MDC PARTNERS INC
Form 10-Q
May 10, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
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: 001-13718
MDC Partners Inc.
(Exact name of registrant as specified in its charter)

Canada	98-0364441
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
745 Fifth Avenue New York, New York	10151
(Address of principal executive offices)	(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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated Filer x	Accelerated filer ¨
Non-accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
Emerging growth company ¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The numbers of shares outstanding as of May 3, 2018 were: 59,809,581 Class A subordinate voting shares, 3,755 Class B multiple voting shares, and 95,000 Series 4 Convertible Preference Shares.

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MDC PARTNERS INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
MDC PARTNERS INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(thousands of United States dollars, except per share amounts)

	Three Months Ended March 31, 2018	2017
Revenue:		
Services	$326,968	$344,700
Operating expenses:		
Cost of services sold	243,030	237,563
Office and general expenses	83,879	87,840
Depreciation and amortization	12,375	10,898
Other asset impairment	2,317	—
	341,601	336,301
Operating profit (loss)	(14,633)	8,399
Other Income (Expense):		
Other, net	(6,219)	2,567
Interest expense and finance charges	(16,231)	(16,768)
Interest income	148	227
	(22,302)	(13,974)
Loss before income taxes and equity in earnings (losses) of non-consolidated affiliates	(36,935)	(5,575)
Income tax expense (benefit)	(8,330)	3,969
Loss before equity in earnings of non-consolidated affiliates	(28,605)	(9,544)
Equity in earnings (losses) of non-consolidated affiliates	86	(139)
Net loss	(28,519)	(9,683)
Net income attributable to noncontrolling interests	(897)	(883)
Net loss attributable to MDC Partners Inc.	(29,416)	(10,566)
Accretion on convertible preference shares	(2,027)	(507)
Net loss attributable to MDC Partners Inc. common shareholders	$(31,443)	$(11,073)
Loss per common share:		
Basic and diluted		
Net loss attributable to MDC Partners Inc. common shareholders	$(0.56)	$(0.21)
Weighted Average Number of Common Shares Outstanding:		
Basic and diluted	56,415,042	52,998,244
Stock-based compensation expense is included in the following line items above:		
Cost of services sold	$3,347	$3,511
Office and general expenses	1,690	1,439
Total	$5,037	$4,950

See notes to the unaudited condensed consolidated financial statements.

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MDC PARTNERS INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(thousands of United States dollars)

	Three Months Ended March 31,	
	2018	2017
Comprehensive Income (Loss)		
Net loss	$(28,519)	$(9,683)
Other comprehensive income, net of applicable tax:		
Foreign currency translation adjustment	2,278	68
Other comprehensive income	2,278	68
Comprehensive loss for the period	(26,241)	(9,615)
Comprehensive loss (income) attributable to the noncontrolling interests	204	(1,148)
Comprehensive loss attributable to MDC Partners Inc.	$(26,037)	$(10,763)

See notes to the unaudited condensed consolidated financial statements.

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

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$29,202	$46,179
Cash held in trusts	4,467	4,632
Accounts receivable, less allowance for doubtful accounts of $2,524 and $2,453	424,918	434,072
Expenditures billable to clients	57,885	31,146
Other current assets	36,273	26,742
Total Current Assets	552,745	542,771
Fixed assets, at cost, less accumulated depreciation of $120,119 and $123,599	85,370	90,306
Investments in non-consolidated affiliates	6,442	6,307
Goodwill	832,510	835,935
Other intangible assets, net	66,353	70,605
Deferred tax assets	126,252	115,325
Other assets	31,405	37,643
Total Assets	$1,701,077	$1,698,892
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND SHAREHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	$202,724	$244,527
Trust liability	4,467	4,632
Accruals and other liabilities	290,003	327,812
Advance billings	210,245	148,133
Current portion of long-term debt	322	313
Current portion of deferred acquisition consideration	40,909	50,213
Total Current Liabilities	748,670	775,630
Long-term debt, less current portion	942,806	882,806
Long-term portion of deferred acquisition consideration	82,822	72,213
Other liabilities	55,197	54,110
Deferred tax liabilities	6,899	6,760
Total Liabilities	1,836,394	1,791,519
Redeemable Noncontrolling Interests (Note 2)	54,345	62,886
Commitments, Contingencies, and Guarantees (Note 13)		
Shareholders' Deficit:		
Convertible preference shares (liquidation preference $103,379)	90,123	90,220
Common shares	353,074	352,432
Charges in excess of capital	(314,662)	(314,241)
Accumulated deficit	(370,586)	(340,000)
Accumulated other comprehensive gain (loss)	1,425	(1,954)
MDC Partners Inc. Shareholders' Deficit	(240,626)	(213,543)
Noncontrolling interests	50,964	58,030
Total Shareholders' Deficit	(189,662)	(155,513)
Total Liabilities, Redeemable Noncontrolling Interests and Shareholders' Deficit	$1,701,077	$1,698,892

