

MDC PARTNERS INC
Form 10-Q
November 03, 2011

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 September 30, 2011

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.)

745 Fifth Avenue
New York, New York
(Address of principal executive offices)

10151
(Zip Code)

(646) 429-1800

Registrant's telephone number, including area code:

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

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

Edgar Filing: MDC PARTNERS INC - Form 10-Q

(§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 October 31, 2011 were: 30,137,032 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

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1.	3
	3
	4
	5
	6
Item 2.	27
Item 3.	47
Item 4.	47
PART II. OTHER INFORMATION	
Item 1.	48
Item 1A.	48
Item 2.	48
Item 3.	48
Item 4.	48
Item 5.	48
Item 6.	48
Signatures	49

Item 1. Financial Statements

MDC PARTNERS INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(thousands of United States dollars, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue:				
Services	\$ 238,246	\$ 178,597	\$ 696,224	\$ 484,401
Operating Expenses:				
Cost of services sold	175,421	122,719	496,973	335,654
Office and general expenses	56,591	45,080	156,099	118,458
Depreciation and amortization	9,882	9,351	30,001	23,196
	241,894	177,150	683,073	477,308
Operating profit (loss)	(3,648)	1,447	13,151	7,093
Other Income (Expenses):				
Other income (expense), net	(3,116)	454	(2,361)	(423)
Interest expense	(10,800)	(8,887)	(31,030)	(24,340)
Interest income	24	55	84	155
	(13,892)	(8,378)	(33,307)	(24,608)
Loss from continuing operations before income taxes, equity in affiliates	(17,540)	(6,931)	(20,156)	(17,515)
Income tax expense (recovery)	(42)	409	904	1,208
Loss from continuing operations before equity in affiliates	(17,498)	(7,340)	(21,060)	(18,723)
Equity in earnings (loss) of non-consolidated affiliates	(120)	(1,496)	214	(1,639)
Loss from continuing operations	(17,618)	(8,836)	(20,846)	(20,362)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	—	(636)	—	(2,044)
Net loss	(17,618)	(9,472)	(20,846)	(22,406)
Net income attributable to the noncontrolling interests	(1,956)	(1,446)	(6,088)	(4,503)
Loss attributable to MDC Partners Inc.	\$ (19,574)	\$ (10,918)	\$ (26,934)	\$ (26,909)
Loss Per Common Share:				
Basic:				
Loss from continuing operations attributable to MDC Partners Inc. common shareholders	\$ (0.67)	\$ (0.36)	\$ (0.93)	\$ (0.89)
Discontinued operations attributable to MDC Partners Inc. common shareholders	—	(0.02)	—	(0.07)
Loss attributable to MDC Partners Inc. common shareholders	\$ (0.67)	\$ (0.38)	\$ (0.93)	\$ (0.96)
Diluted:				
Loss from continuing operations attributable to MDC Partners Inc. common shareholders	\$ (0.67)	(0.36)	\$ (0.93)	\$ (0.89)

Edgar Filing: MDC PARTNERS INC - Form 10-Q

Discontinued operations attributable to MDC Partners Inc. common shareholders	—	(0.02)	—	(0.07)
Loss attributable to MDC Partners Inc. common shareholders	\$ (0.67)	\$ (0.38)	\$ (0.93)	\$ (0.96)

Weighted Average Number of Common Shares Outstanding:

Basic	29,158,703	28,500,287	29,051,450	27,980,895
Diluted	29,158,703	28,500,287	29,051,450	27,980,895

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

Cost of services sold	\$ 509	\$ 1,366	\$ 1,243	\$ 2,684
Office and general expenses	7,262	5,582	16,577	10,620
Total	\$ 7,771	\$ 6,948	\$ 17,820	\$ 13,304

See notes to the unaudited condensed consolidated financial statements.

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

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 7,345	\$ 10,949
Accounts receivable, less allowance for doubtful accounts of \$824 and \$1,990	216,432	195,306
Expenditures billable to clients	35,499	30,414
Other current assets	16,681	13,455
Total Current Assets	275,957	250,124
Fixed assets, at cost, less accumulated depreciation of \$106,732 and \$94,432	47,093	41,053
Investment in affiliates	58	—
Goodwill	577,802	514,488
Other intangibles assets, net	58,281	67,133
Deferred tax asset	21,574	21,603
Other assets	24,662	19,947
Total Assets	\$ 1,005,427	\$ 914,348
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY		
Current Liabilities:		
Accounts payable	\$ 114,177	\$ 131,074
Accruals and other liabilities	78,776	64,050
Advance billings	121,157	124,993
Current portion of long-term debt	1,481	1,667
Current portion of deferred acquisition consideration	38,152	30,887
Total Current Liabilities	353,743	352,671
Revolving credit facility	47,634	—
Long-term debt	345,930	284,549
Long-term portion of deferred acquisition consideration	73,580	77,104
Other liabilities	13,779	10,956
Deferred tax liabilities	19,579	19,642
Total Liabilities	854,245	744,922
Redeemable Noncontrolling Interests (Note 2)	94,681	77,560
Commitments, contingencies and guarantees (Note 13)		
Shareholders' Equity:		
Preferred shares, unlimited authorized, none issued	—	—
Class A Shares, no par value, unlimited authorized, 29,144,233 and 28,758,734 shares issued in 2011 and 2010	228,557	226,752
Class B Shares, no par value, unlimited authorized, 2,503 shares issued and outstanding in 2011 and 2010, each convertible into one Class A share	1	1
Charges in excess of capital	(31,986)	(16,809)
Accumulated deficit	(173,534)	(146,600)
Stock subscription receivable	(55)	(135)

Edgar Filing: MDC PARTNERS INC - Form 10-Q

Accumulated other comprehensive loss	(5,759)	(4,148)
MDC Partners Inc. Shareholders' Equity	17,224	59,061
Noncontrolling Interests	39,277	32,805
Total Equity	56,501	91,866
Total Liabilities, Redeemable Noncontrolling Interests and Equity	\$ 1,005,427	\$ 914,348

See notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$ (20,846)	\$ (22,406)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	—	(2,044)
Loss from continuing operations	(20,846)	(20,362)
Adjustments to reconcile net loss from continuing operations to cash (used in) provided by operating activities:		
Depreciation	13,509	11,991
Amortization of intangibles	16,492	11,205
Non-cash stock-based compensation	17,820	13,304
Amortization of deferred finance charges and debt discount	1,662	1,582
Adjustment to deferred acquisition consideration	1,401	3,571
(Gain) loss on disposition of assets	4	(15)
Deferred income taxes	74	(88)
Loss (earnings) of non-consolidated affiliates	(214)	1,639
Other non-current assets and liabilities	881	(2,007)
Foreign exchange	1,832	367
Changes in working capital:		
Accounts receivable	(12,901)	(39,230)
Expenditures billable to clients	18,897	2,135
Prepaid expenses and other current assets	(2,515)	(2,207)
Accounts payable, accruals and other liabilities	(10,855)	9,264
Advance billings	(31,422)	35,855
Cash flows (used in) provided by continuing operating activities	(6,181)	27,004
Discontinued operations	—	(1,731)
Net cash (used in) provided by operating activities	(6,181)	25,273
Cash flows from investing activities:		
Capital expenditures	(17,867)	(8,166)
Acquisitions, net of cash acquired	(52,940)	(78,046)
Proceeds from sale of assets	33	92
Other investments	(2,578)	(510)
Profit distributions from affiliates	4,067	249
Cash flows used in continuing investing activities	(69,285)	(86,381)
Discontinued operations	—	(710)
Net cash used in investing activities	(69,285)	(87,091)
Cash flows from financing activities:		
Proceeds from issuance of 11% Senior Notes	61,050	67,600
Proceeds from revolving credit facility	47,634	—
Repayment of long-term debt	(653)	(755)
Proceeds from stock subscription receivable	80	124
Proceeds from exercise of options	1,014	54
Purchase of treasury shares	(2,732)	(1,674)
Deferred financing costs	(3,017)	(1,524)
Distributions to noncontrolling partners	(10,501)	(6,958)

Edgar Filing: MDC PARTNERS INC - Form 10-Q

Repayment of bank overdrafts	(7,591)	—
Payment of dividends	(12,749)	(6,002)
Net cash provided by financing activities	72,535	50,865
Effect of exchange rate changes on cash and cash equivalents	(673)	22
Net decrease in cash and cash equivalents	(3,604)	(10,931)
Cash and cash equivalents at beginning of period	10,949	51,926
Cash and cash equivalents at end of period	\$ 7,345	\$ 40,995
Supplemental disclosures:		
Cash income taxes paid	\$ 164	\$ 775
Cash interest paid	\$ 17,546	\$ 13,516
Dividends payable	\$ 5,300	\$ 295
Non-cash transactions:		
Capital leases	\$ 515	\$ 336

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, 2010.

In June 2010, the Company discontinued a start-up called Fearless Progression LLC.

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

In addition, in December 2010, the Company discontinued a start-up division of Redscout, LLC called “007”.

All periods have been restated to reflect the discontinued operations.

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

2. Significant Accounting Policies

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

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

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

Concentration of Credit Risk. The Company provides marketing communications services to clients who operate in most industry sectors. Credit is granted to qualified clients in the ordinary course of business. Due to the diversified

nature of the Company's client base, the Company does not believe that it is exposed to a concentration of credit risk; the Company did not have a client that accounted for more than 10% of the Company's consolidated accounts receivable at September 30, 2011 or December 31, 2010. Furthermore, the Company did not have a client that accounted for more than 10% of the Company's revenue for the three and nine months ended September 30, 2011 or for the three and nine months ended September 30, 2010.

