

MDC PARTNERS INC
Form 10-Q
July 30, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from _____ to _____

Commission file number: 001-13178

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

Canada
(State or other jurisdiction of
incorporation or organization)

98-0364441
(IRS Employer Identification No.)

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

M5R 2E3
(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

The numbers of shares outstanding as of July 28, 2010 were: 29,567,601 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. The information found on, or otherwise accessible through, the Company’s website is not incorporated into, and does not form a part of, this quarterly report on Form 10-Q.

MDC PARTNERS INC.

QUARTERLY REPORT ON FORM 10-Q

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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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue:				
Services	\$ 169,989	\$ 134,882	\$ 306,171	\$ 261,620
Operating Expenses:				
Cost of services sold	116,766	88,238	213,735	174,117
Office and general expenses	39,110	30,173	73,735	61,325
Depreciation and amortization	8,039	7,604	13,872	15,197
	163,915	126,015	301,342	250,639
Operating profit	6,074	8,867	4,829	10,981
Other Income (Expenses):				
Other income (expense), net	(287)	(2,541)	(900)	89
Interest expense	(8,425)	(3,723)	(15,453)	(7,484)
Interest income	57	70	78	272
	(8,655)	(6,194)	(16,275)	(7,123)
Income (loss) from continuing operations before income taxes, equity in affiliates	(2,581)	2,673	(11,446)	3,858
Income tax expense	552	1,608	801	2,223
Income (loss) from continuing operations before equity in affiliates	(3,133)	1,065	(12,247)	1,635
Equity in earnings (loss) of non-consolidated affiliates	(39)	105	(143)	198
Income (loss) from continuing operations	(3,172)	1,170	(12,390)	1,833
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(647)	(108)	(647)	(361)
Net income (loss)	(3,819)	1,062	(13,037)	1,472
Net income attributable to the noncontrolling interests	(1,986)	(983)	(2,954)	(1,365)
Net income (loss) attributable to MDC Partners Inc.	\$ (5,805)	\$ 79	\$ (15,991)	\$ 107
Income (loss) Per Common Share:				
Basic and Diluted:				
Income (loss) from continuing operations attributable to MDC Partners Inc. common shareholders	\$ (0.19)	\$ 0.01	\$ (0.55)	\$ 0.02
Discontinued operations attributable to MDC Partners Inc. common shareholders	(0.02)	(0.00)	(0.02)	(0.01)
Net income (loss) attributable to MDC Partners Inc. common shareholders	\$ (0.21)	\$ 0.01	\$ (0.57)	\$ 0.01
Weighted Average Number of Common Shares Outstanding:				
Basic	27,800,953	27,440,030	27,716,895	27,278,786

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Diluted	27,800,953	27,684,194	27,716,895	27,278,786
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Non cash stock-based compensation expense is included in the following line items above:

Cost of services sold	\$ 637	\$ 286	\$ 1,317	\$ 497
Office and general expenses	2,251	1,759	5,038	3,445
Total	\$ 2,888	\$ 2,045	\$ 6,355	\$ 3,942

See notes to the unaudited condensed consolidated financial statements.

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

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 47,454	\$ 51,926
Accounts receivable, less allowance for doubtful accounts of \$2,280 and \$2,034	146,346	118,211
Expenditures billable to clients	44,708	24,003
Other current assets	10,603	8,105
Total Current Assets	249,111	202,245
Fixed assets, at cost, less accumulated depreciation of \$89,247 and \$82,752	37,073	35,375
Investment in affiliates	1,385	1,547
Goodwill	415,541	301,632
Other intangibles assets, net	57,164	34,715
Deferred tax asset	12,546	12,542
Other assets	19,166	16,463
Total Assets	\$ 791,986	\$ 604,519
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY		
Current Liabilities:		
Accounts payable	\$ 88,721	\$ 77,450
Accruals and other liabilities	59,299	66,967
Advance billings	122,957	65,879
Current portion of long-term debt	1,502	1,456
Current portion of deferred acquisition consideration	23,640	30,645
Total Current Liabilities	296,119	242,397
Revolving credit facility	—	—
Long-term debt	284,640	216,490
Long-term portion of deferred acquisition consideration	40,328	—
Other liabilities	8,519	8,707
Deferred tax liabilities	8,989	9,051
Total Liabilities	638,595	476,645
Redeemable Noncontrolling Interests (Note 2)	34,626	33,728
Commitments, contingencies and guarantees (Note 13)		
Shareholders' Equity:		
Preferred shares, unlimited authorized, none issued	—	—
Class A Shares, no par value, unlimited authorized, 27,818,986 and 27,566,815 shares issued in 2010 and 2009	220,029	218,532
Class B Shares, no par value, unlimited authorized, 2,503 shares issued in 2010 and 2009, each convertible into one Class A share	1	1
Additional paid-in capital	6,491	9,174
Accumulated deficit	(147,151)	(131,160)
Stock subscription receivable	(217)	(341)

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Accumulated other comprehensive loss	(5,420)	(5,880)
MDC Partners Inc. Shareholders' Equity	73,733	90,326
Noncontrolling Interests	45,032	3,820
Total Equity	118,765	94,146
Total Liabilities, Redeemable Noncontrolling Interests and Equity	\$ 791,986	\$ 604,519

See notes to the unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ (13,037)	\$ 1,472
Net income attributable to the noncontrolling interests	(2,954)	(1,365)
Net income (loss) attributable to MDC Partners Inc.	(15,991)	107
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(647)	(361)
Income (loss) attributable to MDC Partners Inc. from continuing operations	(15,344)	468
Adjustments to reconcile net income (loss) attributable to MDC Partners Inc. from continuing operations to cash provided by (used in) operating activities		
Depreciation	7,621	8,171
Amortization of intangibles	6,251	7,026
Non-cash stock-based compensation	5,287	3,511
Amortization of deferred finance charges and debt discount	862	661
Adjustment to deferred acquisition consideration	1,589	—
Gain on disposition of assets	(13)	—
Deferred income taxes	(55)	1,034
Loss (earnings) of non-consolidated affiliates	143	(198)
Other non-current assets and liabilities	(1,039)	3,303
Foreign exchange	498	920
Changes in working capital:		
Accounts receivable	1,670	(11,191)
Expenditures billable to clients	(8,418)	(1,727)
Prepaid expenses and other current assets	(1,031)	1,021
Accounts payable, accruals and other liabilities	(16,508)	7,474
Advance billings	16,023	1,248
Cash flows provided by (used in) continuing operating activities	(2,464)	21,721
Discontinued operations	(269)	(290)
Net cash provided by (used in) operating activities	(2,733)	21,431
Cash flows from investing activities:		
Capital expenditures	(5,720)	(2,087)
Acquisitions, net of cash acquired	(57,476)	(3,643)
Proceeds (loss) from sale of assets	58	(56)
Other investments	(99)	(33)
Profit distributions from affiliates	7	59
Cash Flows used in continuing investing activities	(63,230)	(5,760)
Discontinued operations	(710)	—
Net cash used in investing activities	(63,940)	(5,760)
Cash flows from financing activities:		
Proceeds from issuance of 11% Senior Notes	67,600	—
Proceeds from revolving credit facility	—	2,159
Repayment of long-term debt	(479)	(897)
Proceeds from stock subscription receivable	124	13
Proceeds from exercise options	51	—

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Purchase of treasury shares	(896)	(402)
Deferred financing costs	(1,491)	—
Payment of dividends	(2,781)	—
Net cash provided by financing activities	62,128	873
Effect of exchange rate changes on cash and cash equivalents	73	59
Net increase (decrease) in cash and cash equivalents	(4,472)	16,603
Cash and cash equivalents at beginning of period	51,926	41,331
Cash and cash equivalents at end of period	\$ 47,454	\$ 57,934
Supplemental disclosures:		
Cash paid to noncontrolling partners	\$ 5,159	\$ 4,574
Cash income taxes paid	\$ 803	\$ 402
Cash interest paid	\$ 13,411	\$ 6,962
Dividends payable	\$ 208	\$ —
Non-cash transactions:		
Capital leases	\$ 274	\$ 288

See notes to the unaudited condensed consolidated financial statements.

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

1. Basis of Presentation

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

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

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

2. Significant Accounting Policies

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

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

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

Concentration of Credit Risk .. The Company provides marketing communications services to clients who operate in most industry sectors. Credit is granted to qualified clients in the ordinary course of business. Due to the diversified nature of the Company’s client base, the Company does not believe that it is exposed to a concentration of credit risk; the Company did not have a client that accounted for more than 10% of the Company’s consolidated accounts receivable at June 30, 2010 and December 31, 2009. Furthermore, the Company did not have a client that accounted for more than 10% of the Company’s revenue for the three and six months ended June 30, 2010. However, one client accounted for 18% of revenue for the three and six months ended June 30, 2009.

Cash and Cash Equivalents. The Company’s cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. The Company has a concentration risk in that there are cash deposits in excess of federally insured amounts. Included in cash and cash equivalents at June 30, 2010 and December 31, 2009, is approximately \$71 and \$67, respectively, of cash restricted as to withdrawal pursuant to a collateral agreement and a customer’s contractual requirements.