See notes to the unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31, 2018	2017
Cash flows from operating activities:		
Net loss	$(28,519)	$(9,683)
Adjustments to reconcile net loss to cash used in operating activities:		
Stock-based compensation	5,037	4,950
Depreciation	8,402	5,600
Amortization of intangibles	3,973	5,298
Amortization of deferred finance charges	807	742
Other asset impairment	2,317	—
Adjustment to deferred acquisition consideration	2,586	11,460
Acquisition-related contingent consideration payment	(6,665)	(2,542)
Deferred income tax	(10,786)	1,906
Loss on sale of assets	19	21
(Earnings) losses of non-consolidated affiliates	(86)	139
Other non-current assets and liabilities	(1,004)	(5,658)
Foreign exchange	6,864	(1,370)
Changes in working capital:		
Accounts receivable	12,358	(39,855)
Expenditures billable to clients	(26,739)	(3,953)
Prepaid expenses and other current assets	(9,734)	(4,270)
Accounts payable, accruals and other liabilities	(76,826)	(10,757)
Advance billings	56,963	14,754
Net cash used in operating activities	(61,033)	(33,218)
Cash flows used in investing activities:		
Capital expenditures	(3,799)	(9,413)
Deposits	—	(1,627)
Other investments	(69)	(50)
Net cash used in investing activities	(3,868)	(11,090)
Cash flows (used in) provided by financing activities:		
Repayments of revolving credit agreement	(250,800)	(381,500)
Proceeds from revolving credit agreement	309,816	331,961
Proceeds from issuance of convertible preference shares	—	95,000
Convertible preference shares issuance costs	—	(510)
Acquisition related payments	(7,422)	(2,641)
Repayment of long-term debt	(79)	(135)
Purchase of shares	(456)	(51)
Distributions to noncontrolling interests	(3,295)	(2,471)
Payment of dividends	(146)	(22)
Net cash provided by financing activities	47,618	39,631
Effect of exchange rate changes on cash and cash equivalents	306	(58)
Decrease in cash and cash equivalents	(16,977)	(4,735)
Cash and cash equivalents at beginning of period	46,179	27,921
Cash and cash equivalents at end of period	$29,202	$23,186

Supplemental disclosures:		
Cash income taxes paid	$1,333	$1,293
Cash interest paid	$649	$999
Change in cash held in trusts	$(165)	$36
Non-cash transactions:		
Capital leases	$644	$393
Dividends payable	$307	$716
Deferred acquisition consideration settled through issuance of shares	$—	$5,028
Convertible preference shares issuance costs payable	$—	$4,270

See notes to the unaudited condensed consolidated financial statements.

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MDC PARTNERS INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT
(thousands of United States dollars)

	Convertible Preference Shares		Common Shares		Share Capital to Be Issued		Additional Paid-in Capital	Charges in Excess of Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	MDC Partners Inc. Shareholders' Deficit	Noncontrolling Interests	Total Shareholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount							
Balance at December 31, 2017	95,000	$90,220	56,375,131	$352,432	—	$ —	$ —	$(314,241)	$(340,000)	$(1,954)	$(213,543)	$58,030	$(
Net loss attributable to MDC Partners, Inc.	—	—	—	—	—	—	—	—	(29,416)	—	(29,416)	—	(2
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	—	3,379	3,379	(1,101)	2,
Expenses for convertible preference shares (Note 9)	—	(97)	—	—	—	—	—	—	—	—	(97)	—	(9
Issuance of restricted stock	—	—	109,444	1,097	—	—	(1,097)	—	—	—	—	—	—
Shares acquired and cancelled	—	—	(48,508)	(455)	—	—	—	—	—	—	(455)	—	(4
Stock-based compensation	—	—	—	—	—	—	2,217	—	—	—	2,217	—	2,
Changes in redemption value of redeemable noncontrolling interests	—	—	—	—	—	—	(375)	—	—	—	(375)		(3
Increase (decrease) in noncontrolling interests and redeemable noncontrolling interests from business acquisitions and step-up transactions	—	—	—	—	—	—	(1,166)	—	—	—	(1,166)	—	(1
Changes in noncontrolling interests and	—	—	—	—	—	—	—	—	—	—	—	(5,965)	(5

redeemable noncontrolling interests from changes in ownership interest												
Cumulative effect of adoption of ASC 606 (Note 14)	—	—	—	—	—	—	—	(1,170)	—	(1,170)	—	(1
Transfer to charges in excess of capital	—	—	—	—	—	421	(421)	—	—	—		—
Balance at March 31, 2018	95,000	$90,123	56,436,067	$353,074	$ —	$ —	$(314,662)	$(370,586)	$1,425	$(240,626)	$50,964	$(

See notes to the unaudited condensed consolidated financial statements.