Cash and Cash Equivalents. The Company's cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. The Company has a concentration risk in that there are cash deposits in excess of federally insured amounts. Included in cash and cash equivalents at September 30, 2011 and December 31, 2010, is approximately \$45 and \$64, 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 UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(thousands of United States dollars, unless otherwise stated)

2. Significant Accounting Policies – (continued)

Business Combinations. Valuation of acquired companies are based on a number of factors, including specialized know-how, reputation, competitive position and service offerings. The Company's acquisition strategy has been focused on acquiring the expertise of an assembled workforce in order to continue to build upon the core capabilities of its various strategic business platforms to better serve the Company's clients. Consistent with the acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed in 2011, 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 three and nine months ended September 30, 2011, \$1,844 and \$866 of expense was recognized related to changes in estimated value, respectively. For the three months and nine months ended September 30, 2010, \$1,664 and \$2,975 has been charged to operating income. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests are recorded as Redeemable Noncontrolling Interests. As of January 1, 2009, the Company expenses acquisition related costs in accordance with the Accounting Standard's Codification's new guidance on acquisition accounting. For the three and nine months ended September 30, 2011, \$302 and \$1,086, respectively, of acquisition related costs have been charged to operations. For the three and nine months ended September 30, 2010, \$939 and \$1,669, respectively, of acquisition related costs have been charged to operations.

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

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

The Company has recorded its put options as mezzanine equity at their current estimated redemption amounts. The Company accrues changes in the redemption amounts over the period from the date of issuance to the earliest redemption date of the put options. 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. For the nine months ended September 30, 2011 and 2010, there have been no charges to noncontrolling interests. 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.

7

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

2. Significant Accounting Policies – (continued)

The following table presents changes in Redeemable Noncontrolling Interests.

	Nine Months	
	Ended September 30,	
	2011	2010
Beginning Balance as of December 31,	\$ 77,560	\$ 33,728
Redemptions	(7,051)	(3,567)
Granted	14,081	4,301
Changes in redemption value	11,600	1,229
Currency Translation Adjustments	(1,509)	584
Ending Balance as of September 30,	\$ 94,681	\$ 36,275

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

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

Non refundable retainer fees are generally recognized on a straight line basis over the term of the specific customer arrangement. 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.

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

2. Significant Accounting Policies – (continued)

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

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

Interest Expense. Interest expense primarily consists of the cost of borrowing on the revolving credit facility and the 11% Senior Notes. The Company uses the effective interest method to amortize the original issue discount and original issue premium on the 11% Senior Notes. At September 30, 2011 and December 31, 2010, \$233 and \$848 was amortized, respectively, net of amortized premium of \$647 and \$197, respectively. The Company amortizes deferred financing costs using the effective interest method over the life of the 11% Senior Notes and straight line over the life of the revolving credit facility. The total net deferred financing costs, included in Other Assets on the balance sheet, as of September 30, 2011 and December 31, 2010 was \$12,195 and \$10,605, net of accumulated amortization of \$3,010 and \$1,583, respectively. During the nine months of 2011, the Company recorded \$3,017 of deferred financing costs primarily relating to the 2011 expansion of the revolving credit facility and the 2011 additional debt issuance.

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

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

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

Stock-based awards that are settled in cash or equity at the option of the Company are recorded at fair value on the date of grant and recorded as additional paid-in capital. The fair value measurement of the compensation cost for these awards is based on using both the Black-Scholes option pricing-model and a lattice based model (Monte Carlo) and is recorded in operating income over the service period that is the vesting period of the award. The lattice based model is used for awards which are subject to achieving stock performance targets.

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

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

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

During the nine months ended September 30, 2011, the Company issued 1,355,574 restricted stock units and restricted stock shares ("RSUs") to its employees and directors. The RSUs have an aggregate grant date fair value of \$24,641 and generally vest on the third anniversary date with certain awards subjected to accelerated vesting based on the financial performance of the Company. In addition, during the nine months ended September 30, 2011, the Company awarded 1,413,000 extraordinary equity value appreciation awards ("EVARs") to its employees. These EVARs have an aggregate grant date fair value of \$13,240 and may result in the issuance of up to 1,413,000 RSUs, but only upon the achievement of extraordinary stock performance targets. If issued, the RSUs underlying EVAR grants will vest on December 31, 2013.

For the nine months ended September 30, 2011, the Company has recorded a \$10,295 charge relating to these equity incentive grants.

A total of 958,450 Class A shares of restricted stock, granted to employees as equity incentive awards, are included in the Company's calculation of Class A shares outstanding as of September 30, 2011.

3. Income (Loss) Per Common Share

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

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
Numerator				
Numerator for basic loss per common share - loss from continuing operations	\$ (17,618)	\$ (8,836)	\$ (20,846)	\$ (20,362)
Net income attributable to the noncontrolling interests	(1,956)	(1,446)	(6,088)	(4,503)
Loss attributable to MDC Partners Inc. common shareholders from continuing operations	\$ (19,574)	\$ (10,282)	\$ (26,934)	\$ (24,865)
Effect of dilutive securities	—	—	—	—
Numerator for diluted loss per common share - loss attributable to MDC Partners Inc. common shareholders from continuing operations	\$ (19,574)	\$ (10,282)	\$ (26,934)	\$ (24,865)
Denominator				
Denominator for basic loss per common share - weighted average common shares	29,158,703	28,500,287	29,051,450	27,980,895
Effect of dilutive securities:	—	—	—	—
Denominator for diluted loss per common share - adjusted weighted shares	29,158,703	28,500,287	29,051,450	27,980,895
Basic loss per common share from continuing operations attributable to MDC Partners Inc.	\$ (0.67)	\$ (0.36)	\$ (0.93)	\$ (0.89)
Diluted loss per common share from continuing operations attributable to MDC Partners Inc.	\$ (0.67)	\$ (0.36)	\$ (0.93)	\$ (0.89)

During the three and nine months ended September 30, 2011, options and other rights to purchase 5,423,869 shares of common stock, which includes 2,161,056 shares of non-vested restricted stock and restricted stock units, were outstanding and were not included in the computation of diluted income per common share because their effect would be antidilutive.

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

4. Acquisitions

Pro forma financial information has not been presented for the acquisitions noted below since they did not have a material effect on the Company's operating results.

Third Quarter 2011 Acquisitions

During the quarter ended September 30, 2011, the Company completed a number of acquisitions. The Company, through a wholly-owned subsidiary, purchased a 70% interest in Concentric Partners, LLC (“Concentric”) and a 65% interest in Laird + Partners, New York LLC (“Laird”). The Concentric acquisition is expected to serve as the foundation of the Company’s healthcare platform. The Laird acquisition increases the Company’s positioning in the luxury goods and retail marketplace. In addition, the Company increased its ownership to 100% of Redscout LLC (“Redscout”), 82% of VitroRobertson LLC (“Vitro”), and 91.8% of The Northstar Group of companies. The aggregate purchase price for these transactions has an estimated present value at acquisition date of \$39,316 and consisted of total closing cash payments of \$15,972, additional contingent deferred acquisition consideration, that are based on actual financial results of the underlying businesses from 2011 to 2016 with final payments due in 2017 with an estimated present value at acquisition date of \$23,344. An allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of \$4,205 consisting primarily of customer lists and covenants not to compete, and goodwill of \$36,664 representing the value of assembled workforce. The identified intangible assets will be amortized 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 \$5,045, the present value of redeemable noncontrolling interest in relation to Laird, and \$6,478, the present value of noncontrolling interest in relation to Concentric. The remaining principals of Laird have put option rights only upon termination without cause, disability, or death. The Company also recorded an entry to reduce noncontrolling interests by \$1,297 and additional paid-in-capital of \$5,704 and recorded shares to be issued of \$424 in relation to the step ups. The intangibles and goodwill are tax deductible.

The actual adjustments that the Company will ultimately make in analyzing the allocation of purchase price to 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.

Second Quarter 2011 Acquisitions

During the Quarter ended June 30, 2011, the Company increased ownership in Communifx Partners LLC (“Communifx”) by 1.3%, and increased its ownership of Varick Media Management LLC (“Varick”) to 100%. The aggregate purchase price for these two step up transactions has an estimated present value at acquisition date of \$3,930 and is recorded as deferred acquisition consideration, of which the Company paid \$81. Both of these step-up transactions were subject to put options. The Company recorded an entry to reduce redeemable noncontrolling interests by \$4,440 and recorded an increase to additional-paid-in-capital of \$509. The amounts to be paid will be tax deductible.

First Quarter 2011 Acquisitions

Effective January 31, 2011, the Company, through a wholly-owned subsidiary, purchased 60% of the total outstanding membership interests in Anomaly Partners, LLC (“Anomaly”). This acquisition expands the Company’s portfolio with another creatively driven agency brand with an international presence. At closing, the Company paid cash of \$15,000 plus additional contingent deferred acquisition consideration, based on actual results from 2010 to 2014 with final payments due in 2015, with an original estimated present value of \$20,951 at the date of acquisition. During 2011, the Company made payments of \$1,854. 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 \$4,000 (consisting primarily of customer lists and a covenant not to compete) and goodwill of \$22,297 representing the value of the assembled workforce. The fair value of the noncontrolling interest not acquired at the acquisition date was \$7,890 based on the Company’s evaluation of the Company being acquired and the purchase price paid by the Company and have been recorded as redeemable noncontrolling interests due to put option rights which are triggered upon such owner’s termination without cause, disability or death. The identified intangibles will be amortized ranging from a five to eight-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. Included in the Company’s consolidated income statement for the three and six months ended June 30, 2011 is revenue from Anomaly of \$12,268

and \$23,657, respectively.

The actual adjustments that the Company will ultimately make in analyzing the allocation of purchase price to 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.