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of United States Dollars, Unless Otherwise Stated Except Share and per Share Amounts)

2. Significant Accounting Policies – (continued)

Business Combinations. Valuation of acquired companies are based on a number of factors, including specialized know-how, reputation, competitive position and service offerings. Our acquisition strategy has been focused on acquiring the expertise of an assembled workforce in order to continue to build upon the core capabilities of our various strategic business platforms to better serve our clients. Consistent with our acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed in 2010 and 2009 included an initial payment at the time of closing and provide for future additional contingent purchase price payments. Contingent payments for these transactions, as well as certain acquisitions completed in prior years, are derived using the performance of the acquired entity and are based on pre-determined formulas. Contingent purchase price obligations for acquisitions completed prior to January 1, 2009 are accrued when the contingency is resolved and payment is certain. Contingent purchase price obligations related to acquisitions completed subsequent to December 31, 2008 are recorded as liabilities at estimated value and are remeasured at each reporting period and changes in estimated value are recorded in results of operations. For the six months ended June 30, 2010 and 2009, \$1,311 and nil, respectively, and for the three months ended June 30, 2010 and 2009, \$977 and nil, respectively, related to changes in estimated value, have been charged to operations. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests are recorded as Redeemable Noncontrolling Interests. As of January 1, 2009, the Company expenses acquisition related costs in accordance with the Accounting Standard's Codification's new guidance on acquisition accounting. For the three and six months ended June 30, 2010, \$331 and \$730, respectively, of acquisition related costs have been charged to operations. For the three and six months ended June 30, 2009, no acquisition related costs were charged to operating.

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

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

The Company has recorded its put options as mezzanine equity at their current estimated redemption amounts. The Company accounts for the put options with a charge to noncontrolling interests to reflect the excess, if any, of the estimated exercise price over the estimated fair value of the noncontrolling interest shares at the date of the option being exercised. Changes in the estimated redemption amounts of the put options are adjusted at each reporting period

with a corresponding adjustment to equity. These adjustments will not impact the calculation of earnings per share.

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MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of United States Dollars, Unless Otherwise Stated Except Share and per Share Amounts)

2. Significant Accounting Policies – (continued)

The following table presents changes in Redeemable Noncontrolling Interests.

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Beginning Balance	\$ 29,868	\$ 33,728
Redemptions	(122)	(1,407)
Granted	2,506	3,782
Changes in redemption value	3,218	(1,015)
Currency Translation Adjustments	(844)	(462)
Ending Balance as of June 30, 2010	\$ 34,626	\$ 34,626

Revenue Recognition

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

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of United States Dollars, Unless Otherwise Stated Except Share and per Share Amounts)

2. Significant Accounting Policies – (continued)

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

A small portion of the Company's contractual arrangements with customers includes performance incentive provisions, which allows the Company to earn additional revenues as a result of its performance relative to both quantitative and qualitative goals. The Company recognizes the incentive portion of revenue under these arrangements when specific quantitative goals are 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.

Interest Expense .. Interest expense primarily consists of the cost of borrowing on the revolving credit facility and the 11% Senior Notes. The Company uses the effective interest method to amortize the original issue discount and original issue premium on the 11% Senior Notes. At June 30, 2010 and December 31, 2009, \$473 and \$204 was amortized, respectively, net of amortized premium of \$49 and nil, respectively. The Company amortizes deferred financing costs using the effective interest method over the life of the 11% Senior Notes and straight line over the life of the revolving credit facility. The total net deferred financing costs, included in Other Assets on the balance sheet, as of June 30, 2010 and December 31, 2009 were \$10,712 and \$9,790, net of accumulated amortization of \$869 and \$295, respectively. During the six months of 2010, the Company recorded \$1,491 of deferred financing costs primarily relating to the 2010 additional debt issuance.

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

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

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

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

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

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

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

During the six months ended June 30, 2010, the Company issued 990,096 restricted stock units and restricted stock shares ("RSUs") to its employees and directors. The RSUs have an aggregate grant date fair value of \$8,991 and generally vest on the third anniversary date with certain awards subjected to accelerated vesting based on the financial performance of the Company.

For the six months ended June 30, 2010, the Company has recorded a \$1,469 charge relating to these equity incentive grants.

A total of 1,077,549 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 June 30, 2010.

3. Income (loss) Per Common Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Numerator				
Numerator for basic income (loss) per common share -				
income (loss) from continuing operations	\$ (3,172)	\$ 1,170	\$ (12,390)	\$ 1,833
Net income attributable to the noncontrolling interests	(1,986)	(983)	(2,954)	(1,365)
Income (loss) attributable to MDC Partners Inc.				
common shareholders from continuing operations	\$ (5,158)	\$ 187	\$ (15,344)	\$ 468
Effect of dilutive securities	—	—	—	—
Numerator for diluted income (loss) per common share –				
income (loss) attributable to MDC Partners Inc.				
common shareholders from continuing operations	\$ (5,158)	\$ 187	\$ (15,344)	\$ 468
Denominator				
Denominator for basic income (loss) per common share				
- weighted average common shares	27,800,953	27,440,030	27,716,895	27,278,786
Effect of dilutive securities:	—	244,164	—	—
Denominator for diluted income (loss) per common				
share - adjusted weighted shares	27,800,953	27,684,194	27,716,895	27,278,786
Basic income (loss) per common share from continuing				
operations attributable to MDC Partners Inc.	\$ (0.19)	\$ 0.01	\$ (0.55)	\$ 0.02
Diluted income (loss) per common share from				
continuing operations attributable to MDC Partners Inc.	\$ (0.19)	\$ 0.01	\$ (0.55)	\$ 0.02

During the three and six months ended June 30, 2010, options and other rights to purchase 5,824,866 shares of common stock, which includes 1,077,549 shares of non-vested restricted stock, were outstanding but were not included in the computation of diluted loss per common share because their effect would be antidilutive.

During the three and six months ended June 30, 2009, the 8% convertible debentures, options and other rights to purchase 8,863,413 shares of common stock, which includes 615,472 shares of non-vested restricted stock, were outstanding but were not included in the computation of diluted income per common share because their effect would be antidilutive.

4. Acquisitions

Second Quarter 2010 Acquisitions

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

evaluation of the Company being acquired and the purchase price paid by the Company. The identified intangibles will be amortized ranging from a five to seven-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. The intangibles and goodwill are tax deductible.

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

During the quarter ended June 30, 2010, the Company completed a number of acquisitions. The Company purchased a 51% equity interest in Allison & Partners LLC (“Allison”), a 75% equity interest in Sloane & Company LLC (“Sloane”), and certain assets and liabilities of CSC – ADPLUS, LLC (d.b.a. Infolure) (“Infolure”). Allison is a full service public relations and corporate communications agency. Sloane is a communication firm focused on corporate positioning and communications, financial public relations and investor relations, and crisis and transactions communications. Infolure is a direct marketing firm. The purchase price paid for these acquisitions consisted of aggregate cash payments of \$17,632 plus additional contingent payments of \$15,795 that are based on actual results from 2010 to 2015 with final payments due in 2016. An allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of \$9,431 consisting primarily of customer lists and covenants not to compete, and goodwill of \$36,286 representing the value of the assembled workforce. The identified intangibles will be amortized ranging from a five to seven-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded \$2,506, the present value of redeemable noncontrolling interests in relation to Sloane. The Sloane acquisition has put rights that could increase the Company’s ownership to 100% in 2015. The amounts paid and to be paid will be tax deductible.

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

First Quarter 2010 Acquisitions

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

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

During the three months ended March 31, 2010, the Company completed a number of acquisitions and step-ups in ownership. The Company purchased a 76% equity interest in Communifx Partners LLC (“Communifx”), substantially all of the assets of Plaid Inc. (“Plaid”), an additional 15% equity interest in Fletcher Martin, LLC (“Fletcher Martin”), an additional 49% equity interest in Trend Core, LLC (“Trend Core”), and an additional 1% equity interest in HL Group Partners, LLC (“HL Group”). Communifx builds and manages large-scale customer database solutions to enable the planning, execution, and measurement of multi-channel marketing and advertising programs. Plaid is a marketing services business with a concentration in the digital communication and social media arena. The Company purchased the additional equity interests in Fletcher Martin and HL Group pursuant to the exercise of outstanding puts. The purchase price paid for these acquisitions and step-ups consisted of aggregate cash payments of \$4,921 plus additional contingent payments of \$580 that are based on actual results from 2010 to 2015 with final payments due in 2016. An allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of \$1,851 consisting primarily of customer lists and a covenant not to compete, and goodwill of \$2,426 representing the value of the assembled workforce. The identified intangibles will be amortized up to a seven-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded \$710, the present value of redeemable noncontrolling interests in relation to Communifx. The Communifx acquisition has put/call rights that could increase the Company’s ownership to 100% in 2013. In relation to the step up acquisitions, the Company recorded an entry to reduce Redeemable Noncontrolling Interests by \$1,116. The amount paid to the employee over fair value, \$608, was recorded as a stock-based compensation charge. The Company recorded a reduction of additional paid-in capital of \$1,029 representing the difference between the fair value of the shares and the value of the Redeemable Noncontrolling Interests. The amounts paid and to be paid will be tax deductible.