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

1. Basis of Presentation

MDC Partners Inc. (the “Company” or “MDC”) 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 of the United States of America (“U.S. 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.

References herein to “Partner Firms” generally refer to the Company’s subsidiary agencies.

These statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

2. Significant Accounting Policies

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

Principles of Consolidation. The accompanying 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.

Reclassifications. In August 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2016-15, Statement of Cash Flows, which clarifies how cash receipts and cash payments in certain transactions are presented and classified on the statement of cash flows. The new pronouncement states that any cash payments made soon after the acquisition date of a business to settle a contingent consideration liability are classified as cash outflows for investing activities. Cash payments which are not made soon after the acquisition date of a business to settle a contingent consideration liability are separated and classified as cash outflows for financing activities up to the amount of the contingent consideration liability recognized at the acquisition date and as cash outflows from operating activities for any excess. The Company adopted the provisions of ASU 2016-15 on January 1, 2018 on a retrospective basis. As a result, $2,542 of an acquisition-related contingent consideration payment of $5,183, which was in excess of the liability initially recognized at the acquisition date, has been classified as a cash outflow within net cash provided by operating activities in the accompanying unaudited condensed consolidated statement of cash flows for the three months ended March 31, 2017.

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

Fair Value. The Company applies the fair value measurement guidance of the FASB Accounting Standards Codification (“ASC”) Topic 820, Fair Value Measurements, for financial assets and liabilities that are required to be measured at fair value and for non-financial assets and liabilities that are not required to be measured at fair value on a recurring basis, including goodwill and other identifiable intangible assets. The measurement of fair value requires the use of techniques based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. The inputs create the following fair value hierarchy:

- Level 1 - Quoted prices for identical instruments in active markets.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations where inputs are observable or where significant value

drivers are observable.

- Level 3 - Instruments where significant value drivers are unobservable to third parties.

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When available, the Company uses quoted market prices to determine the fair value of its financial instruments and classifies such items in Level 1. In some cases, quoted market prices are used for similar instruments in active markets and the Company classifies such items in Level 2.

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. No client accounted for more than 10% of the Company's consolidated accounts receivable at March 31, 2018 and December 31, 2017. No client accounted for 10% of the Company's revenue for the three months ended March 31, 2018 or the three months ended March 31, 2017.

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 of credit risk in that there are cash deposits in excess of federally insured amounts.

Cash in Trust. A subsidiary of the Company holds restricted cash in trust accounts related to funds received on behalf of clients. Such amounts are held in escrow under depositary service agreements and distributed at the direction of the clients. The funds are presented as a corresponding liability on the balance sheet.

Allowance for Doubtful Accounts. Trade receivables are stated at invoiced amounts less allowances for doubtful accounts. The allowances represent estimated uncollectible receivables associated with potential customer defaults usually due to customers' potential insolvency. The allowances include amounts for certain customers where a risk of default has been specifically identified. The assessment of the likelihood of customer defaults is based on various factors, including the length of time the receivables are past due, historical experience and existing economic conditions.

Fixed Assets. Fixed assets are stated at cost, net of accumulated depreciation. Computers, furniture and fixtures are depreciated on a straight-line basis over periods of three to seven years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the term of the related lease or the estimated useful life of the asset. Repairs and maintenance costs are expensed as incurred.

Impairment of Long-lived Assets. In accordance with the FASB ASC, a long-lived asset or asset group is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, the Company compares the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group to the carrying amount of such asset or asset group. If this comparison indicates that there is an impairment, the amount of the impairment is typically calculated using discounted expected future cash flows where observable fair values are not readily determinable. The discount rate applied to these cash flows is based on the Company's weighted average cost of capital ("WACC"), risk adjusted where appropriate. During the three months ended March 31, 2018, the Company recognized an impairment of $2,317 related to a long-lived asset.