Fourth Quarter 2010 Acquisitions

Effective November 30, 2010, the Company, through a wholly-owned subsidiary, purchased 80% of the total outstanding equity interests in each of Kenna Communications LP, an Ontario limited partnership ("Kenna"), and Capital C Partners LP, an Ontario limited partnership ("Capital C"). Capital C is a full-service marketing agency providing services such as business strategy and consumer insights, shopper monitoring, and product innovation. Kenna delivers sales and marketing solutions to make organizations more efficient, more productive and more effective. The aggregate purchase price was equal to \$26,300 and additional deferred acquisition consideration, with an original estimated present value at the acquisition date of \$12,360, that is based upon actual results from 2010 to 2015 with final payments due in 2016 of which the Company paid \$343 in 2011. In addition, performance payments of up to \$5,000 may be paid in the future based on these results and will result in stock based compensation charges over that period. The Company recorded \$19,905 as the present value of redeemable noncontrolling interest in relation to the Kenna and Capital C put option rights triggered upon such owner's termination without cause, disability or death. Beginning in 2016, the Company has a call for the remaining 20% of each of Kenna and Capital C. If the Company does not exercise this call, the operating results of Kenna and Capital C will be allocated to the Company on a basis less than the Company's ownership basis as defined. 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 \$10,254 (consisting of primarily customer lists and a covenant not to compete) and goodwill of \$47,297 representing the value of assembled workforce. The identified intangible assets will be amortized from a five to eight 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, the Company recorded a deferred tax liability of \$3,188 representing the future benefits relating to the amortization of the identified intangibles.

The actual adjustments that the Company will ultimately make in analyzing the allocation of purchase price to 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 quarter ended December 31, 2010, the Company also completed a number of other acquisitions. The Company purchased a 51% interest in 72andSunny Partners LLC ("72andSunny"). 72andSunny is full service agency that conceives and executes fully integrated campaigns across all media for top global brands. The Company also increased its ownership of Allard Johnson Communications Inc. (now known as Kbs+p Canada, LP) ("Kbs+p Canada") to 100%, and Company C Communications LLC ("Company C") to 100%. The aggregate purchase price paid for these other acquisitions was equal to \$35,859, and consisted of total closing cash payments of \$12,937, net of \$790 repayment of loans; a \$271 working capital adjustment; and additional contingent deferred acquisition consideration, that are based on actual financial results of the underlying business from 2010 to 2015 with final payments due in 2016 with an original estimated present value at acquisition date of \$21,861, of which the Company paid \$2,500 in December 2010 and \$3,755 in 2011. An allocation of the excess purchase consideration of this acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of \$5,690, consisting primarily of customer lists and covenants not to compete, and goodwill of \$35,322 representing the value of 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 \$13,722, the present value of redeemable noncontrolling interest in relation to 72andSunny. 72andSunny has put option rights only upon such owner's termination without cause, disability or death. The Company also recorded an entry to reduce redeemable noncontrolling interests by \$3,802 and additional paid-in-capital of \$3,123 in relation to the Kbs+p Canada and Company C step up. The amounts paid and to be paid will be tax deductible in relation to the 72andSunny acquisition. However, it will not be tax deductible in relation to the Kbs+p Canada transaction.

The actual adjustments that the Company will ultimately make in analyzing the allocation of purchase price to 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.

Third Quarter 2010 Acquisitions

During the quarter ended September 30, 2010, the Company completed a number of acquisitions. The Company purchased a 60% equity interest in Relevent Partners, LLC (“Relevent”), a 60% equity interest in Kwittken PR, LLC (“Kwittken”), and certain assets and liabilities of Think 360 Inc. (“Think 360”). Relevent is a full service marketing, special events, production and promotions company that builds brands with consumers through experiential lifestyle, entertainment and relationship marketing programs. Kwittken is a full service public relations and marketing agency. Think 360 is an integrated marketing agency. The aggregate purchase price paid for these acquisitions consisted of total closing cash payments of \$15,085, plus additional contingent deferred acquisition consideration, that are based on the actual financial results of the underlying businesses from 2010 to 2014, with final payments due in 2015 with an original estimated present value at acquisition date of \$14,898 of which the Company paid \$4,417 in 2011. An allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of \$4,974, consisting primarily of customer lists and covenants not to compete, and goodwill of \$29,083 representing the value of the assembled workforce. The identified intangibles will be amortized ranging from a two to seven-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. The present value of the redeemable noncontrolling interest not acquired at the acquisition date was \$5,513. Relevent and Kwittken have put option rights upon an employee-owner’s termination without cause, disability or death. The amounts paid and to be paid will be tax deductible.

The Company has also increased ownership to 100% of Zig Inc. (now known as Crispin Porter + Bogusky Canada LP (“CPB Canada”)) and purchased an additional 25% of Bruce Mau Design LLC., increasing the Company’s ownership to 75%. The aggregate purchase price paid for these step-ups consisted of total closing cash payments of \$3,115, plus the estimated present value at acquisition date of additional deferred acquisition consideration of \$626. During the fourth quarter of 2010, and first nine months of 2011, the Company made payments of \$47 and \$684, respectively. In relation to these step-ups, the Company recorded an entry to reduce redeemable noncontrolling interests by \$1,365 and an entry to reduce noncontrolling interests by \$144. The Company recorded a reduction of additional paid-in-capital of \$2,296 representing the difference between the fair value of the interest and the value of the redeemable noncontrolling interests. The amounts paid and to be paid will not be tax deductible.

Second Quarter 2010 Acquisitions

Effective May 6, 2010, the Company, through a wholly-owned subsidiary, purchased 75% of the total outstanding membership interests in Integrated Media Solutions Partners, 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 an original estimated present value of \$19,658 at the date of acquisition which includes fixed payments of \$2,216. During 2010 and 2011, the Company made payments of \$666 and \$5,521, respectively. 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 \$44,678 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.

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 deferred acquisition consideration, that are based on actual results from 2010 to 2015 with final payments due in 2016 with an original estimated present value at acquisition date of \$15,797 which includes fixed payments of \$3,805. During 2010 and 2011, the Company made payments of \$2,020 and \$5,192, respectively. 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 \$27,697 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 \$6,024, the present value of redeemable noncontrolling interests in relation to Allison and Sloane. The Allison acquisition has put option rights upon termination of an employee-owner’s employment by reason of death. 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.

First Quarter 2010 Acquisitions

Effective March 1, 2010, the Company, through a wholly-owned subsidiary, purchased 60% of the total outstanding membership interests in The Arsenal LLC (formerly known as 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 an original estimated present value of \$12,656, and the Company paid a working capital true-up estimated at an additional \$569. 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 \$32,993 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. During the second quarter of 2010, 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. During 2010 and 2011, the Company made payments of \$986 and \$8,112, respectively. The intangibles and goodwill are tax deductible.

During the three months ended March 31, 2010, the Company completed a number of other 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 \$576 that are based on actual results from 2010 to 2015 with final payments due in 2016. During 2011, the Company made payments of \$267. 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 \$1,623 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.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net loss attributable to MDC Partners Inc.	\$ (19,574)	\$ (10,918)	\$ (26,934)	\$ (26,909)
Transfers to the noncontrolling interest:				
Decrease in MDC Partners Inc. paid-in capital for purchase of equity interests in excess of Redeemable Noncontrolling Interests	(6,955)	(1,153)	(6,450)	(3,003)
Decrease in MDC Partners Inc. paid-in capital from issuance of equity interests	—	(122)	(1,147)	(282)
Net transfers to noncontrolling interest	\$ (6,955)	\$ (1,275)	\$ (7,597)	\$ (3,285)
Change from net loss attributable to MDC Partners Inc. and transfers to noncontrolling interest	\$ (26,529)	\$ (12,193)	\$ (34,531)	\$ (30,194)

5. Accrued and Other Liabilities

At September 30, 2011 and December 31, 2010, accrued and other liabilities included amounts due to noncontrolling interest holders, for their share of profits, which will be distributed within the next twelve months of \$4,091 and \$8,577, respectively.

Changes in noncontrolling interest amounts included in accrued and other liabilities for the year ended December 31, 2010 and three months ended September 30, 2011 were as follows:

	Noncontrolling Interests
Balance, December 31, 2009	\$ 4,058
Income attributable to noncontrolling interests	10,074
Distributions made	(7,685)
Other (1)	2,130
Balance, December 31, 2010	\$ 8,577
Income attributable to noncontrolling interests	6,088
Distributions made	(10,501)
CTA	(73)
Balance, September 30, 2011	\$ 4,091

(1) Other consists primarily of an adjustment to record distributions to be made as a result of an acquired company and cumulative translation adjustments.

6. Discontinued Operations

In December 2010, the Company discontinued a start-up division of Redscout, LLC called "007". As a result, the Company has classified this entity's results of operations as discontinued operations. The results of operations for the

three and nine months ended September 30, 2010 was a loss of \$184 and \$635, respectively.

Effective September 30, 2010, the Company ceased Zig (USA) LLC current operations and has classified this entity's results of operations as discontinued operations. The results of operations for the three and nine months ended September 30, 2010 was a loss of \$452 and \$762, respectively.

In June 2010, the Company discontinued a start up called Fearless Progression LLC ("Fearless") and wrote off its investment in Fearless of \$710. The results of operations for the three and nine months ended September 30, 2010, including the investment write off, was a loss of nil and \$647, net of tax, respectively.