The actual adjustments that the Company will ultimately make in analyzing the allocation of purchase price to the fair value of the net assets acquired, will depend on a number of factors, including additional information available at such time, changes in market values, and changes in operation results between the date of the unaudited financial statements and the effective date of acquisition.

2009 Acquisitions

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

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of United States Dollars, Unless Otherwise Stated Except Share and per Share Amounts)

4. Acquisitions – (continued)

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

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

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

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

On July 1, 2009, the Company, through CPB, acquired 100% of the preferred shares and 52% of the common shares of Crispin Porter & Bogusky Europe AB (formerly known as “daddy”), a digital agency based in Sweden that has created a foothold in Europe for CPB. At closing, CPB paid \$3,052 plus an additional \$50 deferred payment. Also in December 2009, CPB called an additional 24% and made a payment of 80% of the purchase price of \$188. An additional amount of \$50 is recorded as deferred acquisition consideration. The Company has additional calls and the noncontrolling owners have reciprocal puts on the remaining 24% of the common shares, which are exercisable beginning January 2012. The current estimated cost of these puts and calls is approximately \$6,600 and has been recorded as Redeemable Noncontrolling Interests. The allocation of the excess purchase consideration of this

acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of \$650 (consisting primarily of customer lists and a covenant not to compete) and goodwill of \$8,533 representing the value of the assembled workforce. The identified intangibles will be amortized up to a three-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. The intangibles and goodwill are not tax deductible. Accordingly, CPB recorded a deferred tax liability of \$221 representing the future tax benefits relating to the amortization of the identified intangibles.

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of United States Dollars, Unless Otherwise Stated Except Share and per Share Amounts)

4. Acquisitions – (continued)

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

Pro forma Information

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	\$ 173,085	\$ 154,853	\$ 322,911	\$ 298,356
Net income (loss) attributable to MDC Partners Inc.	\$ (5,236)	\$ 1,493	\$ (15,538)	\$ 1,567
Income (loss) per common share:				
Basic – net income (loss) attributable to MDC Partners Inc.	\$ (0.19)	\$ 0.05	\$ (0.56)	\$ 0.06
Diluted – net income (loss) attributable to MDC Partners Inc.	\$ (0.19)	\$ 0.05	\$ (0.56)	\$ 0.06

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

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Net Loss attributable to MDC Partners Inc.	\$ (5,805)	\$ (15,991)
Transfers (to) from the noncontrolling interest		
Decrease in MDC Partners Inc. paid-in capital for purchase of equity interests in excess of Redeemable Noncontrolling Interests	(58)	(1,696)
Decrease in MDC Partners Inc. paid-in-capital from issuance of profits interests	—	(160)
Net transfers (to) from noncontrolling interest	\$ (58)	\$ (1,856)
Change from net income attributable to MDC Partners Inc. and transfers (to) from noncontrolling interest	\$ (5,863)	\$ (17,847)

5. Accrued and Other Liabilities

At June 30, 2010 and December 31, 2009, accrued and other liabilities included amounts due to noncontrolling interest holders, for their share of profits, which will be distributed within the next twelve months of \$3,411 and \$4,058, respectively.

6. Discontinued Operations

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

In December 2008, the Company entered into negotiations to sell certain remaining assets in Bratskeir to management. This transaction was completed in April 2009. As a result of this transaction, the Company has classified this entity’s results as discontinued operations. Bratskeir’s results of operations, net of income tax benefits, for the three and six months ended June 30, 2009 was a loss of \$108 and \$361, respectively.

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenue	\$ —	\$ —	\$ —	\$ 481
Operating loss	\$ (808)	\$ (167)	\$ (979)	\$ (549)
Other expense	\$ —	\$ —	\$ —	\$ —
Net loss from discontinued operations attributable to MDC Partners Inc., net of taxes	\$ (647)	\$ (108)	\$ (647)	\$ (361)

7. Comprehensive Loss

Total comprehensive loss and its components were:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net income (loss) for the period	\$ (3,819)	\$ 1,062	\$ (13,037)	\$ 1,472
Other comprehensive income, net of tax:				
Foreign currency cumulative translation adjustment	(959)	1,904	\$ 457	70
Comprehensive loss	(4,778)	2,966	(12,580)	1,542
Comprehensive income (loss) attributable to the noncontrolling interest	(1,985)	(996)	(2,951)	(1,372)
Comprehensive loss attributable to MDC Partners Inc.	\$ (6,763)	\$ 1,970	\$ (15,531)	\$ 170

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

Debt consists of:

	June 30, 2010	December 31, 2009
Revolving credit facility	\$ —	\$ —
11% Senior Notes due 2016	290,000	225,000
Original issue discount	(7,219)	(10,291)
Notes payable and other bank loans	1,800	1,800
	284,581	216,509
Obligations under capital leases	1,561	1,437
	286,142	217,946
Less:		
Current portions	1,502	1,456
Long term portion	\$ 284,640	\$ 216,490

MDC Financing Agreement and Senior Notes

Issuance of 11% Senior Notes

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

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

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

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

The fair value for the 11% Senior Notes was \$308,050 as of June 30, 2010.

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(Thousands of United States Dollars, Unless Otherwise Stated Except Share and per Share Amounts)

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

New Credit Facility

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

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

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

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

Prior Financing Agreement

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

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

8% Convertible Unsecured Subordinated Debentures

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

The Company repaid the Debentures on November 26, 2009.

9. Total Equity

During the six months ended June 30, 2010, Class A share capital increased by \$1,497, as the Company issued 261,866 shares related to vested restricted stock, and 71,553 shares related to the exercise of outstanding stock appreciation rights and 5,350 related to the exercise of options. During the six months ended June 30, 2010, "Additional paid-in capital" decreased by \$2,342 related to the vested restricted stock and stock appreciation rights, and \$1,886 related to changes in ownership not resulting in change of control, and by \$507 related to changes in put options (Note 2 and Note 13), and dividends accrued and paid of \$2,989 offset by \$5,039 related to an increase from stock-based compensation that was expensed during the same period.

In June 2010, the Company purchased and retired 86,598 Class A shares for \$896 from employees in connection with the required tax withholding resulting from the vesting of shares of restricted stock and stock appreciation rights.

Total equity increased \$24,619, which is comprised of a \$41,212 increase in noncontrolling interests related to acquisitions, an increase in stock-based compensation of \$5,039, a decrease in accumulated other comprehensive loss of \$460 and an exercise of stock options of \$50, a reduction of subscriptions receivable of \$124, offset in part by a net loss attributable to MDC Partners of \$15,991, dividends accrued and paid of \$2,989, \$1,886 related to changes in ownership not resulting in change of control, \$896 of treasury stock purchases and changes in put options of \$507.

10. Fair Value Measurements

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

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

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

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

On a nonrecurring basis, the Company uses fair value measures when analyzing asset impairment. Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization periods, their carrying values are reduced to estimated fair value. Measurements based on undiscounted cash flows are considered to be level 3 inputs. During the fourth quarter of each year, the Company

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

The following table presents changes in Deferred Acquisition Consideration.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Beginning Balance as of January 1, 2010	\$ 30,645
Payments	(20,281)
Grants	52,015
Redemption value adjustments	1,589
Ending Balance as of June 30, 2010	\$ 63,968

11. Other Income (Expense)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Other income (expense)	\$ —	\$ (56)	\$ (6)	\$ (22)
Foreign currency transaction gain (loss)	(231)	(2,491)	(907)	116
Gain (loss) on sale of assets	(56)	6	13	(5)
	\$ (287)	\$ (2,541)	\$ (900)	\$ 89

12. Segmented Information

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

MDC PARTNERS INC. AND SUBSIDIARIES

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(Thousands of United States Dollars, Unless Otherwise Stated Except Share and per Share Amounts)

12. Segmented Information

– (continued)

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

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

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

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

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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.