Equity Method Investments. The equity method is used to account for investments in entities in which the Company has an ownership interest of less than 50% and has significant influence, or joint control by contractual arrangement, (i) over the operating and financial policies of the affiliate or (ii) has an ownership interest greater than 50%; however, the substantive participating rights of the noncontrolling interest shareholders preclude the Company from exercising unilateral control over the operating and financial policies of the affiliate. The Company's investments that were accounted for using the equity method include various interests in investment funds. The Company's management periodically evaluates these investments to determine if there has been a decline in value that is other than temporary. These investments are included in investments in non-consolidated affiliates.

Cost Method Investments. From time to time, the Company makes non-material cost based investments in start-up advertising technology companies and innovative consumer product companies where the Company does not exercise significant influence over the operating and financial policies of the investee. The total net cost basis of these investments, which is included in Other Assets on the balance sheet as of March 31, 2018 and December 31, 2017, was $9,462 and $9,527, respectively. In addition, the Company's partner agencies may receive noncontrolling equity interests from start-up companies in lieu of fees. The Company adopted FASB ASU 2016-01 effective January 1,

2018. See Note 14 for discussion.

Goodwill and Indefinite Lived Intangibles. In accordance with the FASB ASC topic, Goodwill and Other Intangible Assets, goodwill and indefinite life intangible assets (trademarks) acquired as a result of a business combination which are not subject to amortization are tested for impairment annually as of October 1st of each year, or more frequently if indicators of potential impairment exist. For goodwill, impairment is assessed at the reporting unit level. For the three months ended March 31, 2018 and the year ended December 31, 2017, goodwill was $832,510 and $835,935, respectively. For the three months ended March 31, 2018 and the three months ended March 31, 2017, the changes in the carrying amounts during the periods were due to net foreign exchange translation adjustments.

Business Combinations. Business combinations are accounted for using the acquisition method and accordingly, the assets acquired (including identified intangible assets), the liabilities assumed and any noncontrolling interest in the acquired business

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are recorded at their acquisition date fair values. The Company's acquisition model typically provides for an initial payment at closing and for future additional contingent purchase price obligations. Contingent purchase price obligations are recorded as deferred acquisition consideration on the balance sheet at the acquisition date fair value and are remeasured at each reporting period. Changes in such estimated values are recorded in the results of operations. For further information see Notes 5 and 10 of the Notes to the Unaudited Condensed Consolidated Financial Statements included herein. For the three months ended March 31, 2018 and 2017, $2,586 and $11,431 of expense related to changes in such estimated values and was recorded in results of operations. The Company expenses acquisition related costs as incurred. For the three months ended March 31, 2018 and 2017, $376 and $234, respectively, of acquisition related costs were 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. 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 acquired is derived from customer relationships, including the related customer contracts, as well as trade names. In executing the Company's overall acquisition strategy, one of the primary drivers in identifying and executing a specific transaction is the existence of, or the ability to expand the existing, client relationships. The expected benefits of the Company's acquisitions are typically shared across multiple agencies and regions.

Redeemable Noncontrolling Interests. Many of the Company's acquisitions include contractual arrangements where the noncontrolling shareholders have an option to purchase, or may require the Company to purchase, such noncontrolling shareholders' incremental ownership interests under certain circumstances and the Company has similar call options under the same contractual terms. The amount of consideration under these contractual arrangements is not a fixed amount, but rather is dependent upon various valuation formulas as described in Note 13 of the Notes to the Unaudited Condensed Consolidated Financial Statements included herein. In the event that an incremental purchase may be required of the Company, the amounts are recorded as redeemable noncontrolling interests in mezzanine equity on the balance sheet at their acquisition date fair value and adjusted for changes to their estimated redemption value through additional paid-in capital (but not less than their initial redemption value), except for foreign currency translation adjustments. These adjustments will not impact the calculation of earnings (loss) per share if the redemption values are less than the estimated fair values. For the three months ended March 31, 2018 and 2017, there was no related impact on the Company's loss per share calculation.

The following table presents changes in redeemable noncontrolling interests:

	Three Months Ended March 31, 2018	Year Ended December 31, 2017
Beginning Balance	$62,886	$60,180
Redemptions	(8,858)	(910)
Granted	—	1,666
Changes in redemption value	375	1,498
Currency translation adjustments	(58)	452
Ending Balance	$54,345	$62,886

Subsidiary and Equity Investment Stock Transactions. Transactions involving the purchase, sale or issuance of stock of a subsidiary where control is maintained are recorded as a reduction in the redeemable noncontrolling interests or noncontrolling interests, as applicable. Any difference between the purchase price and noncontrolling interest is recorded to additional paid-in capital. In circumstances where the purchase of shares of an equity investment results in obtaining control, the existing carrying value of the investment is remeasured to the acquisition date fair value and any gain or loss is recognized in results of operations.

