1 | $ 5.0 |
| Cumulative operating income before depreciation and amortization(3) | $ 1.3 | $ 1.6 | $ 2.3 | $ 3.9 | $ 5.0 | (5) |

(1) This amount, in addition to put options only exercisable upon termination of $3.7 million have been recognized in Redeemable Noncontrolling Interests on the Company's balance sheet in conjunction with the adoption of a new accounting pronouncement.

(2) This financial measure is presented because it is the basis of the calculation used in the underlying agreements relating to the put rights and is based on actual 2008 and first nine months of 2009 operating results. This amount represents amounts to be received commencing in the year the put is exercised.

(3) Cumulative operating income before depreciation and amortization represents the cumulative amounts to be received by the company.

(4)

The timing of consideration to be paid varies by contract and does not necessarily correspond to the date of the exercise of the put.

(5) Amounts are not presented as they would not be meaningful due to multiple periods included.

Critical Accounting Policies

The following summary of accounting policies has been prepared to assist in better understanding the Company's consolidated financial statements and the related management discussion and analysis. Readers are encouraged to consider this information together with the Company's consolidated financial statements and the related notes to the consolidated financial statements as included in the Company's annual report on Form 10-K for a more complete understanding of accounting policies discussed below.

Estimates . The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America, or "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 income tax assets, redeemable noncontrolling interests, stock-based compensation and the reported amounts of revenue and expenses during the reporting period. The statements 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 can differ from those estimates, and it is possible that the differences could be material.

Revenue Recognition. The Company's revenue recognition policies are in compliance with the FASB Accounting Standards Codification topic on Revenue Recognition, and accordingly, revenue is generally recognized when services are earned 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 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.

Fees billed to clients in excess of fees recognized as revenue are classified as advance billings.

A small portion of the Company's contractual arrangements with clients includes performance incentive provisions, which allow 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 achieved, 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 follows the Reporting Revenue Gross as a Principal versus Net as an Agent topic of the FASB Accounting Standards Codification. This topic summarized views on when revenue should be recorded at the gross amount billed because revenue has been earned from the sale of goods or services, or the net amount retained because a fee or commission has been earned. The Company's business at times acts as an agent and records revenue equal to the net amount retained, when the fee or commission is earned. The Company also follows Income Statement Characterization of Reimbursements Received for Out-Of-Pocket Expenses topic of the FASB Accounting Standards Codification. This topic requires that reimbursements received for out-of-pocket expenses incurred should be characterized in the income statement as revenue. Accordingly, the Company has included in revenue such reimbursed expenses

Acquisitions, Goodwill and Other Intangibles . A fair value approach is used in testing goodwill for impairment to determine if an other than temporary impairment has occurred. One approach utilized to determine fair values is a discounted cash flow methodology. When available and as appropriate, comparative market multiples are used. Numerous estimates and assumptions necessarily have to be made when completing a discounted cash flow valuation, including estimates and assumptions regarding interest rates, appropriate discount rates and capital structure. Additionally, estimates must be made regarding revenue growth, operating margins, tax rates, working capital requirements and capital expenditures. Estimates and assumptions also need to be made when determining the appropriate comparative market multiples to be used. Actual results of operations, cash flows and other factors used in a discounted cash flow valuation will likely differ from the estimates used and it is possible that differences and changes could be material.

The Company has historically made and expects to continue to make selective acquisitions of marketing communications businesses. In making acquisitions, the price paid is determined by various factors, including service offerings, competitive position, reputation and geographic coverage, as well as prior experience and judgment. Due to

the nature of advertising, marketing and corporate communications services companies; the companies acquired frequently have significant identifiable intangible assets, which primarily consist of customer relationships. The Company has determined that certain intangibles (trademarks) have an indefinite life, as there are no legal, regulatory, contractual, or economic factors that limit the useful life.