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

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

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 106,980	\$ 63,009	\$ —	\$ 169,989
Cost of services sold	71,436	45,330	—	116,766
Office and general expenses	20,929	12,634	5,547	39,110
Depreciation and amortization	4,238	3,707	94	8,039
Operating Profit/(Loss)	10,377	1,338	(5,641)	6,074
Other Income (Expense):				
Other expense, net				(287)
Interest expense, net				(8,368)
Loss from continuing operations before income taxes, equity in affiliates				(2,581)
Income tax expense				552
Loss from continuing operations before equity in affiliates				(3,133)
Equity in loss of non-consolidated affiliates				(39)
Loss from continuing operations				(3,172)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(647)
Net loss				(3,819)
Net income attributable to the noncontrolling interests	(1,321)	(665)	—	(1,986)
Net loss attributable to MDC Partners Inc.				\$ (5,805)
Non cash stock based compensation	\$ 1,078	\$ 399	\$ 1,411	\$ 2,888
Supplemental Segment Information:				
Capital expenditures	\$ 1,361	\$ 1,429	\$ 168	\$ 2,958
Goodwill and intangibles	\$ 314,326	\$ 158,379	\$ —	\$ 472,705

Total assets	\$ 456,637	\$ 270,215	\$ 65,134	\$ 791,986
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Three Months Ended June 30, 2009
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 88,248	\$ 46,634	\$ —	\$ 134,882
Cost of services sold	52,760	35,478	—	88,238
Office and general expenses	18,517	7,517	4,139	30,173
Depreciation and amortization	5,480	2,043	81	7,604
Operating Profit/(Loss)	11,491	1,596	(4,220)	8,867
Other Income (Expense):				
Other expense, net				(2,541)
Interest expense, net				(3,653)
Income from continuing operations before income taxes, equity in affiliates				2,673
Income tax expense				1,608
Income from continuing operations before equity in affiliates				1,065
Equity in earnings of non-consolidated affiliates				105
Income from continuing operations				1,170
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(108)
Net income				1,062
Net income attributable to the noncontrolling interests	(978)	(5)	—	(983)
Net income attributable to MDC Partners Inc.			\$	79
Non cash stock based compensation	\$ 371	\$ 184	\$ 1,490	\$ 2,045
Supplemental Segment Information:				
Capital expenditures	\$ 676	\$ 540	\$ 41	\$ 1,257
Goodwill and intangibles	\$ 221,468	\$ 57,954	\$ —	\$ 279,422
Total assets	\$ 357,067	\$ 120,464	\$ 66,749	\$ 544,280

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Six Months Ended June 30, 2010
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 198,505	\$ 107,666	\$ —	306,171
Cost of services sold	133,049	80,686	—	213,735
Office and general expenses	41,257	22,148	10,330	73,735
Depreciation and amortization	7,539	6,146	187	13,872
Operating Profit/(Loss)	16,660	(1,314)	(10,517)	4,829
Other Income (Expense):				
Other expense, net				(900)
Interest expense, net				(15,375)
Loss from continuing operations before income taxes, equity in affiliates				(11,446)
Income tax expense				801
Loss from continuing operations before equity in affiliates				(12,247)
Equity in loss of non-consolidated affiliates				(143)
Loss from continuing operations				(12,390)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(647)
Net loss				(13,037)
Net income attributable to the noncontrolling interests	(2,248)	(706)	—	(2,954)
Net loss attributable to MDC Partners Inc.			\$	(15,991)
Non cash stock based compensation	\$ 2,831	\$ 765	\$ 2,759	\$ 6,355
Supplemental Segment Information:				
Capital expenditures	\$ 2,966	\$ 2,463	\$ 291	\$ 5,720
Goodwill and intangibles	\$ 314,326	\$ 158,379	\$ —	\$ 472,705
Total assets	\$ 456,637	\$ 270,215	\$ 65,134	\$ 791,986

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Six Months Ended June 30, 2009
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 172,711	\$ 88,909	\$ —	\$ 261,620
Cost of services sold	105,440	68,677	—	174,117
Office and general expenses	38,129	15,145	8,051	61,325
Depreciation and amortization	10,852	4,170	175	15,197
Operating Profit/(Loss)	18,290	917	(8,226)	10,981
Other Income (Expense):				
Other income, net				89
Interest expense, net				(7,212)
Income from continuing operations before income taxes, equity in affiliates				3,858
Income tax expense				2,223
Income from continuing operations before equity in affiliates				1,635
Equity in earnings of non-consolidated affiliates				198
Income from continuing operations				1,833
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(361)
Net Income				1,472
Net income attributable to the noncontrolling interests	(1,654)	289		(1,365)
Net income attributable to MDC Partners Inc.			\$	107
Non cash stock based compensation	\$ 804	\$ 374	\$ 2,764	\$ 3,942
Supplemental Segment Information:				
Capital expenditures	\$ 1,448	\$ 579	\$ 60	\$ 2,087
Goodwill and intangibles	\$ 221,468	\$ 57,954	\$ —	\$ 279,422
Total assets	\$ 357,067	\$ 120,464	\$ 66,749	\$ 544,280

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 June 30,				
2010	\$ 143,299	\$ 22,427	\$ 4,263	\$ 169,989
2009	\$ 114,897	\$ 18,974	\$ 1,011	\$ 134,882
Six Months Ended June 30,				
2010	\$ 255,448	\$ 42,472	\$ 8,251	\$ 306,171
2009	\$ 222,938	\$ 36,539	\$ 2,143	\$ 261,620

13. Commitments, Contingencies and Guarantees

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

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

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

Management estimates, assuming that the subsidiaries owned by the Company at June 30, 2010, perform over the relevant future periods at their trailing twelve-months earnings levels, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate amount of approximately \$29,860 to the owners of such rights to acquire such ownership interests in the relevant subsidiaries. Of this amount, the Company is entitled, at its option, to fund approximately \$2,743 by the issuance of share capital. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately \$10,425 only upon termination of such owner's employment with the applicable subsidiary. The ultimate amount payable relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised.

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

Guarantees. In connection with certain dispositions of assets and/or businesses in 2001 and 2003, the Company has provided customary representations and warranties whose terms range in duration and may not be explicitly defined. The Company has also retained certain liabilities for events occurring prior to sale, relating to tax, environmental,

litigation and other matters. Generally, the Company has indemnified the purchasers in the event that a third party asserts a claim against the purchaser that relates to a liability retained by the Company. These types of indemnification guarantees typically extend for a number of years.

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

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

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

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

Commitments. At June 30, 2010, the Company had issued \$4,980 of undrawn outstanding letters of credit.

14. New Accounting Pronouncements

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

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

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

In January 2010, the FASB issued amended guidance to enhance disclosure requirements related to fair value measurements. The amended guidance for Level 1 and Level 2 fair value measurements is effective January 1, 2010. The amended guidance for Level 3 fair value measurements will be effective for January 1, 2011. The guidance requires disclosures of amounts and reasons for transfers in and out of Level 1 and Level 2 recurring fair value measurements as well as additional information related to activities in the reconciliation of Level 3 fair value measurements. The guidance expanded the disclosures related to the level of disaggregation of assets and liabilities and information about inputs and valuation techniques. The adoption of the guidance for Level 1 and Level 2 fair value measurements did not have a material impact on our unaudited Consolidated Financial Statements. The adoption of the guidance related to Level 3 fair value measurements will not have a significant impact on our Consolidated Financial Statements.

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

In January 2010, the FASB issued Fair Value Measurements and Disclosures — Improving Disclosures about Fair Value Measurements. This Guidance requires new disclosures and clarifies certain existing disclosure requirements about fair value measurements. It requires a reporting entity to disclose significant transfers in and out of Level 1 and Level 2 fair value measurements, to describe the reasons for the transfers and to present separately information about

purchases, sales, issuances and settlements for fair value measurements using significant unobservable inputs. This Guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which is effective for interim and annual reporting periods beginning after December 15, 2010; early adoption is permitted. The adoption did not have a material effect on our financial statements.

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

15. Subsequent Events

On July 30, 2010, the Company completed the acquisition of 60% of the equity interests in Relevent Partners LLC (“Relevent”) in exchange for a purchase price equal to approximately \$11.4 million cash at closing, plus additional contingent payments that are based on actual financial results from 2010 to 2015. Relevent is a full service marketing, special events, production and promotions company that builds brands with consumers through experiential lifestyle, entertainment and relationship marketing programs. The acquisition of Relevent is expected to enhance MDC’s experiential marketing platform.

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

Executive Summary

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

MDC 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.

MDC conducts its businesses through the Marketing Communications Group. Within the Marketing Communications Group, there are two reportable operating segments: Strategic Marketing Services and Performance Marketing Services. In addition, MDC has a "Corporate Group" which provides certain administrative, accounting, financial 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 Condensed Consolidated Financial Statements.