Variable Interest Entity. Effective March 28, 2012, the Company invested in Doner Partners LLC (“Doner”). The Company acquired a 30% voting interest and convertible preferred interests that allow the Company to increase ordinary voting ownership to 70% at the Company’s option. Effective April 1, 2017, the Company acquired an additional 15% voting and convertible preferred interest that allowed the Company to increase ordinary voting ownership to 85% at the Company’s option. The Company now has a 65% voting interest. The Company has determined that (i) this entity is a variable interest entity, and (ii) the Company is the primary beneficiary because it receives a disproportionate share of profits and losses as compared to its ownership percentage. As such, Doner is consolidated for all periods subsequent to the date of investment.

Doner is a full service integrated creative agency that is included as part of the Company’s portfolio in the Global Integrated Agencies segment. The Company’s Credit Agreement (see Note 7) is guaranteed and secured by all of Doner’s assets.

Total assets and total liabilities of Doner included in the Company’s condensed consolidated balance sheet at March 31, 2018 were $96,659 and $50,997, respectively, and at December 31, 2017 were $105,191 and $59,783, respectively.

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Guarantees. Guarantees issued or modified by the Company to third parties after January 1, 2003 are generally recognized at the inception or modification of the guarantee as a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The initial measurement of that liability is the fair value of the guarantee. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee. The Company's liability associated with guarantees is not significant. See Note 13 for further information.

Revenue Recognition. Effective January 1, 2018, the Company adopted FASB ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"). ASC 606 was applied using the modified retrospective method, with the cumulative effect of the initial adoption being recognized as an adjustment to opening retained earnings at January 1, 2018. As a result, comparative prior periods have not been adjusted and continue to be reported under FASB ASC Topic 605, Revenue Recognition ("ASC 605"). See Note 14 for additional details surrounding the Company's adoption of ASC 606. The Company's policy surrounding revenue under ASC 605 is described in Note 2 of Item 8 of the Company's Form 10-K for the year ended December 31, 2017. The policies described herein refer to those in effect as of January 1, 2018.

The Company's revenue recognition policies are established in accordance with the Revenue Recognition topics of ASC 606, and accordingly, revenue is recognized when control of the promised goods or services is transferred to our clients, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. The primary source of the Company's revenue is from agency arrangements in the form of fees for services performed, commissions, and from performance incentives or bonuses, depending on the terms of the client contract. In all circumstances, revenue is only recognized when collection is reasonably assured. Certain of the Company's contractual arrangements have more than one performance obligation. For such arrangements, revenue is allocated to each performance obligation based on its relative stand-alone selling price. Stand-alone selling prices are determined based on the prices charged to clients or using expected cost plus margin.

Revenue is recognized net of sales and other taxes due to be collected and remitted to governmental authorities. The Company's contracts typically provide for termination by either party within 30 to 90 days. Although payment terms vary by client, they are typically within 30 to 60 days. In addition, the Company generally have the right to payment for all services provided through the end of the contract or termination date.

Although certain of our performance obligations are recognized at a point in time, we typically satisfy our performance obligations over time, as services are performed. Point in time recognition primarily relates to certain commission-based contracts, which are recognized upon the placement of advertisements in various media when the Company has no further performance obligation. Fees for services are typically recognized using input methods that correspond with efforts incurred to date in relation to total estimated efforts to complete the contract.

Within each contract, we identify whether the Company is principal or agent at the performance obligation level. In arrangements where the Company has substantive control over the service before transferring it to the client, and is primarily responsible for integrating the services into the final deliverables, we act as principal. In these arrangements, revenue is recorded at the gross amount billed. Accordingly, for these contracts the Company has included reimbursed expenses in revenue. In other arrangements where a third-party supplier, rather than the Company is primarily responsible for the integration of services into the final deliverables for our client, then we generally act as agent and record revenue equal to the net amount retained, when the fee or commission is earned. We have determined that we primarily act as agent for production and media buying services.

A small portion of the Company's contractual arrangements with clients include performance incentive provisions, which allow the Company to earn additional revenues as a result of its performance relative to both quantitative and qualitative goals. Incentive compensation is primarily estimated using the most likely amount method and is included in revenue up to the amount that is not expected to result in a reversal of a significant amount of cumulative revenue recognized. We recognize revenue related to performance incentives as we satisfy the performance obligation to which the performance incentives are related.

Cost of Services Sold. Cost of services sold primarily consists of staff costs and does not include depreciation charges for fixed assets.