Included in discontinued operations in the Company's consolidated statements of operations for the three and nine months ended September 30, 2010 was the following:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Revenue	\$ 122	\$ 488
Operating loss	\$ (1,020)	\$ (2,817)
Other expense	\$ 11	\$ 54
Net loss from discontinued operations attributable to MDC Partners Inc., net of taxes	\$ (636)	\$ (2,044)

7. Comprehensive Income (Loss)

Total comprehensive income (loss) and its components were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income (loss) for the period	\$ (17,618)	\$ (9,472)	\$ (20,846)	\$ (22,406)
Other comprehensive income, net of tax:				
Foreign currency cumulative translation adjustment	(2,895)	161	(1,608)	618
Comprehensive income (loss)	(20,513)	(9,311)	(22,454)	(21,788)
Comprehensive loss attributable to the noncontrolling interest	(1,956)	(1,450)	(6,091)	(4,504)
Comprehensive income (loss) attributable to MDC Partners Inc.	\$ (22,469)	\$ (10,761)	\$ (28,545)	\$ (26,292)

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

Debt consists of:

	September 30, 2011	December 31, 2010
Revolving credit facility	\$ 47,634	\$ —
11% Senior Notes due 2016	345,000	290,000
Original issue discount	(559)	(6,843)
Notes payable and other bank loans	1,352	1,400
	393,427	284,557
Obligations under capital leases	1,618	1,659
	395,045	286,216
Current portion	1,481	1,667
Long term portion	\$ 393,564	\$ 284,549

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% 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 an additional \$65,000 aggregate principal amount of 11% 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.

On April 19, 2011, the Company and its wholly-owned subsidiaries, as guarantors, issued and sold an additional \$55,000 aggregate principal amount of 11% 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 \$59,580, which included an original issue premium of \$6,050, and underwriter fees of \$1,470. 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.

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.

The fair value for the 11% Notes was \$372,600 as of September 30, 2011.

At September 30, 2011, the Company had issued \$5,537 of undrawn outstanding Letters of Credit.

At September 30, 2011 and December 31, 2010, accounts payable included \$1,435 and \$9,026 of outstanding checks, respectively.

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

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

Credit Agreement

On October 23, 2009, the Company and its subsidiaries entered into a \$75,000 five year senior secured revolving credit agreement (the “WF Credit Agreement”) with Wells Fargo Capital Finance, LLC (formerly Wells Fargo Foothill, LLC), as agent, and the lenders from time to time party thereto. On November 22, 2010, this agreement was amended to increase the availability under the facility to \$100,000. On April 29, 2011, the Company entered into an additional amendment to increase the availability under the facility to \$150,000 and extend the maturity date to October 23, 2015. The WF Credit Agreement replaced the Company’s prior \$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 applicable margin as of September 30, 2011 for borrowing is 2.25% in the case of Base Rate Loans and 2.50% 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 total leverage ratio, a fixed charge coverage ratio, a minimum receivables level, and a minimum earnings level, as defined.

The Company is currently in compliance with all of the terms and conditions of its WF Credit Agreement, and management believes, based on its current financial projections, that the Company will be in compliance with the covenants over the next twelve months. At September 30, 2011, the weighted average interest rate under the WF Credit Agreement was 3.9%.

9. Total Equity

During the nine months ended September 30, 2011, Class A share capital increased by \$4,537, as the Company issued 294,688 shares related to vested restricted stock, and 121,720 shares related to the exercise of outstanding stock appreciation rights and 113,085 related to the exercise of options. During the nine months ended September 30, 2011, charges in excess of capital increased by dividends paid and payable of \$17,137, a debit of \$7,597 related to changes in ownership not resulting in a change in control, and \$3,522 related to the vested restricted stock, stock appreciation rights, and options and a debit of \$11,600 related to changes in put options (Note 2 and Note 13), offset by a \$7,075 purchase price adjustment, and \$17,174 related to an increase from stock-based compensation that was expensed during the same period.

During the nine months ended September 30, 2011, the Company purchased and retired 143,994 Class A shares for \$2,732 from employees in connection with the required tax withholding resulting from the vesting of shares of restricted stock and stock appreciation rights.

Total equity decreased \$35,365, which is comprised of a net loss attributable to MDC Partners of \$26,934, dividends paid and payable of \$17,137, a debit of \$7,597 related to changes in ownership not resulting in a change of control, changes in put options of \$4,525, treasury stock purchases of \$2,732, and a decrease in accumulated other comprehensive loss of \$1,611 offset by an increase in stock-based compensation of \$17,174, an exercise of stock options of \$1,014, issuance of noncontrolling interest of \$6,472, shares to be issued of \$424, and a receipt of a subscription receivable of \$80.

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 tables present certain information for our financial liabilities that is disclosed at fair value on a recurring basis at September 30, 2011 and 2010:

	Level 1 September 30, 2011		Level 1 September 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
11% Senior Notes due 2016	\$ 344,441	\$ 372,600	\$ 282,969	\$ 316,100

Our long term debt includes fixed rate debt. The fair value of this instrument is based on quoted market prices.

The following table presents changes in Deferred Acquisition Consideration.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) September 30,	
	2011	2010
Beginning Balance of contingent payments	\$ 101,822	\$ 29,928
Payments	(29,158)	(19,921)
Grants	33,368	64,431
Redemption value adjustments	1,059	2,655
Foreign translation adjustment	(815)	—
Ending Balance of contingent payments	\$ 106,276	\$ 77,093

In addition to the above amounts, there are fixed payments of \$5,456 and \$5,224 for total deferred acquisition consideration of \$111,732 and \$82,317, which reconciles to the consolidating financial statements at September 30, 2011 and 2010, respectively.

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

At September 30, 2011 and December 31, 2010, the carrying amount of the Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximated fair value because of their short-term maturity.

11.	Other Income (Expense)		Other Income (Expense)	
	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Other income (expense)	\$ (1)	\$ 101	\$ 83	\$ 95

Edgar Filing: MDC PARTNERS INC - Form 10-Q

Foreign currency transaction gain (loss)	(3,111)	351	(2,440)	(533)
Gain (loss) on sale of assets	(4)	2	(4)	15
	\$ (3,116)	\$ 454	\$ (2,361)	\$ (423)

12. Segment Information

The Company's segment reporting is consistent with the current manner of how the Chief Operating Decision Maker ("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.

In order to position this strategic focus along the lines of how the CODM and management will base their business decisions, the Company reports two segments. 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 reports in two segments plus corporate. The segments are as follows:

•The Strategic Marketing Services segment includes 72 and Sunny, Anomaly Partners, 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 and they 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.

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

Three Months Ended September 30, 2011
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 146,130	\$ 92,116	\$ —	238,246
Cost of services sold	109,334	66,087	—	175,421
Office and general expenses	31,868	15,434	9,289	56,591
Depreciation and amortization	5,353	4,304	225	9,882
Operating Profit/(Loss)	(425)	6,291	(9,514)	(3,648)
Other Income (Expense):				
Other expense, net				(3,116)
Interest expense, net				(10,776)
				(17,540)

Edgar Filing: MDC PARTNERS INC - Form 10-Q

Loss from continuing operations before income taxes, equity in affiliates				
Income tax recovery				42
Loss from continuing operations before equity in affiliates				(17,498)
Equity in loss of non-consolidated affiliates				(120)
Net loss				(17,618)
Net income attributable to the noncontrolling interests	(1,084)	(872)	—	(1,956)
Net loss attributable to MDC Partners Inc.				\$ (19,574)
Non cash stock based compensation	\$ 2,173	1,608	\$ 3,990	\$ 7,771
Supplemental Segment Information:				
Capital expenditures	\$ 2,188	\$ 990	\$ 6,224	\$ 9,402

Edgar Filing: MDC PARTNERS INC - Form 10-Q

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

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 110,582	\$ 68,015	\$—	\$ 178,597
Cost of services sold	74,761	47,958	—	122,719
Office and general expenses	23,600	13,960	7,520	45,080
Depreciation and amortization	4,275	4,990	86	9,351
Operating Profit/(Loss)	7,946	1,107	(7,606)	1,447
Other Income (Expense):				
Other income, net				454
Interest expense, net				(8,832)
Loss from continuing operations before income taxes, equity in affiliates				
Income tax expense				409
Loss from continuing operations before equity in affiliates				
Equity in loss of non-consolidated affiliates				(1,496)
Loss from continuing operations				
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				
Net loss				(9,472)
Net income attributable to the noncontrolling interests	(597)	(849)	—	(1,446)
Net loss attributable to MDC Partners Inc.				\$(10,918)
Non cash stock based compensation	\$2,376	\$ 483	\$4,089	\$6,948
Supplemental Segment Information:				
Capital expenditures	\$1,464	\$ 949	\$33	\$2,446

Edgar Filing: MDC PARTNERS INC - Form 10-Q

Nine Months Ended September 30, 2011
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$442,580	\$ 253,644	\$—	\$696,224
Cost of services sold	309,351	187,622	—	496,973
Office and general expenses	86,718	42,783	26,598	156,099
Depreciation and amortization	16,342	13,213	446	30,001
Operating Profit/(Loss)	30,169	10,026	(27,044)	13,151
Other Income (Expense):				
Other expense, net				(2,361)
Interest expense, net				(30,946)
Loss from continuing operations before income taxes, equity in affiliates				
Income tax expense				904
Loss from continuing operations before equity in affiliates				
Equity in earnings of non-consolidated affiliates				214
Net loss				
Net income attributable to the noncontrolling interests	(5,062)	(1,026)	—	(6,088)
Net loss attributable to MDC Partners Inc.				
Non cash stock based compensation	\$3,896	\$ 2,591	\$11,333	\$17,820
Supplemental Segment Information:				
Capital expenditures	\$8,541	\$ 2,872	\$6,454	\$17,867
Goodwill and intangibles	\$426,533	\$ 209,550	\$—	\$636,083
Total assets	\$626,865	\$ 324,895	\$53,667	\$1,005,427

Edgar Filing: MDC PARTNERS INC - Form 10-Q

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

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$308,722	\$ 175,679	\$—	\$484,401
Cost of services sold	207,009	128,645	—	335,654
Office and general expenses	64,500	36,107	17,851	118,458
Depreciation and amortization	11,788	11,137	271	23,196
Operating Profit/(Loss)	25,425	(210)	(18,122)	7,093
Other Income (Expense):				
Other expense, net				(423)
Interest expense, net				(24,185)
Loss from continuing operations before income taxes, equity in affiliates				(17,515)
Income tax expense				1,208
Loss from continuing operations before equity in affiliates				(18,723)
Equity in loss of non-consolidated affiliates				(1,639)
Loss from continuing operations				(20,362)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(2,044)
Net loss				(22,406)
Net income attributable to the noncontrolling interests	(2,948)	(1,555)	—	(4,503)
Net loss attributable to MDC Partners Inc.				\$(26,909)
Non cash stock based compensation	\$5,207	\$ 1,248	\$6,849	\$13,304
Supplemental Segment Information:				
Capital expenditures	\$4,430	\$ 3,412	\$324	\$8,166
Goodwill and intangibles	\$322,160	\$ 193,145	\$—	\$515,305
Total assets	\$502,639	\$ 305,975	\$53,556	\$862,170

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

	United States	Canada	Other	Total
Revenue				
Three Months Ended September 30,				
2011	\$ 193,197	\$ 38,207	\$ 6,842	\$ 238,246
2010	\$ 150,826	\$ 23,789	\$ 3,982	\$ 178,597
Nine Months Ended September 30,				
2011	\$ 559,186	\$ 113,676	\$ 23,362	\$ 696,224
2010	\$ 405,908	\$ 66,261	\$ 12,232	\$ 484,401

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 2011 to 2018. It is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights.