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

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

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

Certain Factors Affecting Our Business

Acquisitions and Dispositions .. Our strategy includes acquiring ownership stakes in well-managed businesses with strong reputations in the industry. We engaged in a number of acquisition and disposal transactions during the 2009 to 2010 period, which affected revenues, expenses, operating income and net income. Additional information regarding material acquisitions is provided in Note 4 "Acquisitions" and information on dispositions is provided in Note 6 "Discontinued Operations" in the notes to the 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 June 30, 2010
 (thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 106,980	\$ 63,009	\$ —	\$ 169,989
Cost of services sold	71,436	45,330	—	116,766
Office and general expenses	20,929	12,634	5,547	39,110
Depreciation and amortization	4,238	3,707	94	8,039
Operating Profit/(Loss)	10,377	1,338	(5,641)	6,074
Other Income (Expense):				
Other expense, net				(287)
Interest expense, net				(8,368)
Loss from continuing operations before income taxes, equity in affiliates				(2,581)
Income tax expense				552
Loss from continuing operations before equity in affiliates				(3,133)
Equity in loss of non-consolidated affiliates				(39)
Loss from continuing operations				(3,172)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(647)
Net loss				(3,819)
Net income attributable to the noncontrolling interests	(1,321)	(665)	—	(1,986)
Net loss attributable to MDC Partners Inc.				\$ (5,805)
Non cash stock based compensation	\$ 1,078	\$ 399	\$ 1,411	\$ 2,888

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

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 88,248	\$ 46,634	\$ —	\$ 134,882
Cost of services sold	52,760	35,478	—	88,238
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Depreciation and amortization	5,480	2,043	81	7,604
Operating Profit/(Loss)	11,491	1,596	(4,220)	8,867
Other Income (Expense):				
Other expense, net				(2,541)
Interest expense, net				(3,653)
Income from continuing operations before income taxes, equity in affiliates				2,673
Income tax expense				1,608
Income from continuing operations before equity in affiliates				1,065
Equity in earnings of non-consolidated affiliates				105
Income from continuing operations				1,170
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(108)
Net income				1,062
Net income (loss) attributable to the noncontrolling interests	(978)	(5)	—	(983)
Net income attributable to MDC Partners Inc.				\$ 79
Non cash stock based compensation.	\$ 371	\$ 184	\$ 1,490	\$ 2,045

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

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 198,505	\$ 107,666	\$ —	\$ 306,171
Cost of services sold	133,049	80,686	—	213,735
Office and general expenses	41,257	22,148	10,330	73,735
Depreciation and amortization	7,539	6,146	187	13,872
Operating Profit/(Loss)	16,660	(1,314)	(10,517)	4,829
Other Income (Expense):				
Other expense, net				(900)
Interest expense, net				(15,375)
Loss from continuing operations before income taxes, equity in affiliates				(11,446)
Income tax expense				801
Loss from continuing operations before equity in affiliates				(12,247)
Equity in loss of non-consolidated affiliates				(143)
Loss from continuing operations				(12,390)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(647)
Net loss				(13,037)
Net income attributable to the noncontrolling interests	(2,248)	(706)	—	(2,954)
Net loss attributable to MDC Partners Inc.				\$ (15,991)
Non cash stock based compensation.	\$ 2,831	\$ 765	\$ 2,759	\$ 6,355

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

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 172,711	\$ 88,909	\$ —	\$ 261,620
Cost of services sold	105,440	68,677	—	174,117
Office and general expenses	38,129	15,145	8,051	61,325
Depreciation and amortization	10,852	4,170	175	15,197
Operating Profit/(Loss)	18,290	917	(8,226)	10,981
Other Income (Expense):				
Other income, net				89
Interest expense, net				(7,212)
Income from continuing operations before income taxes, equity in affiliates				3,858
Income tax expense				2,223
Income from continuing operations before equity in affiliates				1,635
Equity in earnings of non-consolidated affiliates				198
Income from continuing operations				1,833
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(361)
Net income				1,472
Net income (loss) attributable to the noncontrolling interests	(1,654)	289		(1,365)
Net income attributable to MDC Partners Inc.				\$ 107
Non cash stock based compensation.	\$ 804	\$ 374	\$ 2,764	\$ 3,942

Three Months Ended June 30, 2010, Compared to Three Months Ended June 30, 2009

Revenue was \$170.0 million for the quarter ended June 30, 2010, representing an increase of \$35.1 million, or 26.0%, compared to revenue of \$134.9 million for the quarter ended June 30, 2009. This revenue increase related primarily to acquisition growth of \$25.3 million and organic growth of \$7.2 million. In addition, a weakening of the US Dollar, primarily versus the Canadian dollar during the quarter ended June 30, 2010, resulted in increased revenues of \$2.6 million.

The operating profit for the quarter ended June 30, 2010 was \$6.1 million compared to operating profit of \$8.9 million for the quarter ended June 30, 2009. The decrease in operating profit was primarily the result of an increase in corporate operating expenses of \$1.4 million, a decrease in operating profit of \$1.1 million in the Strategic Marketing Services segment and a decrease of \$0.3 million within the Performance Marketing Services segment.

The loss from continuing operations attributable to MDC Partners Inc. for the second quarter of 2010 was \$5.2 million, compared to income of \$0.2 million in 2009. This decrease in income of \$5.4 million was primarily the result of an increase in interest expense, net of \$4.7 million, a decrease in operating profits of \$2.8 million, and increase in net income attributable to noncontrolling interests of \$1.0 million, a decrease from equity in earnings of non-consolidated affiliates of \$0.1 million. These amounts were offset by a decrease in other expense, net of \$2.3 million and a decrease in income tax expense of \$1.1 million.

Marketing Communications Group

Revenues in the second quarter of 2010 attributable to the Marketing Communications Group, which consists of two reportable segments — Strategic Marketing Services and Performance Marketing Services, were \$170.0 million compared to \$134.9 million in the second quarter of 2009, representing a year-over-year increase of 26.0%.

The components of the increase in revenue in 2010 are shown in the following table:

	Revenue	
	\$ 000's	%
Quarter ended June 30, 2009	\$ 134,882	—
Organic	7,209	5.3%
Acquisitions	25,340	18.8%
Foreign exchange impact	2,558	1.9%
Quarter ended June 30, 2010	\$ 169,989	26.0%

The geographic mix in revenues was consistent between the second quarter of 2010 and 2009 and is demonstrated in the following table:

	2010	2009
US	84%	85%
Canada	13%	14%
Other	3%	1%

The operating profit of the Marketing Communications Group decreased by approximately 10.5% to \$11.7 million from \$13.1 million. Operating margins decreased by 2.8% and were 6.9% for 2010 compared to 9.7% for 2009. The decrease in operating profit and operating margin was primarily attributable to an increase in direct costs (excluding staff costs) as a percentage of revenues from 14.4% in 2009 to 22.0% in 2010. Direct costs increased due to the requirement that certain costs be included in both revenue and direct costs due to the company acting as principle

versus agent for certain client contracts. Total staff costs increased \$12.0 million; however, as a percentage of revenue decreased from 59.2% in 2009 to 54.0% in 2010. General and administrative costs increased as a percentage of revenue from 19.3% in 2009 to 19.7% in 2010.

Strategic Marketing Services (“SMS”)

Revenues attributable to Strategic Marketing Services in the second quarter of 2010 were \$107.0 million, compared to \$88.2 million in the second quarter of 2009. The year-over-year increase of \$18.7 million or 21.2% was attributable primarily to organic growth of \$13.6 million as a result of net new business wins, and acquisition growth of \$3.7 million. A weakening of the US dollar versus the Canadian dollar in 2010 compared to 2009 resulted in a \$1.4 million increase in revenues from the division’s Canadian-based operations.

The operating profit of Strategic Marketing Services decreased by approximately 9.7% to \$10.4 million in the second quarter of 2010 from \$11.5 million in the second quarter of 2009. Operating margins decreased to 9.7% in 2010 from 13.0% in 2009. Operating profit and margin decreased due primarily to increased direct costs (excluding staff costs) as a percentage of revenue from 11.2% in 2009 to 19.4% in 2010. In addition, total staff costs increased \$7.3 million; however, as a percentage of revenue decreased from 56.8% in 2009 to 53.8% in 2010. General and administrative costs decreased as a percentage of revenue from 21.0% in 2009 to 19.6% in 2010, due to the relatively fixed nature of these costs.

Performance Marketing Services

The Performance Marketing Services segment generated revenues of \$63.0 million for the second quarter of 2010, an increase of \$16.4 million, or 35.1% higher than revenues of \$46.6 million in the second quarter of 2009. The year over year increase was attributed primarily to growth from acquisitions of \$21.7 million. In addition, a weakening of the US dollar versus the Canadian dollar in 2010 compared to 2009 resulted in a \$1.1 million increase in revenues from the division's Canadian-based operations. These increases were offset by reduced revenue of \$6.4 million as a result of the reduction and delays of client spending.

The operating profit of Performance Marketing Services decreased by \$0.3 million in the second quarter of 2010 from \$1.6 million in the second quarter of 2009 to \$1.3 million in the second quarter of 2010. Total direct costs (excluding staff costs) increased \$7.1 million and as a percentage of revenue increased from 20.7% in the second quarter of 2009 to 26.5% in the second quarter of 2010. General and administrative costs increased as a percentage of revenue from 16.1% in the second quarter of 2009 to 20.1% in the second quarter of 2010. The increase as a percentage of revenue was due to reduced organic revenues on relatively fixed costs within one of our operating units. Total staff costs as a percentage of revenue decreased from 63.7% in the second quarter of 2009 to 54.4% in the second quarter of 2010. Depreciation and amortization increased by \$1.7 million due to the amortization of intangibles in connection with the 2010 acquisitions.

Corporate

Operating costs related to the Company's Corporate operations totaled \$5.6 million in the second quarter of 2010 compared to \$4.2 million in the second quarter of 2009. This increase of \$1.4 million was primarily related to increased compensation and related costs of \$0.5 million, travel, promotional and related costs of \$0.7 million, and professional and other costs of \$0.2 million.