Interest Expense. Interest expense primarily consists of the cost of borrowing on the Company's currently outstanding 6.50% senior unsecured notes due 2024 (the "6.50% Notes") and the Company's $325,000 senior secured revolving credit agreement due 2021 (the "Credit Agreement"). The Company uses the effective interest method to amortize the deferred financing costs on the 6.50% Notes. The Company uses the straight-line method to amortize the deferred financing costs on the Credit Agreement. For the three months ended March 31, 2018 and 2017, interest expense included $11 and $29, respectively, relating to present value adjustments for fixed deferred acquisition consideration payments.

Income Taxes. The Company's U.S. operating units are generally structured as limited liability companies, which are treated as either partnerships or flow-throughs for tax purposes. The Company is only taxed on its share of the profits, while noncontrolling holders are responsible for taxes on their share of the profits. Deferred income taxes reflect the tax effects of temporary differences

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between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as the tax effect of carryforwards. 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. Realization of our deferred income tax assets is evaluated by management on a quarterly basis and is based upon all available positive and negative evidence. The Company currently has a valuation allowance in various jurisdictions where management believes it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

Our tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete items arising in the quarter. Our 2018 effective tax rate of 24.1% differs from the Canadian statutory rate of 26.5% primarily due to exclusion of income attributable to minority interest from the annual forecasted income as well as foreign tax credits generated during the quarter, partially offset by U.S. federal tax impact of Global Intangible Low Taxed Income (GILTI) inclusion and Base Erosion and Anti-Abuse Tax (BEAT).

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (the “Tax Act”) was enacted into law and the new legislation contains several key tax provisions, including a reduction of the U.S. corporate income tax rate to 21% effective January 1, 2018. The Company is required to recognize the effect of tax law changes in the period of enactment, which required the Company to re-measure its U.S. deferred tax assets and liabilities and to reassess the net realizability of its deferred tax assets and liabilities. In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which allows the Company to record provisional amounts during a measurement period not to extend beyond one year from the enactment date. The Company recorded a provisional tax expense of $26,674 at year-end related to re-measurement of deferred tax assets and liabilities due to change in corporate tax rate from 35% to 21%. The Company recorded no tax expense related to transition tax.

The Act created a new requirement that Global Intangible Low-Taxed Income (i.e., GILTI) earned by controlled foreign corporations (CFCs) must be included currently in the gross income of the CFCs’ U.S. shareholder. GILTI is the excess of the shareholder’s “net CFC tested income” over the net deemed tangible income return (the “routine return”), which is defined as the excess of (1) 10% of the aggregate of the U.S. shareholder’s pro rata share of the qualified business asset investment (QBAI) of each CFC with respect to which it is a U.S. shareholder over (2) the amount of certain interest expense taken into account in the determination of net CFC-tested income. A deduction is permitted to a domestic corporation in an amount up to 50% of the sum of the GILTI inclusion and the amount treated as a dividend because the corporation has claimed a foreign tax credit (FTC) as a result of the inclusion of the GILTI amount in income.

The Company has included the impact of GILTI in the determination of its annual effective tax rate. The Company is still reviewing the GILTI provisions and analyzing the deferred tax implications. The Company continues to evaluate additional guidance provided by tax authorities as well as expected issuance of additional guidance and as such has not made a policy election on whether to record tax effects of GILTI as a period expense or to record deferred tax assets and liabilities on basis differences that are expected to affect the amount of GILTI inclusion upon reversal.

During the quarter ended March 31, 2018, the Company has been evaluating the application of the provisions of the Act as well as additional guidance provided by the tax authorities during the period. In addition, the Company is anticipating additional guidance from tax authorities and does not have a better estimate of the impact of the Act on its provisional estimate. Accordingly, the Company has not recorded an adjustment to its provisional estimate during the period. The Company expects to complete its analysis within the measurement period in accordance with SAB 118.

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, in this case the award’s vesting period. The Company recognizes forfeitures as they occur. 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.

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 in operating income over the service period, in this case the award’s vesting period. Changes in the Company’s payment obligation prior to the settlement date of a stock-based award are recorded as compensation cost in operating income in the period of the change. The final payment amount for such awards is established on the date of the exercise of the award by the employee.

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

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It is the Company's policy for issuing shares upon the exercise and/or vesting 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 to deliver 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. The Company commences recording compensation expense related to awards that are based on performance conditions under the straight-line attribution method when it is probable that such performance conditions will be met.

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

From time to time, certain acquisitions and step-up transactions include an element of compensation related payments. The Company accounts for those payments as stock-based compensation.