A summary of the Company's deferred acquisition consideration obligations, sometimes referred to as earnouts, and obligations under put rights of subsidiaries' noncontrolling shareholders to purchase additional interests in certain subsidiary and affiliate companies is set forth in the "Liquidity and Capital Resources" section of this report. The deferred acquisition consideration obligations and obligations to purchase additional interests in certain subsidiary and affiliate companies are primarily based on future performance. Contingent purchase price obligations are accrued, in accordance with GAAP, when the contingency is resolved and payment is determinable.

Allowance for Doubtful Accounts.   Trade receivables are stated less allowance for doubtful accounts. The allowance represents estimated uncollectible receivables usually due to customers' potential insolvency. The allowance includes amounts for certain customers where risk of default has been specifically identified.

Income Tax Valuation Allowance.   The Company records a valuation allowance against deferred income tax assets when management believes it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Management considers factors such as the reversal of deferred income tax liabilities, projected future taxable income, the character of the income tax asset, tax planning strategies, changes in tax laws and other factors. A change to these factors could impact the estimated valuation allowance and income tax expense.

Stock-based Compensation. The fair value method is applied to all awards granted, modified or settled on or after January 1, 2003. Under the fair value method, compensation cost is measured at fair value at the date of grant and is expensed over the service period, which 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. 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 are revalued each period and recorded as compensation cost over the service period in operating income.

Effective January 1, 2006, the Company adopted the revised guidance on Accounting for Stock Options and has opted to use the modified prospective application transition method. Under this method the Company will not restate its prior financial statements. Instead, the Company will apply this guidance for new awards granted or modified after the adoption, any portion of awards that were granted after December 15, 1994 and have not vested as of January 1, 2006, and any outstanding liability awards.

New Accounting Pronouncements

In June 2009, the FASB introduced the FASB Accounting Standards Codification and issued the revised guidance on Hierarchy of Generally Accepted Accounting Principles, which is effective for the Company July 1, 2009. This standard does not alter current U.S. GAAP, but rather integrates existing accounting standards with other authoritative guidance. Under this standard there will be a single source of authoritative U.S. GAAP for nongovernmental entities and will supersede all other previously issued non-SEC accounting and reporting guidance.

In May 2009, the FASB issued revised guidance on Subsequent Events, which is effective for the Company June 30, 2009. This statement provides guidance for disclosing events that occur after the balance sheet date, but before financial statements are issued or available to be issued. The adoption of this standard did not have a significant impact on our Consolidated Financial Statements.

In December 2007, FASB issued revised guidance on Business Combinations. These revised standards retain some fundamental concepts of the current standard, including the acquisition method of accounting (known as the "purchase method") for all business combinations but revised guidance broadens the definitions of both businesses and business combinations, resulting in the acquisition method applying to more events and transactions. This guidance also requires the acquirer to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values. Both acquisition-related costs and restructuring costs are required to be recognized separately from the acquisition and be expensed as incurred. In addition, acquirers will record contingent consideration at fair value on the acquisition date as either a liability or equity. Subsequent changes in fair value will be recognized in the income statement for any contingent consideration recorded as a liability. This revised guidance is to be applied prospectively for financial statements issued for fiscal years beginning on or after December 15, 2008. Early application is prohibited. The adoption of these revised standards did not have a material effect on our financial statements.

In December 2007, FASB issued guidance that now requires the classification of noncontrolling (minority) interests and dispositions of noncontrolling interests as equity within the consolidated financial statements. The income statement will now be required to show net income/loss with and without adjustments for noncontrolling interests. The reclassifications must be applied prospectively for financial statements issued for fiscal years beginning on or after December 15, 2008 and interim periods within those years. However, this statement requires companies to apply the presentation and disclosure requirements retrospectively to comparative financial statements. Early application was prohibited. The guidance was expanded in 2008 to require the recording of put options as a liability