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

Management estimates, assuming that the subsidiaries owned by the Company at September 30, 2011, 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 \$40,241 to the owners of such rights to acquire such ownership interests in the relevant subsidiaries. Of this amount, the Company is entitled, at its option, to fund approximately \$3,799 by the issuance of share capital. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately \$64,619 only upon termination of such owner's employment with the applicable subsidiary or death. Included in redeemable noncontrolling interests at September 30, 2011 is \$94,681 of these put options because they are not within the control of the Company. The ultimate amount payable relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised.

Natural Disasters. Certain of the Company's operations are located in regions of the United States and Caribbean which typically are subject to hurricanes. During the three and nine months ended September 30, 2011 and 2010, 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. The Company has commitments to fund \$3,833 of investments. At September 30, 2011, the Company had issued \$5,537 of undrawn outstanding letters of credit.

14. New Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income ("ASU 2011-05") Under ASU 2011-05, an entity will have the option to present comprehensive income on the income statement or as a separate financial statement. ASU 2011-05 is effective January 1, 2012 and requires retrospective adoption. ASU 2011-05 affects financial statement presentation only and has no effect on results of operations or financial position.

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 did not have a material 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 did not have an effect on our results of operation or our financial position.

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.

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 2011 means the period beginning January 1, 2011, and ending December 31, 2011).

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

The following discussion focuses on the operating performance of the Company for the three and nine months ended September 30, 2011 and 2010, and the financial condition of the Company as of September 30, 2011. 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 for the year ended December 31, 2010 as reported on Form 10-K. All amounts are in U.S. dollars unless otherwise stated.

Executive Summary

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

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

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

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

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

Because we are a service business, we monitor these costs on a percentage of revenue basis. Cost of services sold tends to fluctuate in conjunction with changes in revenues, whereas office and general expenses and depreciation and amortization, which are not directly related to servicing clients, tend to decrease as a percentage of revenue as revenues increase because a significant portion of these expenses are relatively fixed in nature. We also monitor the resulting EBITDA generated to assist in determining where investment needs to be made.

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

Overall Factors Affecting our Business and Results of Operations . The most significant factors include national, regional and local economic conditions, our clients' profitability, mergers and acquisitions of our clients, changes in top management of our clients and our ability to retain and attract key employees. New business wins and client losses occur for of a variety of factors. The two most significant factors are; clients' desire to change marketing

communication firms, and the creative product our firms are offering. A client may choose to change marketing communication firms for any number of reasons, such as a change in top management and the new management wants to go retain an agency that it may have previously worked with. In addition, if the client is merged or acquired by another company, the marketing communication firm is often changed. Further, global clients are trending to consolidate the use of numerous marketing communication firms to just one or two. Another factor in a client changing firms is the agency's campaign or work product is not providing results and they feel a change is in order to generate additional revenues.

Clients will generally reduce or increase their spending or outsourcing needs based on their current business trends and profitability. These types of changes impact the Performance Marketing Services Group more than the Strategic Marketing Services Group due to the Performance Marketing Services Group having clients who require project-based work as opposed to the Strategic Marketing Services Group who primarily have retainer-based relationships.

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 2011 period, which affected revenues, expenses, operating income and net income. Additional information regarding material acquisitions is provided in Note 4 "Acquisitions" and information on dispositions is provided in Note 6 "Discontinued Operations" in the Notes to the Unaudited Condensed Consolidated Financial Statements.

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

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

Results of Operations:
 For the Three Months Ended September 30, 2011
 (thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 146,130	\$ 92,116	\$—	\$ 238,246
Cost of services sold	109,334	66,087	—	175,421
Office and general expenses	31,868	15,434	9,289	56,591
Depreciation and amortization	5,353	4,304	225	9,882
Operating Profit/(Loss)	(425)	6,291	(9,514)	(3,648)
Other Income (Expense):				
Other expense, net				(3,116)
Interest expense, net				(10,776)
Loss from continuing operations before income taxes, equity in affiliates				(17,540)
Income tax recovery				42
Loss from continuing operations before equity in affiliates				(17,498)
Equity in loss of non-consolidated affiliates				(120)
Net loss				(17,618)
Net income attributable to the noncontrolling interests	(1,084)	(872)	—	(1,956)
Net loss attributable to MDC Partners Inc.				\$(19,574)
Non cash stock based compensation	\$ 2,173	\$ 1,608	\$ 3,990	\$ 7,771

Edgar Filing: MDC PARTNERS INC - Form 10-Q

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

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 110,582	\$ 68,015	\$—	\$ 178,597
Cost of services sold	74,761	47,958	—	122,719
Office and general expenses	23,600	13,960	7,520	45,080
Depreciation and amortization	4,275	4,990	86	9,351
Operating Profit/(Loss)	7,946	1,107	(7,606)	1,447
Other Income (Expense):				
Other income, net				454
Interest expense, net				(8,832)
Loss from continuing operations before income taxes, equity in affiliates				(6,931)
Income tax expense				409
Loss from continuing operations before equity in affiliates				(7,340)
Equity in loss of non-consolidated affiliates				(1,496)
Loss from continuing operations				(8,836)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(636)
Net loss				(9,472)
Net income attributable to the noncontrolling interests	(597)	(849)	—	(1,446)
Net loss attributable to MDC Partners Inc.				\$(10,918)
Non cash stock based compensation	\$2,376	\$ 483	\$4,089	\$6,948

Edgar Filing: MDC PARTNERS INC - Form 10-Q

For the Nine Months Ended September 30, 2011
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 442,580	\$ 253,644	\$ —	\$ 696,224
Cost of services sold	309,351	187,622	—	496,973
Office and general expenses	86,718	42,783	26,598	156,099
Depreciation and amortization	16,342	13,213	446	30,001
Operating Profit/(Loss)	30,169	10,026	(27,044)	13,151
Other Income (Expense):				
Other expense, net				(2,361)
Interest expense, net				(30,946)
Loss from continuing operations before income taxes, equity in affiliates				(20,156)
Income tax expense				904
Loss from continuing operations before equity in affiliates				(21,060)
Equity in earnings of non-consolidated affiliates				214
Loss from continuing operations				(20,846)
Net income attributable to the noncontrolling interests	(5,062)	(1,026)	—	(6,088)
Net loss attributable to MDC Partners Inc.				\$ (26,934)
Non cash stock based compensation	\$ 3,896	2,591	\$ 11,333	\$ 17,820

Edgar Filing: MDC PARTNERS INC - Form 10-Q

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

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 308,722	\$ 175,679	\$ —	\$ 484,401
Cost of services sold	207,009	128,645	—	335,654
Office and general expenses	64,500	36,107	17,851	118,458
Depreciation and amortization	11,788	11,137	271	23,196
Operating Profit/(Loss)	25,425	(210)	(18,122)	7,093
Other Income (Expense):				
Other expense, net				(423)
Interest expense, net				(24,185)
Loss from continuing operations before income taxes, equity in affiliates				(17,515)
Income tax expense				1,208
Loss from continuing operations before equity in affiliates				(18,723)
Equity in loss of non-consolidated affiliates				(1,639)
Loss from continuing operations				(20,362)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(2,044)
Net loss				(22,406)
Net income attributable to the noncontrolling interests	(2,948)	(1,555)	—	(4,503)
Net loss attributable to MDC Partners Inc.				\$ (26,909)
Non cash stock based compensation	\$ 5,207	\$ 1,248	\$ 6,849	\$ 13,304

Three Months Ended September 30, 2011, Compared to Three Months Ended September 30, 2010

Revenue was \$238.2 million for the quarter ended September 30, 2011, representing an increase of \$59.6 million, or 33.4%, compared to revenue of \$178.6 million for the quarter ended September 30, 2010. This revenue increase related primarily to acquisition growth of \$25.9 million and organic growth of \$32.0 million. In addition, a weakening of the US Dollar, primarily versus the Canadian dollar during the quarter ended September 30, 2011, resulted in increased revenues of \$1.7 million.

The operating loss for the quarter ended September 30, 2011 was \$3.6 million, compared to operating profit of \$1.4 million for the quarter ended September 30, 2010. The decrease in operating profit was primarily the result of a decrease in operating profit of \$8.4 million in the Strategic Marketing Services segment, an increase in corporate operating expenses of \$1.9 million, offset by an increase in operating profit for the Performance Marketing Services segment of \$5.2 million.