During the three months ended March 31, 2018, the Company issued 74,950 shares of restricted stock and restricted stock units (collectively, "RSUs") to its employees and directors. The RSUs have an aggregate grant date fair value of $681 and generally vest on the third anniversary of the date of grant. In addition, during the first quarter of 2018, the Company issued RSUs of which 413,181 awarded shares were outstanding as of March 31, 2018. However, the vesting of these awards is contingent upon the Company meeting a cumulative three year financial performance target and continued employment through the March 1, 2021 vesting date. These RSU awards do not yet have an established grant date fair value because the financial performance target is not yet established. Once the Company defines the financial performance target, and assuming the achievement of such performance targets is expected, the grant date is established and the Company will record the compensation expense over the vesting period. Additionally, there were 930,600 RSUs and 503,321 RSUs outstanding as of March 31, 2018 which were granted during the first quarter of 2017 and 2016, respectively, which are contingent upon the Company meeting cumulative three-year financial performance targets and continued employment through March 1, 2020 and March 1, 2019, respectively. During the three months ended March 31, 2018, the performance targets for the awards granted in 2016 were established, resulting in a grant date of January 18, 2018. These awards have an aggregate grant date fair value of $4,514. The performance targets for the awards granted in 2017 have yet to be established, and therefore a grant date has not occurred as of March 31, 2018.

Income (Loss) per Common Share. Basic income (loss) per common share is based upon the weighted average number of common shares outstanding during each period. Share capital to be issued, as reflected in the shareholders' deficit on the balance sheet, are also included if there is no circumstance under which those shares would not be issued. Diluted income (loss) per common share is based on the above, in addition, if dilutive, it also includes common share equivalents, which include outstanding options, stock appreciation rights, and unvested restricted stock units. In periods of net loss, all potentially issuable common shares are excluded from diluted net loss per common share because they are anti-dilutive.

During the first quarter of 2017, the Company issued and sold 95,000 newly authorized Series 4 Convertible Preference Shares (the "Preference Shares") in a private placement. The two-class method is applied to calculate basic net income (loss) attributable to MDC Partners, Inc. per common share in periods in which shares of convertible preference shares were outstanding, as shares of convertible preference shares are participating securities due to their dividend rights. See Notes 8 and 9 of the Notes to the Unaudited Condensed Consolidated Financial Statements included herein for further information. The two-class method is an earnings allocation method under which earnings per share is calculated for common stock considering a participating security's rights to undistributed earnings as if all such earnings had been distributed during the period. Either the two-class method or the if-converted method is applied to calculate diluted net income per common share, depending on which method results in more dilution. The Company's participating securities are not included in the computation of net loss per common share in periods of net loss because the convertible preference shareholders have no contractual obligation to participate in losses.

Foreign Currency Translation. The Company's financial statements were prepared in accordance with the requirements of FASB ASC Topic 830, Foreign Currency Matters. The functional currency of the Company is the Canadian dollar and it has decided to use U.S. dollars as its reporting currency for consolidated reporting purposes. Generally, the Company's subsidiaries use their local currency as their functional currency. Accordingly, the currency impacts of the translation of the balance sheets of the Company and its non-U.S. dollar based subsidiaries to U.S. dollar statements are included as cumulative translation adjustments in accumulated other comprehensive income. Translation of intercompany debt, which is not intended to be repaid, is included in cumulative translation adjustments. Cumulative translation adjustments are not included in net earnings unless they are actually realized through a sale or upon complete or substantially complete liquidation of the Company's net investment in the foreign operation. Translation of current intercompany balances are included in net earnings. The balance sheets of non-U.S. dollar based subsidiaries are translated at the period end rate. The income statements of the Company and its non-U.S. dollar based subsidiaries are translated at average exchange rates for the period.

Gains and losses arising from the Company's foreign currency transactions are reflected in net earnings. Unrealized gains or losses arising on the translation of certain intercompany foreign currency transactions that are of a long-term nature (that is settlement is not planned or anticipated in the future) are included as cumulative translation adjustments in accumulated other comprehensive loss.

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3. Revenue

Disaggregated Revenue Data

The Company provides a broad range of services to a large base of clients across the full spectrum of industry verticals on a global basis. The primary source of revenue is from agency arrangements in the form of fees for services performed, commissions, and from performance incentives or bonuses. Certain clients may engage with the Company in various geographic locations, across multiple disciplines, and through multiple Partner Firms. Representation of a client rarely means that MDC handles marketing communications for all brands or product lines of the client in every geographical location. The Company's Partner firms often cooperate with one another through referrals and the sharing of both services and expertise, which enables MDC to service clients' varied marketing needs by crafting custom integrated solutions. Additionally, the Company maintains separate, independent operating companies to enable it to effectively manage potential conflicts of interest by representing competing clients across the MDC network.