and a reduction of equity. The adoption of these new standards has resulted in the Company recording the estimated redemption amount of its outstanding put options as a reduction of Additional Paid in Capital and an increase in Redeemable Noncontrolling Interests of $37.8 million as of January 1, 2009. As of December 31, 2008, the Company has reclassified $21.8 million of minority interest to Redeemable Noncontrolling Interest, representing Noncontrolling Interests which could be purchased by the Company pursuant to the exercise of an existing Put option. In addition, as of December 31, 2008, a portion of minority interest, which is not subject to put options, has been reclassified as part of Equity-Noncontrolling Interest. Changes in the estimated redemption amounts of the put options are adjusted at each reporting period with a corresponding adjustment to Equity. For the three and nine months ended September 30, 2008, the Company reclassified net income attributable to the noncontrolling interests below net income (loss), as a result net income for the three month period was increased by $1.4 million and the net loss was reduced by $6.5 million, respectively. These adjustments will not impact the calculation of earnings per share. At September 30, 2009, the Company reduced its estimated redemption amounts by $1,700.

In March 2008, the FASB issued guidance relating to "Disclosures about Derivative Instruments and Hedging Activities (previously in SFAS No. 161 and currently included in ACS 815-10-65)," which requires enhanced disclosures for derivative and hedging activities. The additional disclosures became effective beginning with our first quarter of 2009. Early adoption is permitted. The adoption of this statement did not have a material effect on our financial statements.

In November 2008, the EITF issued guidance on Equity Method Investment Accounting Considerations , which is effective for the Company January 1, 2009. This standard addresses the impact that revised Guidance on Business Combinations and Noncontrolling Interests might have on the accounting for equity method investments, including how the initial carrying value of an equity method investment should be determined, how an impairment assessment of an underlying indefinite lived intangible asset of an equity method investment should be performed and how to account for a change in an investment from the equity method to the cost method. The adoption of this guidance did not have an impact on our financial statements.

In April 2008, the FASB issued revised guidance on the topic of Determination of the Useful Life of Intangible Assets. The revised guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible. The intent of this revision is to improve the consistency between the useful life of a recognized intangible asset under previous guidance, and the period of expected cash flows used to measure the fair value of the asset. These changes were effective for fiscal years beginning after December 15, 2008 and are to be applied prospectively to intangible assets acquired subsequent to its effective date. Accordingly, we adopted these provisions on January 1, 2009. The impact that this adoption may have on our financial position and results of operations will depend on the nature and extent of any intangible assets acquired subsequent to its effective date.

In May 2008, the FASB issued standards relating to the Accounting for Convertible Debt Instruments That May Be Settled In Cash Upon Conversion (Including Partial Cash Settlement)", which is now included in the Accounting Standards Codification Topic Debt with Convertible and Other Options. The guidance addresses the accounting for convertible debt instruments that, by their stated terms, may be settled in cash upon conversion including partial cash settlement. This guidance is effective for fiscal years beginning after December 15, 2008 and interim periods within those years. The adoption of this guidance did not have a material effect on our financial statements.

In June 2009, the FASB issued revised guidance on the topic of Accounting for Variable Interest Entities, which we will adopt effective January 1, 2010. This guidance revises factors that should be considered by a reporting entity when determining whether an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated and also includes revised financial statement disclosures regarding the reporting entity's involvement and risk exposure. We believe that this will not have a material impact on our financial statements.

Risks and Uncertainties

This document contains forward-looking statements. The Company's representatives may also make forward-looking statements orally from time to time. Statements in this document that are not historical facts, including statements about the Company's beliefs and expectations, recent business and economic trends, potential acquisitions, estimates of amounts for deferred acquisition consideration and "put" option rights, constitute forward-looking statements. These statements are based on current plans, estimates and projections, and are subject to change based on a number of factors, including those outlined in this section. Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update publicly any of them in light of new information or future events, if any.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statements. Such risk factors include, but are not limited to, the following:

- risks associated with severe effects of national and regional economic downturn;
- the Company's ability to attract new clients and retain existing clients;
- the financial success of the Company's clients;
- the Company's ability to retain and attract key employees;
- the Company's ability to remain in compliance with its debt agreements and the Company's ability to finance its contingent payment obligations when due and payable, including but not limited to those relating to "put" options rights and deferred acquisition consideration;
- the successful completion and integration of acquisitions which complement and expand the Company's business capabilities; and
- foreign currency fluctuations.