Loss from continuing operations attributable to MDC Partners Inc. for the third quarter of 2011 was \$19.6 million, compared to a loss of \$10.3 million in 2010. This decrease in income of \$9.3 million was primarily the result of a decrease in operating profits of \$5.1 million, a decrease in other income (expense), net, of \$3.6 million, an increase in interest expense, net, of \$1.9 million, and an increase in net income attributable to noncontrolling interests of \$0.5 million. These amounts were offset by an increase from equity in earnings of non-consolidated affiliates of \$1.4 million and a decrease in income tax expense of \$0.5 million.

Marketing Communications Group

Revenues in the third quarter of 2011 attributable to the Marketing Communications Group, which consists of two reportable segments — Strategic Marketing Services and Performance Marketing Services, were \$238.2 million compared to \$178.6 million in the third quarter of 2010, representing a year-over-year increase of 33.4%.

The components of the increase in revenue in the third quarter of 2011 are shown in the following table:

	Revenue	
	\$ 000's	%
Quarter ended September 30, 2010	\$ 178,597	—
Organic	32,013	17.9%
Acquisitions	25,945	14.5%
Foreign exchange impact	1,691	1.0%
Quarter ended September 30, 2011	\$ 238,246	33.4%

The geographic mix in revenues was consistent between the third quarter of 2011 and 2010 and is demonstrated in the following table:

	2011	2010
US	81%	85%
Canada	16%	13%
Other	3%	2%

The operating profit of the Marketing Communications Group decreased by approximately 35.2% to \$5.9 million from \$9.0 million. Operating margins decreased by 2.6% and were 2.5% for 2011, compared to 5.1% for 2010. The decrease in operating profit and operating margin was primarily attributable to an increase in direct costs. Direct costs increased as a percentage of revenue from 20.4% in 2010 to 27.0% in 2011, due to the requirement that certain costs

be included in both revenue and direct costs for client contracts in which the Company acts as principal versus agent. General and administrative costs decreased as a percentage of revenue from 21.0% in 2010, to 19.9% in 2011. This decrease was due to increased revenues on relatively fixed costs. Total staff costs increased by \$28.5 million; however, staff costs decreased as a percentage of revenue from 55.9% in 2010 to 53.9% in 2011. A portion of the total dollar increase of staff costs is due to strategic growth investment. Depreciation and amortization as a percentage of revenue decreased from 5.2% in 2010 to 4.1% in 2011 due to the increased revenues.

Strategic Marketing Services (“SMS”)

Revenues attributable to Strategic Marketing Services in the third quarter of 2011 were \$146.1 million, compared to \$110.6 million in the third quarter of 2010. The year-over-year increase of \$35.5 million or 32.1% was attributable primarily to organic growth of \$15.8 million as a result of net new business wins, and acquisition growth of \$18.7 million. A weakening of the US dollar versus the Canadian dollar in 2011 compared to 2010 resulted in a \$1.0 million increase in revenues from the division’s Canadian-based operations.

The operating profit of Strategic Marketing Services decreased to a loss of \$0.4 million in the third quarter of 2011 from profit of \$7.9 million in the third quarter of 2010. Operating margins decreased from 7.2% in 2010 to a loss of 0.3% in 2011. The decrease in operating profit and margins was primarily attributable to an increase in direct costs (excluding staff costs) of \$17.5 million. Direct costs increased as a percentage of revenue from 17.8% in the third quarter of 2010 to 25.4% in the third quarter of 2011. General and administrative costs increased as a percentage of revenue from 21.3% in 2010 to 21.8% in 2011. This increase was due to strategic investments in additional office locations in Los Angeles, CA and Europe, as well as adjustments relating to deferred acquisition consideration. Offsetting these increases, staff costs decreased as a percentage of revenue from 56.6% in 2010 to 56.2% in 2011. However, total staff costs increased by \$19.6 million, a portion of which was due to strategic growth investments. Depreciation and amortization as a percentage of revenue decreased from 3.9% in 2010 to 3.7% in 2011 due to increased revenues.

Performance Marketing Services

The Performance Marketing Services segment generated revenues of \$92.1 million for the third quarter of 2011, an increase of \$24.1 million, or 35.4% higher than revenues of \$68.0 million in the third quarter of 2010. The year over year increase was attributable primarily to organic revenue growth of \$16.2 million resulting from net new business wins and growth from acquisitions of \$7.3 million. In addition, a weakening of the US dollar versus the Canadian dollar in 2011 compared to 2010 resulted in a \$0.6 million increase in revenues from the division's Canadian-based operations.

The operating profit of Performance Marketing Services increased by \$5.2 million in the third quarter of 2011 from \$1.1 million in the third quarter of 2010 to \$6.3 million in the third quarter of 2011. Operating margins increased from 1.6% in 2010 to 6.8% in 2011. Operating margins increased due to total staff costs as a percentage of revenue decreasing from 54.9% in the third quarter of 2010 to 50.2% in the third quarter of 2011. General and administrative costs decreased as a percentage of revenue from 20.5% in the third quarter of 2010 to 16.8% in the third quarter of 2011. Depreciation and amortization decreased as a percentage of revenue from 7.3% in 2010 to 4.7% in 2011. The decrease as a percentage of revenue was due to increased revenues. Offsetting these decreases, total direct costs (excluding staff costs) increased \$10.6 million and as a percentage of revenue increased from 24.6% in the third quarter of 2010 to 29.6% in the third quarter of 2011.

Corporate

Operating costs related to the Company's Corporate operations totaled \$9.5 million in the third quarter of 2011, compared to \$7.6 million in the third quarter of 2010. This increase of \$1.9 million was primarily related to increased compensation and related expenses of \$0.6 million, of which non-cash stock based compensation decreased by \$0.1 million. In addition, Corporate operations incurred a \$0.2 million increase in advertising and promotions, \$0.3 million increase in professional fees, \$0.3 million in travel and entertainment, and \$0.5 million relating to additional occupancy costs and depreciation and amortization.

Other Income, Net

Other income (expense) decreased to expense of \$3.1 million in the third quarter of 2011, compared to income of \$0.5 million in the third quarter of 2010. The 2011 expense was primarily comprised of an unrealized foreign exchange loss of \$3.1 million, compared to an unrealized gain of \$0.4 million recorded in 2010. Specifically, this unrealized gain and loss was due primarily to the fluctuation in the US dollar during 2011 and 2010 compared to the Canadian dollar relating to the Company's US dollar denominated intercompany balances with its Canadian subsidiaries.

Net Interest Expense

Net interest expense for the third quarter of 2011 was \$10.8 million, an increase of \$2.0 million over the \$8.8 million of net interest expense incurred during the third quarter of 2010. Interest expense increased in 2011 due to higher average outstanding debt in 2011, relating to the 11% senior notes issued in October 2009, May 2010 and April 2011. Interest income was nominal in both 2011 and 2010.

Income Taxes

Income tax expense was a nominal recovery in the third quarter of 2011 compared to \$0.4 million of expense in the third quarter of 2010. The Company's effective tax rate in 2011 and 2010 was substantially higher than the statutory rate due to noncontrolling interest charges, offset by non-deductible stock based compensation. In addition, the 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 losses attributable to equity-accounted affiliate operations. For the third quarter of 2011 the loss was \$0.1 million compared to a loss of \$1.5 million in the third quarter of 2010.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was \$2.0 million for the third quarter of 2011, an increase of \$0.6 million from the \$1.4 million of noncontrolling interest expense incurred during the second quarter of 2010, primarily due to increased profitability of certain entities which are not wholly owned in the Strategic Marketing Services segment.

Discontinued Operations Attributable to MDC Partners Inc.

The loss of \$0.6 million, from discontinued operations in 2010, resulted from the operating results and write-off of our investment of Zig (USA) LLC, a start up division of Redscout, LLC called "007", and a start up called Fearless progression LLC.

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 third quarter of 2011 was \$19.6 million or a loss of \$0.67 per diluted share, compared to a net loss attributable to MDC Partners Inc. of \$10.9 million or a loss of \$0.38 per diluted share reported for the third quarter of 2010.

Nine Months Ended September 30, 2011, Compared to Nine Months Ended September 30, 2010

Revenue was \$696.2 million for the nine months ended September 30, 2011, representing an increase of \$211.8 million, or 43.7%, compared to revenue of \$484.4 million for the nine months ended September 30, 2010. This revenue increase related primarily to organic growth of \$104.1 million and acquisition growth of \$102.6 million. In addition, a weakening of the US Dollar, primarily versus the Canadian dollar during the nine months ended September 30, 2011, resulted in increased revenues of \$5.1 million.

The operating profit for the nine months ended September 30, 2011 was \$13.2 million, compared to \$7.1 million for the nine months ended September 30, 2010. The increase in operating profit was primarily the result of an increase in operating profit of \$10.2 million in the Performance Marketing Services segment, an increase of \$4.7 million within the Strategic Marketing Services segment, offset by an increase in corporate operating expenses of \$8.9 million.

The loss from continuing operations attributable to MDC Partners Inc. for the first nine months of 2011 was \$26.9 million, compared to a loss of \$24.9 million in 2010. An increase in loss of \$2.1 million was primarily the result of an increase in operating profits of \$6.0 million, and an increase from equity in earnings of non-consolidated affiliates of \$1.9 million and a decrease in income tax expense of \$0.3 million. These amounts were offset by an increase in interest expense, net of \$6.8 million, an increase in other expense, net of \$1.9 million and an increase in net income attributable to noncontrolling interests of \$1.6 million.

Marketing Communications Group

Revenues in the first nine months of 2011 attributable to the Marketing Communications Group, which consists of two reportable segments — Strategic Marketing Services and Performance Marketing Services, were \$696.2 million compared to \$484.4 million in the first nine months of 2010, representing a year-over-year increase of 43.7%.