Other Income, Net

Other income (expense) decreased to an expense of \$0.3 million in the second quarter of 2010 compared to an expense of \$2.5 million in the second quarter of 2009. The 2010 expense was primarily comprised of a foreign exchange loss of \$0.3 million, compared to a loss of \$2.5 million recorded in 2009. Specifically, this unrealized loss was due primarily to the weakening in the US dollar during 2010 and 2009 compared to the Canadian dollar primarily on its US dollar denominated intercompany balances with its Canadian subsidiaries compared to December 31, 2009.

Net Interest Expense

Net interest expense for the second quarter of 2010 was \$8.4 million, an increase of \$4.7 million over the \$3.7 million of net interest expense incurred during the second quarter of 2009. Interest expense increased in 2010 due to higher average outstanding debt in 2010, relating to the 11% senior notes issued in October 2009 and May 2010. Interest income was nominal in the second quarter of 2010 and 2009.

Income Taxes

Income tax expense was \$1.6 million in the second quarter of 2009 compared to income tax expense of \$0.6 million for the second quarter of 2010. The Company's effective tax rate in 2010 and 2009 was substantially higher than the statutory rate due to noncontrolling interest charges, offset by non-deductible stock based compensation. In addition, the 2010 effective tax rate was higher due to losses in certain tax jurisdictions where the benefits are not expected to be realized.

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 (losses) attributable to equity-accounted affiliate operations. For the second quarter of 2010 the loss was nominal compared to the second quarter of 2009 income of \$0.1 million which was recorded.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was \$2.0 million for the second quarter of 2010, an increase of \$1.0 million from the \$1.0 million of noncontrolling interest expense incurred during the second quarter of 2009, primarily due to increased profitability of certain entities which are not wholly owned.

Discontinued Operations Attributable to MDC Partners Inc.

The loss of \$0.6 million, net of an income tax benefit of \$0.3 million from discontinued operations in 2010, resulted from the operating results and write-off of our investment of Fearless, which was discontinued in the second quarter of 2010.

The loss, net of an income tax benefit of \$0.1 million from discontinued operations in 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.

As a result, the Company has classified these operations as discontinued.

Net Income (loss) attributable to MDC Partners Inc.

As a result of the foregoing, the net loss attributable to MDC Partners Inc. recorded for the second quarter of 2010 was \$5.8 million or a loss of \$0.21 per diluted share, compared to a nominal net income attributable to MDC Partners Inc. or \$0.01 per diluted share reported for the second quarter of 2009.

Six Months Ended June 30, 2010, Compared to Six Months Ended June 30, 2009

Revenue was \$306.2 million for the six months ended June 30, 2010, representing an increase of \$44.6 million, or 17.0%, compared to revenue of \$261.6 million for the six months ended June 30, 2009. This revenue increase related primarily to acquisition growth of \$31.6 million and organic growth of \$6.8 million. In addition, a weakening of the US Dollar, primarily versus the Canadian dollar during the six months ended June 30, 2010, resulted in increased revenues of \$6.2 million.

The operating profit for 2010 was \$4.8 million, compared to operating profit of \$11.0 million for 2009. The decrease in operating profit was primarily the result of a decrease in operating profit of \$2.3 million in the Performance Marketing Services segment and a decrease of \$1.6 million within the Strategic Marketing Services segment. In addition, Corporate operating expenses increased by \$2.3 million.

The loss from continuing operations attributable to MDC Partners Inc. for the first six months of 2010 was \$15.3 million, compared to income of \$0.5 million in 2009. This decrease in income of \$15.8 million was primarily the result of a decrease in operating profits of \$6.2 million, and an increase in interest expense, net of \$8.2 million, and an increase in net income attributable to noncontrolling interests of \$1.6 million, a decrease in other income, net of \$1.0 million. These amounts were offset by a decrease in income tax expense of \$1.4 million.

Marketing Communications Group

Revenues in 2010 attributable to the Marketing Communications Group, which consists of two reportable segments — Strategic Marketing Services and Performance Marketing Services, were \$306.2 million compared to \$261.6 million in 2009, representing a year-over-year increase of 17.0%.

The components of the increase in revenue in 2010 are shown in the following table:

	Revenue	
	\$ 000's	%
Six months ended June 30, 2009	\$ 261,620	—
Organic	6,818	2.6%
Acquisitions	31,578	12.1%
Foreign exchange impact	6,155	2.3%
Six months ended June 30, 2010	\$ 306,171	17.0%

The geographic mix in revenues was consistent between 2010 and 2009 and is demonstrated in the following table:

	2010	2009
US	83%	85%
Canada	14%	14%
Other	3%	1%

The operating profit of the Marketing Communications Group decreased by approximately 20.1% to \$15.3 million in 2010 from \$19.2 million in 2009. Operating margins decreased by 2.3% and were 5.0% for 2010 compared to 7.3% for 2009. The decrease in operating profit and operating margin was primarily attributable to an increase in direct costs (excluding staff costs) as a percentage of revenues from 13.6% in 2009 to 19.9% in 2010. Direct costs increased due to the requirement that certain costs be included in both revenue and direct costs due to the Company acting as principle versus agent for certain client contracts. Total staff costs increased \$16.7 million; however, as a percentage of revenue decreased from 61.5% in 2009 to 58.0% in 2010. General and administrative costs increased slightly as a percentage of revenue from 20.4% in 2009 to 20.7% in 2010.

Strategic Marketing Services (“SMS”)

Revenues attributable to Strategic Marketing Services in the first six months of 2010 were \$198.5 million, compared to \$172.7 million in 2009. The year-over-year increase of \$25.8 million or 14.9% was attributable primarily to organic growth of \$18.6 million as a result of net new business wins, and acquisition growth of \$3.7 million. A weakening of the US dollar versus the Canadian dollar in 2010 compared to 2009 resulted in a \$3.6 million increase in revenues from the division’s Canadian-based operations.

The operating profit of Strategic Marketing Services decreased by approximately 8.9% to \$16.7 million in 2010 from \$18.3 million in 2009. Operating margins decreased to 8.4% in 2010 from 10.6% in 2009. Operating profit and margin decreased due primarily to increased direct costs (excluding staff costs) as a percentage of revenue from 11.0% in 2009 to 16.6% in 2010. In addition, total staff costs increased \$13.2 million; however, as percentages of revenue decreased from 58.7% in 2009 to 57.7% in 2010. General and administrative costs decreased as a percentage of revenue from 22.1% in 2009 to 20.8% in 2010, due to the relatively fixed nature of these costs. Depreciation and amortization decreased \$3.3 million, due to certain intangibles being fully amortized by the end of 2009.

Performance Marketing Services

The Performance Marketing Services segment generated revenues of \$107.7 million for 2010, an increase of \$18.8 million, or 21.1% higher than revenues of \$88.9 million in 2009. The year over year increase was attributed primarily to growth from acquisitions of \$27.9 million. In addition, a weakening of the US dollar versus the Canadian dollar in 2010 compared to 2009 resulted in a \$2.6 million increase in revenues from the division's Canadian-based operations. These increases were offset by reduced revenue of \$11.7 million as a result of the reduction and delays of client spending.

The Performance Marketing Services incurred an operating loss of \$1.3 million, a decrease of \$2.3 million in 2010, from a profit of \$1.0 million in 2009. Operating loss margins were 1.2% in 2010 from an operating profit margin of 1.0% in 2009. Direct costs (excluding staff costs) increased as a percentage of revenue from 18.6% in 2009 to 25.9% in 2010. General and administrative costs increased as a percentage of revenue from 17.0% in the first six months of 2009 to 20.6% in the first six months of 2010. The increase as a percentage of revenue was due to reduced organic revenues on relatively fixed costs within one of our operating unites. Total staff costs increased \$3.4 million; however, decreased as a percentage of revenue from 67.0% in 2009 to 58.5% in 2010, as the Company reduced costs in connection with the reduction of organic revenues. Depreciation and amortization increased by \$2.0 million due to the amortization of intangibles in connection with the 2010 acquisitions.

Corporate

Operating costs related to the Company's Corporate operations totaled \$10.5 million in 2010 compared to \$8.2 million in 2009. This increase of \$2.3 million was primarily related to increased compensation and related costs of \$0.5 million, travel, promotional and related costs of \$1.0 million, professional and other costs of \$0.6 million, and the timing of donations of \$0.2 million.

Other Income, Net

Other income (expense) decreased to an expense of \$0.9 million in 2010 compared to an income of \$0.1 million in 2009. The 2010 expense was primarily comprised of a foreign exchange loss of \$0.9 million, compared to a gain of \$0.1 million recorded in 2009. Specifically, this unrealized loss was due primarily to the weakening in the US dollar during 2010 and 2009 compared to the Canadian dollar primarily on its US dollar denominated intercompany balances with its Canadian subsidiaries compared to December 31, 2009.

Net Interest Expense

Net interest expense for 2010 was \$15.4 million, an increase of \$8.2 million over the \$7.2 million of net interest expense incurred during 2009. Interest expense increased in 2010 due to higher average outstanding debt in 2010, relating to the 11% senior notes issued in October 2009 and May 2010. Interest income was nominal in 2010 compared to \$0.2 million in 2009.