The Company's business strategy includes ongoing efforts to engage in material acquisitions of ownership interests in entities in the marketing communications services industry. The Company intends to finance these acquisitions by using available cash from operations, from borrowings under its current Financing Agreement and through incurrence of bridge or other debt financing, either of which may increase the Company's leverage ratios, or by issuing equity, which may have a dilutive impact on existing shareholders proportionate ownership. At any given time, the Company may be engaged in a number of discussions that may result in one or more material acquisitions. These opportunities require confidentiality and may involve negotiations that require quick responses by the Company. Although there is uncertainty that any of these discussions will result in definitive agreements or the completion of any transactions, the announcement of any such transaction may lead to increased volatility in the trading price of the Company's securities.

Investors should carefully consider these risk factors, and the risk factors outlined in more detail in the Company's 2008 Annual Report on Form 10-K under the caption "Risk Factors", and in the Company's other SEC filings, including the Form 8-K filed on October 19, 2009.



---

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk related to interest rates and foreign currencies.

Debt Instruments: At September 30, 2009, the Company's debt obligations consisted of amounts outstanding under its Financing Agreement. This facility bears interest at variable rates based upon the Eurodollar rate; US bank prime rate and, US base rate, at the Company's option. The Company's ability to obtain the required bank syndication commitments depends in part on conditions in the bank market at the time of syndication. Given the existing level of debt of $139.3 million, as of September 30, 2009, a 1.0% increase or decrease in the weighted average interest rate, which was 7.1% at September 30, 2009, would have an interest impact of approximately $1.4 million annually.

Foreign Exchange: The Company conducts business in four currencies, the US dollar, the Canadian dollar, Jamaican dollar and the British pound. Our results of operations are subject to risk from the translation to the US dollar of the revenue and expenses of our non-US operations. The effects of currency exchange rate fluctuations on the translation of our results of operations are discussed in the "Management's Discussion and Analysis of Financial Condition and Result of Operations". For the most part, our revenues and expenses incurred related to our non-US operations are denominated in their functional currency. This minimizes the impact that fluctuations in exchange rates will have on profit margins. The Company does not enter into foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

The Company is exposed to foreign currency fluctuations relating to its intercompany balances between US and Canada. For every one cent change in the foreign exchange rate between the US and Canada, the Company will incur an approximate $0.4 million impact to its financial statements.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be included in our SEC reports is recorded, processed, summarized and reported within the applicable time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), who is our principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. However, the Company's disclosure controls and procedures are designed to provide reasonable assurances of achieving the Company's control objectives.

We conducted an evaluation, under the supervision and with the participation of our management, including our CEO, our CFO and our management Disclosure Committee, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) of the Exchange Act. Based on that evaluation, the Company has concluded that its disclosure controls and procedures were effective as of September 30, 2009.

### Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the foregoing evaluation that occurred during the first nine months of 2009 that have materially affected, or are reasonably

likely to materially affect the Company’s internal control over financial reporting.



---

## PART II. OTHER INFORMATION

Item 1. 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.

Item 1A. Risk Factors

There are no material changes in the risk factors set forth in Part I, Item 1A of the Company's 2008 Annual Report on Form 10-K and the Company Form 8-K filed on October 19, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) There were no transactions during the third quarter of 2009 in which the Company issued shares of its Class A subordinate voting shares that were not registered under the Securities Act of 1933, as amended.

Item 4. Submission of Matters to a Vote of Security Holders
None

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MDC PARTNERS INC.

/s/ Michael Sabatino
Michael Sabatino
Chief Accounting Officer

November 2, 2009

EXHIBIT INDEX

| Exhibit No. | Description |
| --- | --- |
| 10.1 | Agreement of Separation and Release, dated August 31, 2009, between the Company and Graham Rosenberg* |
| 12 | Statement of computation of ratio of earnings to fixed charges* |
| 31.1 | Certification by Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification by the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification by Chief Executive Officer pursuant to 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| 32.2 | Certification by the Chief Financial Officer pursuant to 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| 99.1 | Schedule of ownership by operating subsidiary.* |

* Filed electronically herewith.