The components of the increase in revenue in 2011 are shown in the following table:

	Revenue	
	\$ 000's	%
Nine months ended September 30, 2010	\$ 484,401	—
Organic	104,147	21.5%
Acquisitions	102,574	21.2%
Foreign exchange impact	5,102	1.0%
Nine Months ended September 30, 2011	\$ 696,224	43.7%

The geographic mix in revenues was consistent between the nine months of 2011 and 2010 and is demonstrated in the following table:

	2011	2010
US	80%	83%
Canada	16%	14%
Other	4%	3%

The operating profit of the Marketing Communications Group increased by approximately 59.4% to \$40.2 million from \$25.2 million. Operating margins increased by 0.6% and were 5.8% for 2011, compared to 5.2% for 2010. The increase in operating profit and operating margin was primarily attributable to increased revenue and a decrease in

total staff costs as a percentage of revenue, offset by an increase in direct costs (excluding staff costs) as a percentage of revenues from 20.1% in 2010 to 24.5% in 2011. Total staff costs increased by \$98.3 million; however, staff costs decreased as a percentage of revenue from 57.1% in 2010 to 53.8% in 2011. A portion of the increase in total staff costs represents strategic growth investments. Direct costs increased due to the requirement that certain costs be included in both revenue and direct costs for client contracts in which the Company acts as principal versus agent. General and administrative costs decreased as a percentage of revenue from 20.8% in 2010 to 18.6% in 2011. This decrease was due to increased revenues on relatively fixed costs. Depreciation and amortization as a percentage of revenue decreased from 4.7% in 2010 to 4.2% in 2011 due to increased revenues.

Strategic Marketing Services (“SMS”)

Revenues attributable to Strategic Marketing Services in the first nine months of 2011 were \$442.6 million, compared to \$308.7 million in the first nine months of 2010. The year-over-year increase of \$133.9 million or 43.4% was attributable primarily to organic growth of \$71.1 million as a result of net new business wins, and acquisition growth of \$59.6 million. A weakening of the US dollar versus the Canadian dollar in 2011 compared to 2010 resulted in a \$3.1 million increase in revenues from the division’s Canadian-based operations.

The operating profit of Strategic Marketing Services increased by approximately 18.7% to \$30.2 million in the first nine months of 2011, from \$25.4 million in the first nine months of 2010. Operating margins decreased to 6.8% in 2011 from 8.2% in 2010. The increase in operating profit was primarily due to the increased revenue. The decrease in operating margins was due to, increased direct costs offset by a decrease in total staff costs as a percentage of revenue. Staff costs as a percentage of revenue decreased from 57.1% in 2010 to 54.4% in 2011. Direct costs (excluding staff costs) increased as a percentage of revenue from 17.1% in 2010 to 21.8% in 2011. Staff costs increased by \$64.5 million, a portion of which was due to strategic growth investments. Depreciation and amortization as a percentage of revenue decreased from 3.8% in 2010 to 3.7% in 2011, and general and administrative costs decreased as a percentage of revenue from 20.9% in 2010 to 19.6% in 2011. Both of these decreases resulted from increased revenues on relatively fixed costs.

Performance Marketing Services

The Performance Marketing Services segment generated revenues of \$253.6 million for the first nine months of 2011, an increase of \$77.9 million, or 44.4% higher than revenues of \$175.7 million in the first nine months of 2010. The year over year increase was attributable primarily to growth from acquisitions of \$42.9 million, and organic revenue growth of \$33.0 million resulting from net new business wins. In addition, a weakening of the US dollar versus the Canadian dollar in 2011 compared to 2010 resulted in a \$2.0 million increase in revenues from the division's Canadian-based operations.

The operating profit of Performance Marketing Services increased by \$10.2 million in the first nine months of 2011 from a loss of \$0.2 million in the first nine months of 2010 to income of \$10.0 million in the first nine months of 2011. Operating profit increased primarily due to the increases in revenue. Operating margins increased from a loss of 0.1% to income of 4.0%. Operating margins increased due to total staff costs as a percentage of revenue decreasing from 57.1% in the first nine months of 2010 to 52.9% in the first nine months of 2011. General and administrative costs decreased as a percentage of revenue from 20.6% in the first nine months of 2010 to 16.9% in the first nine months of 2011. Depreciation and amortization decreased as a percentage of revenue from 6.3% in 2010 to 5.2% in 2011. The decrease as a percentage of revenue was due to increased revenues and adjustments relating to deferred acquisition consideration. Offsetting these decreases, total direct costs (excluding staff costs) increased \$29.3 million and as a percentage of revenue increased from 25.4% in the first nine months of 2010 to 29.2% in the first nine months of 2011.

Corporate

Operating costs related to the Company's Corporate operations totaled \$27.0 million in the first nine months of 2011, compared to \$18.1 million in the first nine months of 2010. This increase of \$8.9 million was primarily related to increased compensation and related expenses of \$6.0 million, of which non-cash stock based compensation was \$4.5 million. In addition, Corporate operations incurred a \$0.9 million increase in advertising and promotions, \$0.9 million increase in occupancy costs, \$0.8 million increase in travel and entertainment costs and \$0.3 million increase of other expenses.

Other Income, Net

Other income (expense) increased to \$2.4 million in the first nine months of 2011 compared to an expense of \$0.4 million in the first nine months of 2010. The 2011 expense was primarily comprised of an unrealized foreign exchange loss of \$2.4 million, compared to an unrealized loss of \$0.5 million recorded in 2010. Specifically, this unrealized loss was due primarily to the fluctuation in the US dollar during 2011 and 2010 compared to the Canadian dollar relating to the Company's US dollar denominated intercompany balances with its Canadian subsidiaries.

Net Interest Expense

Net interest expense for the first nine months of 2011 was \$30.9 million, an increase of \$6.7 million over the \$24.2 million of net interest expense incurred during the first nine months of 2010. Interest expense increased in 2011 due to higher average outstanding debt in 2011, relating to the additional 11% senior notes issued. Interest income was nominal in both 2011 and 2010.

Income Taxes

Income tax expense was \$0.9 million in the first nine months of 2011 compared to income tax expense of \$1.2 million for the first nine months of 2010. The Company's effective tax rate in 2011 and 2010 was substantially higher than the statutory rate due to noncontrolling interest charges, offset by non-deductible stock based compensation. In addition, the 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 first nine months of 2011, the income was \$0.2 million compared to a loss of \$1.6 million in the first nine months of 2010.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was \$6.1 million for the first nine months of 2011, an increase of \$1.6 million from the \$4.5 million of noncontrolling interest expense incurred during the first nine months of 2010. This increase was primarily due to increased profitability of certain entities which are not wholly owned in the Strategic Marketing Services segment.

Discontinued Operations Attributable to MDC Partners Inc.

The loss of \$2.0 million, from discontinued operations in 2010, resulted from the operating results and write-off of our investment of Zig (USA) LLC, a start up division of Redscout, LLC called "007", and a start up called Fearless progression LLC.

Net Loss attributable to MDC Partners Inc .

As a result of the foregoing, the net loss attributable to MDC Partners Inc. recorded for the first nine months of 2011 was \$26.9 million or a loss of \$0.93 per diluted share, compared to a net loss attributable to MDC Partners Inc. of \$26.9 million or a loss of \$0.96 per diluted share reported for the first nine months of 2010.

Liquidity and Capital Resources:

Liquidity

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

	As of and for the nine months ended September 30, 2011 (000's)	As of and for the nine months ended September 30, 2010 (000's)	As of and for the year ended December 31, 2010 (000's)
Cash and cash equivalents	\$ 7,345	\$ 40,995	\$ 10,949
Working capital (deficit)	\$ (77,786)	\$ (70,415)	\$ (102,547)
Cash from operations	\$ (6,181)	\$ 25,273	\$ 37,297
Cash from investing	\$ (69,285)	\$ (87,091)	\$ (130,253)
Cash from financing	\$ 72,535	\$ 50,865	\$ 52,401
Long-term debt to total equity ratio	6.99	2.34	3.11
Fixed charge coverage ratio	N/A	N/A	N/A
Fixed charge deficiency	\$ 16,089	\$ 17,266	\$ 3,265

As of September 30, 2011 and December 31, 2010, \$1.3 million and \$5.2 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 any outstanding borrowings under the WF Credit Agreement by using available cash.

The Company intends to maintain sufficient cash to fund operations for the next twelve months.

Working Capital

At September 30, 2011, the Company had a working capital deficit of \$77.8 million, compared to a deficit of \$102.5 million at December 31, 2010. The improvement in working capital was primarily due to seasonal shifts in the amounts collected from clients and paid to suppliers, primarily media outlets, and continued 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 September 30, 2011, \$4.1 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 the WF Credit Agreement at any particular time to adequately fund such working capital deficits should there be a need to do so from time to time.

Cash Flows

Operating Activities

Cash flow used in continuing operations, including changes in non-cash working capital, for the nine months ended September 30, 2011 was \$6.2 million. This was attributable primarily to a net operating loss from continuing operations of \$20.8 million, a decrease in advanced billings of \$31.4 million, increase in accounts receivable of \$12.9 million, payments of accounts payables, accruals, and other liabilities of \$10.9 million, an increase in prepaid expenses and other current assets of \$2.5 million, and \$0.2 million of earnings of non-consolidated affiliates. This use of cash was offset by depreciation and amortization and non-cash stock compensation of \$49.5 million, and a decrease in expenditures billable to clients of \$18.9 million, and adjustments to deferred acquisition consideration of \$1.4 million, foreign exchange of \$1.8 million and a decrease in other non-current assets and liabilities of \$0.9 million.

Cash flow used in continuing operations, including changes in non-cash working capital, for the nine months ended September 30, 2010 was \$27.0 million. This was attributable primarily to a net loss from continuing operations of \$20.4 million, increase in accounts receivable of \$39.2 million, an increase in prepaid expenses and other current assets of \$2.2 million. This use of cash was offset by depreciation and amortization and non-cash stock compensation of \$38.1 million, an increase in advance billings to clients of \$35.9 million, an increase in accounts payable, accruals and liabilities of \$9.3 million, a decrease of expenditures billable to clients of \$2.1 million, adjustments to deferred acquisition consideration of \$3.6 million, and a loss from nonconsolidated affiliates of \$1.6 million. Discontinued operations attributable to MDC Partners used cash of \$1.7 million in the nine months ended September 30, 2010.