Income Taxes

Income tax expense was \$2.2 million in 2009 compared to income tax expense of \$0.8 million for 2010. The Company's effective tax rate in 2010 and 2009 was substantially higher than the statutory rate due to noncontrolling interest charges, offset by non-deductible stock based compensation. In addition, the 2010 effective tax rate was higher due to losses in certain tax jurisdictions where the benefits are not expected to be realized.

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 (losses) attributable to equity-accounted affiliate operations. For 2010 a loss of \$0.1 million compared to 2009 income of \$0.2 million was recorded.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was \$3.0 million for 2010, an increase of \$1.6 million from the \$1.4 million of noncontrolling interest expense incurred during 2009, primarily due to increased profitability of certain entities which are not wholly owned.

Discontinued Operations Attributable to MDC Partners Inc.

The loss of \$0.6 million, net of an income tax benefit of \$0.3 million from discontinued operations in 2010, resulted from the operating results and write-off of our investment of Fearless, which was discontinued in the second quarter of 2010.

The loss, net of an income tax benefit of \$0.4 million from discontinued operations in 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.

As a result, the Company has classified these operations as discontinued.

Net Income (loss) attributable to MDC Partners Inc.

As a result of the foregoing, the net loss attributable to MDC Partners Inc. recorded for 2010 was \$16.0 million or a loss of \$0.57 per diluted share, compared to a net income attributable to MDC Partners Inc. of \$0.1 million or \$0.01 per diluted share reported for 2009.

Liquidity and Capital Resources:

Liquidity

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

	As of and for the six months ended June 30, 2010 (000's)	As of and for the six months ended June 30, 2009 (000's)	As of and for the year ended December 31, 2009 (000's)
Cash and cash equivalents	\$ 47,454	\$ 57,934	\$ 51,926
Working capital (deficit)	\$ (47,008)	\$ (29,229)	\$ (40,152)
Cash from operations	\$ (2,733)	\$ 21,431	\$ 59,903
Cash from investing	\$ (63,940)	\$ (5,760)	\$ (66,199)
Cash from financing	\$ 62,128	\$ 873	\$ 20,037
Long-term debt to total equity ratio	2.41	1.92	2.31
Fixed charge coverage ratio	N/A	1.38	N/A
Fixed charge deficiency	\$ 11,439	N/A	\$ 3,350

As of June 30, 2010, and December 31, 2009, \$6.4 million and \$14.1 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 under the WF Credit Agreement by using available cash.

Working Capital

At June 30, 2010, the Company had a working capital deficit of \$47.0 million compared to a deficit of \$40.2 million at December 31, 2009. The decrease in working capital was primarily due to seasonal shifts in the amounts collected from clients, and paid to suppliers, primarily media outlets and improvements made in the Company's billing and collecting practices. The Company includes amounts due to noncontrolling interest holders, for their share of profits, in accrued and other liabilities. At June 30, 2010, \$3.4 million remained outstanding to be distributed to noncontrolling interest holders over the next twelve months.

The Company intends to maintain sufficient cash or availability of funds under its 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 used in continuing operations, including changes in non-cash working capital, for the six months ended June 30, 2010 was \$2.5 million. This was attributable primarily to a net operating loss from continuing operations attributable to MDC Partners of \$15.3 million, payments of accounts payable and accrued liabilities, which resulted in cash use from operations of \$16.5 million, an increase in expenditures billable to clients of \$8.4 million and an increase in prepaid expenses and other current assets of \$1.0 million. This use of cash was partially offset by depreciation and amortization and non-cash stock compensation of \$20.0 million, an increase of advance billings to clients of \$16.0 million, decrease in accounts receivable of \$1.7 million, and adjustments to deferred acquisition consideration of \$1.6 million. Discontinued operations attributable to MDC Partners used cash of \$0.3 million in the six months ended June 30, 2010.

Cash flow provided by continuing operations, including changes in non-cash working capital, for the six months ended June 30, 2009 was \$21.7 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 compensation of \$19.4 million, and an increase in accounts payable, accruals, advance billings to clients and other non-current assets and liabilities of \$12.0 million. This cash provided by continuing operations was partially offset by an increase in accounts receivable of \$11.2 million and an increase in expenditures billable to clients of \$1.7 million. Discontinued operations attributable to MDC Partners used cash of \$0.3 million in the six months ended June 30, 2009.

Investing Activities

Cash flows used in investing activities were \$63.9 million for the six months ended June 30, 2010 compared with \$5.8 million in the six months ended June 30, 2009.

In the six months ended June 30, 2010, capital expenditures totaled \$5.7 million, of which \$3.0 million was incurred by the Strategic Marketing Services segment and \$2.5 million was incurred by the Performance Marketing Services segment. These expenditures consisted primarily of computer equipment and furniture and fixtures. Expenditures for capital assets in the six months ended June 30, 2009 were \$2.1 million. Of this amount, \$1.5 million was incurred by the Strategic Marketing Services segment and \$0.6 million was incurred by the Performance Marketing services Segment. These expenditures consisted primarily of computer equipment and leasehold improvements.

In the six months ended June 30, 2010, cash flow used for acquisitions was \$57.5 million of which \$35.4 million was paid in the acquisition of equity interests in Team, Communifx, IMS, Sloane, Allison, Infolure, and Plaid, and \$22.1 million was paid related to the settlement of deferred acquisition consideration. Cash flow used in acquisitions was \$3.6 million in the six months ended June 30, 2009 and related to the settlement of put options and earn-out payments.

Financing Activities

During the six months ended June 30, 2010, cash flows provided by financing activities amounted to \$62.1 million, and consisted primarily from proceeds of \$67.6 million relating to the additional issuance of 11% Senior Notes, offset by, payment of dividends of \$2.8, payment of deferred financing costs of \$1.5 million, repayments of long-term debt of \$0.5 million and the purchase of treasury shares for income tax withholding requirements of \$0.9 million. During the six months ended June 30, 2009, cash flows provided by financing activities amounted to \$0.9 million, and primarily consisted of borrowings under the old Financing Agreement of \$2.2 million, repayments of long-term debt of \$0.9 million and the purchase of treasury shares for income tax withholding requirements of \$0.4 million.

Total Debt

11% Senior Notes Due 2016

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% or \$10.5 million and underwriter fees of \$5.6 million. 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 consisting of repayments of \$130 million of term loans, a \$70 million delayed draw term loan, and \$9.7 million outstanding on the \$55 million revolving credit facility. The Company also used the net proceeds to redeem its outstanding 8% C\$45 million convertible debentures.

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

The Company may, at its option, redeem the 11% Notes (including the additional notes) in whole at any time or in part from time to time, on and after November 1, 2013 at a redemption price of 105.5% of the principal amount thereof. If redeemed during the twelve-month period beginning on November 1, 2014, the Company must pay a redemption price of 102.75% of the principal amount thereof. If redeemed during the twelve-month period beginning on November 1, 2015, the Company must pay a redemption price of 100% of the principal amount thereof. Prior to November 1, 2013, the Company may, at its option, redeem some or all of the 11% Notes at a price equal to 100% of the principal amount of the Notes plus a "make whole" premium and accrued and unpaid interest. The Company may also redeem, at its option, prior to November 1, 2012, up to 35% of the 11% Notes with the proceeds from one or more equity offerings at a redemption price of 111% of the principal amount thereof. If the Company experiences certain kinds of changes of control (as defined in the Indenture), holders of the 11% Notes may require the Company to repurchase any 11% Notes held by them at a price equal to 101% of the principal amount of the 11% Notes plus accrued and unpaid interest. The indenture governing the 11% Notes contains certain events of default and restrictive covenants which are customary with respect to non-investment grade debt securities, including limitations on the incurrence of additional indebtedness, dividends, sales of assets and transactions with affiliates.

New Credit Agreement

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 bear interest as follows: (a)(i) LIBOR Rate and 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 borrowings is 3.00% in the case of Base Rate Loans and 3.25% in the case of LIBOR Rate Loans. The applicable margin may be reduced subject to the Company achieving certain trailing twelve month earning levels, as defined. In addition to paying interest on outstanding principal under the WF Credit Agreement, the

Company is required to pay an unused revolver fee to the lenders under the WF Credit Agreement in respect of unused commitments thereunder.

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

Debt as of June 30, 2010 was \$286.1 million, an increase of \$68.2 million compared with the \$217.9 million outstanding at December 31, 2009, primarily as a result of the additional issuance of \$65 million 11% notes. At June 30, 2010, \$70.0 million was available under the WF Credit Agreement.

The Company is currently in compliance with all of the terms and conditions of the WF Credit Agreement, and management believes, based on its current financial projections, that the Company will be in compliance with its 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 WF Credit Agreement, the Company must comply with certain financial covenants including, among other things, covenants for (i) total debt ratio, (ii) fixed charges ratio, and (iii) minimum earnings before interest, taxes and depreciation and amortization, in each case as such term is specifically defined in the Credit Facility. For the period ended June 30, 2010, the Company's calculation of each of these covenants, and the specific requirements under the Credit Facility, respectively, were as follows:

	June 30, 2010
Total Senior Leverage Ratio	(0.46)
Maximum per covenant	2.0
Fixed Charges Ratio	2.95
Minimum per covenant	1.25
Earnings before interest, taxes, depreciation and amortization	\$ 77.6 million
Minimum per covenant	\$ 71.0 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 Credit Facility, as non-compliance with such covenants could have a material adverse effect on the Company.