Investing Activities

Cash flows used in investing activities were \$69.3 million for the nine months ended September 30, 2011, compared with \$87.1 million in the nine months ended September 30, 2010.

In the nine months ended September 30, 2011, capital expenditures totaled \$17.9 million, of which \$8.5 million was incurred by the Strategic Marketing Services segment, \$2.9 million was incurred by the Performance Marketing Services segment, and \$6.5 million was incurred by corporate. These expenditures consisted primarily of computer equipment, furniture and fixtures, and leasehold improvements. Expenditures for capital assets in the nine months ended September 30, 2010 were \$8.2 million. Of this amount, \$4.4 million was incurred by the Strategic Marketing Services segment and \$3.4 million was incurred by the Performance Marketing services Segment and \$0.3 million was incurred by corporate. These expenditures consisted primarily of computer equipment and leasehold improvements.

In the nine months ended September 30, 2011, cash flow used for acquisitions and deferred acquisition payments was \$52.9 million, of which \$18.0 million was net cash paid in the acquisition of equity interests in Anomaly, Concentric and Laird, \$1.6 million in relation to step-up transactions, and \$33.3 million was paid relating to the settlement of deferred acquisition consideration. In addition, the Company paid \$2.6 million for other investments. These outflows were offset by \$4.1 million of profit distributions from affiliates. In the nine months ended September 30, 2010, cash flow used in acquisitions was \$78.0 million, of which \$50.1 million related to acquisitions of Team, Communifx, IMS, Sloane, Allison, Infolure, Relevant, Kwittken, Think 360 and Plaid, and \$27.9 million was paid relating to the settlement of deferred acquisition consideration.

Financing Activities

During the nine months ended September 30, 2011, cash flows provided by financing activities amounted to \$72.5 million, and consisted primarily from proceeds of \$61.1 million from the issuance of the additional \$55 million 11%

Senior Notes (the “11 Notes”), proceeds of \$47.6 million relating to the revolving credit facility and \$1.0 million from proceeds from exercise of options. These cash inflows were offset by dividends paid and payable of \$12.7 million, distributions to noncontrolling partners of \$10.5 million, repayment of bank overdrafts of \$7.6 million, the purchase of treasury shares for income tax withholding requirements of \$2.7 million, payment of deferred financing costs of \$3.0 million and repayments of long-term debt of \$0.7 million. During the nine months ended September 30, 2010, cash flows provided by financing activities amounted to \$50.9 million, and primarily consisted of proceeds of \$67.6 million relating to the additional issuance of 11% Notes, offset by distributions to noncontrolling partners of \$7.0 million, payment of dividends of \$6.0 million, payment of deferred financing costs of \$1.5 million, the purchase of treasury shares for income tax withholding requirements of \$1.7 million, and repayments of long-term debt of \$0.8 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% Notes due 2016. 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 November 26, 2009.

On May 14, 2010, the Company and its wholly-owned subsidiaries, as guarantors, issued and sold an additional \$65 million aggregate principal amount of 11% 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 \$67.2 million, which included an original issue premium of \$2.6 million, and underwriter fees of \$0.4 million. 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.

On April 19, 2011, the Company and its wholly-owned subsidiaries, as guarantors, issued and sold an additional \$55 million aggregate principal amount of 11% 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 \$59.6 million, which included an original issue premium of \$6.1 million, and underwriter fees of \$1.5 million. 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.

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.

Revolving Credit Agreement

On October 23, 2009, the Company and its subsidiaries entered into a \$75 million five year senior secured revolving credit agreement (the "WF Credit Agreement") with Wells Fargo Capital Finance, LLC (formerly Wells Fargo Foothill, LLC), as agent, and the lenders from time to time party thereto. On November 22, 2010, this agreement was amended to increase the availability under the facility to \$100 million. On April 29, 2011, the Company entered into an additional amendment to increase the availability under the facility to \$150 million and extend the maturity date to October 23, 2015. The WF Credit Agreement replaced the Company's prior \$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 Loans bear interest at the LIBOR Rate (as defined) and (ii) Base Rate Loans bear interest at the Base Rate (as defined), plus (b) an applicable margin. The applicable margin for borrowings as of September 30, 2011 is 2.25% in the case of Base Rate Loans and 2.50% 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 total leverage ratio, a fixed charge coverage ratio, a minimum receivables level, and a minimum earnings level, as defined.

Debt as of September 30, 2011 was \$395.0 million, an increase of \$108.8 million, compared with \$286.2 million outstanding at December 31, 2010. This increase in debt was a result of the additional issuance of \$55 million of 11% Senior Notes and borrowings under the revolving credit agreement. After giving effect to the limitations contained in the 11% Senior Notes indenture, at September 30, 2011, approximately \$32 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, or if the Company uses the maximum available amount 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) senior leverage ratio, (ii) total leverage ratio, (iii) fixed charges ratio, and (iv) minimum earnings before interest, taxes and depreciation and amortization and (v) minimum accounts receivable level, in each case as such term is specifically defined in the WF Credit Agreement. For the period ended September 30, 2011, the Company's calculation of each of these covenants, and the specific requirements under the WF Credit Agreement, respectively, were as follows:

	September 30, 2011
Total Senior Leverage Ratio	0.51
Maximum per covenant	2.0
Total Leverage Ratio	3.79
Maximum per covenant	4.15
Fixed Charges Ratio	1.85
Minimum per covenant	1.25
Earnings before interest, taxes, depreciation and amortization	\$ 103.7 million
Minimum per covenant	\$ 94.6 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 WF Credit Agreement, 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 September 30, 2011. The actual amount that the Company pays in connection with the obligations may differ materially from this estimate. At September 30, 2011, there was \$111.7 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 2011 to 2018. It is not determinable, at this time, if or when the owners of these put option rights will exercise all or a portion of these rights.

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

Management estimates, assuming that the subsidiaries owned by the Company at September 30, 2011, 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 \$40.2 million to the owners of such rights to acquire such ownership interests in the relevant subsidiaries. Of this amount, the Company is entitled, at its option, to fund approximately \$3.8 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 \$64.6 million only upon termination of such owner's employment with such applicable subsidiary or death. The Company intends to finance the cash portion of these contingent payment obligations using available cash from operations, borrowings under the WF Credit 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 \$4.6 million of the estimated \$40.2 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 \$9.3 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)	2011	2012	2013	2014	2015 & Thereafter	Total
	(\$ Millions)					
Cash	\$ 4.1	\$ 14.4	\$ 5.9	\$ 3.8	\$ 8.2	\$ 36.4
Shares	0.5	0.8	1.2	0.7	0.6	3.8
	\$ 4.6	\$ 15.2	\$ 7.1	\$ 4.5	\$ 8.8	\$ 40.2(1)
Operating income before depreciation and amortization to be received(2)	\$ 2.8	\$ 1.7	\$ 1.2	\$ 0.8	\$ 2.8	\$ 9.3
Cumulative operating income before depreciation and amortization(3)	\$ 2.8	\$ 4.5	\$ 5.7	\$ 6.5	\$ 9.3	(5)

(1) This amount in addition to put options only exercisable upon termination not within the control of the Company, or death, of \$54.5 million, 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 2010 and first quarter 2011 operating results. This amount represents additional amounts to be attributable to MDC Partners Inc., 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 arrangement. 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.

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. The Company's acquisition strategy has been focused on acquiring the expertise of an assembled workforce in order to continue to build upon the core capabilities of its various strategic business platforms to better serve the Company's clients. Consistent with the acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed in 2011, 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 three and nine months ended September 30, 2011, \$1.8 million and \$0.8 million of expense was recognized related to charges in estimated value. For the three and nine months ended September 30, 2010, \$1.6 million and \$3.0 million has been charged to operating income. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests are recorded as Redeemable Noncontrolling Interests. As of January 1, 2009, the Company expenses acquisition related costs in accordance with the Accounting Standard's Codification's new guidance on acquisition accounting. For the three and nine months ended September 30, 2011, \$0.3 million and \$1.1 million, respectively, of acquisition related costs have been charged to operations. For the three and nine months ended September 30, 2010, \$0.9 million and \$1.7 million, respectively, of acquisition related costs have been 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 June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (“ASU 2011-05”) Under ASU 2011-05, an entity will have the option to present comprehensive income on the income statement or as a separate financial statement. ASU 2011-05 is effective January 1, 2012 and requires retrospective adoption. ASU 2011-05 affects financial statement presentation only and has no effect on results of operations or financial position.

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 did 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 did not have an effect on our results of operation or our financial position.

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.

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, earnings guidance, 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 spending patterns and 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 the WF Credit 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 2010 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 September 30, 2011, 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 \$47.6 million, as of September 30, 2011, a 1.0% increase or decrease in the weighted average interest rate, which was 3.9% at September 30, 2011, would have an \$0.5 million interest impact.

Foreign Exchange: The Company conducts business in five currencies, the US dollar, the Canadian dollar, Jamaican dollar, the Euro, 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 September 30, 2011.

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 third quarter of 2011 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There are no material changes in the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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

None

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

November 3, 2011

EXHIBIT INDEX

Exhibit No.	Description
10.1	Seventh Amendment, dated September 21, 2011, to Credit Agreement, dated as of October 23, 2009 by and among the Company, Maxxcom Inc., a Delaware corporation, each of their subsidiaries party thereto, Wells Fargo Capital Finance, LLC (formerly Wells Fargo Foothill, LLC), as agent, and the lenders party thereto.*
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.