Deferred Acquisition Consideration (Earnouts)

Acquisitions of businesses by the Company may include commitments to contingent deferred purchase consideration payable to the seller. These contingent purchase obligations are generally payable within a one to six-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, for acquisitions prior to January 1, 2009. Based on various assumptions, all deferred consideration estimates based on future operating results of the relevant entities are recorded on the Company's balance sheet at June 30, 2010. The actual amount that the Company pays in connection with the obligations may differ materially from this estimate. The Accounting Standards Codification's revised guidance on business combinations now requires that contingent purchase obligations are recorded as a liability and included in the original acquisition accounting. At June 30, 2010, there was \$60.6 million of deferred consideration included in the Company's balance sheet.

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 2010 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 June 30, 2010, 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 \$29.9 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 \$2.8 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 \$10.4 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 \$6.3 million of the estimated \$29.9 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 \$8.5 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)	2010	2011	2012	2013	2014 & Thereafter	Total
	(\$ Millions)					
Cash	\$ 6.0	\$ 2.0	\$ 7.8	\$ 3.0	\$ 8.3	\$ 27.1
Shares	0.3	0.8	0.6	0.7	0.4	2.8
	\$ 6.3	\$ 2.8	\$ 8.4	\$ 3.7	\$ 8.7	\$ 29.9(1)
Operating income before depreciation and amortization to be received(2)	\$ 2.1	\$ 0.9	\$ 1.6	\$ 1.5	\$ 2.4	\$ 8.5
Cumulative operating income before depreciation and amortization(3)	\$ 2.1	\$ 3.0	\$ 4.6	\$ 6.1	\$ 8.5	(5)

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- (1) This amount has been recognized in Redeemable Noncontrolling Interests on the Company's balance sheet.
 - (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 2009 and first quarter 2010 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's 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, stock-based compensation, and the reporting of variable interest entities at the date of the financial statements. 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 as required by the Revenue Recognition topics of the FASB Accounting Standards Codification, and accordingly, revenue is generally recognized when services are provided or upon delivery of the products when ownership and risk of loss has transferred to the customer, the selling price is fixed or determinable and collection of the resulting receivable is reasonably assured.

The Company 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 Reporting Revenue Gross as a Principal versus Net as an Agent topic of the FASB Accounting Standards Codification. This topic 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 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 the reimbursements received for out-of-pocket expenses. This topic of the FASB Accounting Standards Codification 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.

Business Combinations . Valuation of acquired companies are based on a number of factors, including specialized know-how, reputation, competitive position and service offerings. Our acquisition strategy has been to focus on

acquiring the expertise of an assembled workforce in order to continue building upon the core capabilities of our various strategic business platforms to better serve our clients. Consistent with our acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed in 2009 include an initial payment at the time of closing and provide for future additional contingent purchase price payments. Contingent payments for these transactions, as well as certain acquisitions completed in prior years, are derived using the performance of the acquired entity and are based on pre-determined formulas. Contingent purchase price obligations for acquisitions completed prior to January 1, 2009 are accrued when the contingency is resolved and payment is certain. Contingent purchase price obligations related to acquisitions completed subsequent to December 31, 2008 are recorded as liabilities at estimated value and are remeasured at each reporting period. Changes in estimated value are recorded in results of operations. There were no adjustments for remeasurement for the year ended December 31, 2009. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests are recorded as Redeemable Noncontrolling Interests. As of January 1, 2009, the Company expenses acquisition related costs in accordance with the Accounting Standard's Codification's new guidance on acquisition accounting. For the three and six months ended June 30, 2010, \$331 and \$730 and nil, respectively, of acquisition related costs have been charged to operations. For the three and six months ended June 30, 2009, no acquisition related costs were charged to operations.

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

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 any of 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. 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. 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.

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

New Accounting Pronouncements

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

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

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

In January 2010, the FASB issued amended guidance to enhance disclosure requirements related to fair value measurements. The amended guidance for Level 1 and Level 2 fair value measurements is effective January 1, 2010. The amended guidance for Level 3 fair value measurements will be effective for January 1, 2011. The guidance requires disclosures of amounts and reasons for transfers in and out of Level 1 and Level 2 recurring fair value measurements as well as additional information related to activities in the reconciliation of Level 3 fair value measurements. The guidance expanded the disclosures related to the level of disaggregation of assets and liabilities and information about inputs and valuation techniques. The adoption of the guidance for Level 1 and Level 2 fair value measurements did not have a material impact on our unaudited Consolidated Financial Statements. The adoption of the guidance related to Level 3 fair value measurements will not have a significant impact on our Consolidated Financial Statements.

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

In January 2010, the FASB issued Fair Value Measurements and Disclosures — Improving Disclosures about Fair Value Measurements. This Guidance requires new disclosures and clarifies certain existing disclosure requirements about fair value measurements. It requires a reporting entity to disclose significant transfers in and out of Level 1 and Level 2 fair value measurements, to describe the reasons for the transfers and to present separately information about purchases, sales, issuances and settlements for fair value measurements using significant unobservable inputs. This Guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the

disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which is effective for interim and annual reporting periods beginning after December 15, 2010; early adoption is permitted. The adoption will not have a material effect on our financial statements.

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

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 on 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.

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" option 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 2009 Annual Report on Form 10-K under the caption "Risk Factors", and in the Company's other SEC filings.

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 June 30, 2010, the Company's debt obligations consisted of amounts outstanding under its WF Credit Agreement and Senior Notes. The Senior Notes bear a fixed 11% interest rate. The WF Credit Agreement 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 nil, as of June 30, 2010, a 1.0% increase or decrease in the weighted average interest rate, which was 6.0% at June 30, 2010, would have a nominal interest impact.

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 the US and Canada. For every one cent change in the foreign exchange rate between the US and Canada, the Company will not incur a material 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 June 30, 2010.

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 second quarter of 2010 that have materially affected, or are reasonably

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

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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 Annual Report on Form 10-K for the year ended December 31, 2009.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Reserved

Item 5 . Other Information

On July 29, 2010, the Company entered into an amendment of the Management Services Agreement with Miles Nadal and Nadal Management, Inc., pursuant to which Mr. Nadal serves as the Company's Chief Executive Officer. Pursuant to this amendment, the annual retainer fee (base compensation) for Mr. Nadal's services was increased to \$1.5 million. In addition, the parties amended the existing terms of a special Cdn \$10 million contingent bonus award to provide that such bonus would be payable to Mr. Nadal upon the sooner to occur (i) the average market price of the Company's Class A shares exceeding Cdn \$30 per share during any twenty consecutive trading days; or (ii) a upon a change of control of the Company.

Item 6. Exhibits

The exhibits required by this item are listed on the Exhibit Table.

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
Senior Vice President, Chief Accounting Officer

July 30, 2010

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Amalgamation, dated July 1, 2010.*
4.1	First Supplemental Indenture, dated as of May 14, 2010, to the Indenture, dated as of October 23, 2009, among the Company, the Note Guarantors and The Bank of New York Mellon, as trustee, including the form of 11% Senior Notes due 2016 (incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on May 14, 2010).
10.1	Amendment to Management Services Agreement relating to the employment of Miles Nadal as Chief Executive Officer, dated July 30, 2010. *
10.2.1	Amendment No. 1, dated July 29, 2010, to the Membership Interest Purchase Agreement dated as of March 1, 2010 by and among MDC Acquisition Inc., WWG, LLC, Todd Graham, Kevin Berg, Vincent Parinello, Daniel K. Gregory, Stephen Groth and Sean M. O'Toole.*
10.2.2	Amendment No. 1, dated July 29, 2010, to the Amended and Restated Limited Liability Company Agreement of The Arsenal LLC (f/k/a Team Holdings LLC) dated as of March 1, 2010 by and among The Arsenal LLC, MDC Acquisition Inc., WWG, LLC and WWG2, LLC.*
10.3	Amendment No. 1, dated July 29, 2010, to the Membership Unit Purchase Agreement dated as of April 30, 2010 by and among MF+P Acquisition Co., Integrated Media Solutions, LLC, Robert Ingram, Desiree DuMont and Ron Corvino.*
10.4	Purchase Agreement, dated as of May 11, 2010, among the Company, the Note Guarantors and Goldman, Sachs & Co., as representative of the initial purchasers named therein (incorporated by reference to Exhibit 1.1 to the Company's Form 8-K filed on May 14, 2010).
10.5	Exchange and Registration Rights Agreement, dated as of May 14, 2010, among the Company, the Note Guarantors and Goldman, Sachs & Co., as representative of the initial purchasers named therein (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on May 14, 2010).
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 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 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.