The following table presents revenue disaggregated by industry vertical for the three months ended March 31, 2018, and the impact of adoption of ASC 606:

		For the three months ended March 31, 2018			
Industry	Reportable Segment	As reported	Adjustment to exclude impact of Adoption of ASC 606	Adjusted	2017
Food & Beverage	All	$64,285	$ 6,805	$71,090	$62,273
Retail	All	35,772	840	36,612	43,324
Consumer Products	All	31,802	132	31,934	37,922
Communications	All, excluding Domestic Creative Agencies	29,657	3,311	32,968	35,728
Automotive	All, excluding Domestic Creative Agencies	20,494	4,218	24,712	32,354
Technology	All	34,144	2,835	36,979	30,550
Healthcare	All	33,170	968	34,138	28,069
Financials	All	21,838	285	22,123	19,983
Transportation and Travel/Lodging	All	14,848	697	15,545	13,213
Other	All	40,958	1,185	42,143	41,284
		$326,968	$ 21,276	$348,244	344,700

MDC has historically largely focused where the Company was founded in North America, the largest market for its services in the world. In recent years the Company has expanded its global footprint to support clients looking for help to grow their businesses in new markets. Today, MDC's Partner Firms are located in the United States, Canada, and an additional thirteen countries around the world. In the past, some clients have responded to weakening economic conditions with reductions to their marketing budgets, which included discretionary components that are easier to reduce in the short term than other operating expenses.

The following table presents revenue disaggregated by geography:

		For the three months ended March 31, 2018			
Geographic Location	Reportable Segment	As reported	Adjustment to exclude impact of	Adjusted	2017

			Adoption of ASC 606		
United States	All	$256,524	$ 9,018	$265,542	$274,682
Canada	All, excluding Media Services	26,379	953	27,332	26,470
Other	All	44,065	11,305	55,370	43,548
		$326,968	$ 21,276	$348,244	$344,700

For more detailed information about the Company's reportable segments, see Note 12.

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Contract assets and liabilities

Contract assets consist of fees and reimbursable outside vendor costs incurred on behalf of clients when providing advertising, marketing and corporate communications services that have not yet been invoiced to clients. Unbilled service fees were $75,363 and $54,177 at March 31, 2018 and December 31, 2017, respectively, and are included as a component of accounts receivable on the unaudited condensed consolidated balance sheets. Outside vendor costs incurred on behalf of clients which have yet to be invoiced were $57,885 and $31,146 at March 31, 2018 and December 31, 2017, respectively, and are included on the unaudited condensed consolidated balance sheets as expenditures billable to clients. Such amounts are invoiced to clients at various times over the course of the production process.

Contract liabilities consist of fees billed to clients in excess of fees recognized as revenue and are classified as advance billings on the Company's unaudited condensed consolidated balance sheets. Advance billings at March 31, 2018 and December 31, 2017 were $210,245 and $148,133, respectively. The increase in the advance billings balance of $62,112 for the three months ended March 31, 2018 is primarily driven by cash payments received or due in advance of satisfying our performance obligations, offset by $72,160 of revenues recognized that were included in the advance billings balances as of December 31, 2017.

Changes in the contract asset and liability balances during the three months ended March 31, 2018 and December 31, 2017 were not materially impacted by write-offs, impairment losses or any other factors.

Practical expedients

In adopting ASC 606, the Company applied the practical expedient to not disclose information about remaining performance obligations that have original expected durations of one year or less. Amounts related to those performance obligations with expected durations of greater than one year are immaterial.

4. Loss Per Common Share

The following table sets forth the computation of basic and diluted loss per common share:

	Three Months Ended March 31,	
	2018	2017
Numerator		
Net loss attributable to MDC Partners Inc.	$(29,416)	$(10,566)
Accretion on convertible preference shares	(2,027)	(507)
Net income allocated to convertible preference shares	—	—
Numerator for basic loss per common share - Net loss attributable to MDC Partners Inc. common shareholders	(31,443)	(11,073)
Effect of dilutive securities:	—	—
Numerator for diluted loss per common share- Net loss attributable to MDC Partners Inc. common shareholders	$(31,443)	$(11,073)
Denominator		
Denominator for basic loss per common share - weighted average common shares	56,415,042	52,998,244
Effect of dilutive securities:	—	—
Denominator for diluted loss per common share - adjusted weighted shares and assumed conversions	56,415,042	52,998,244
Basic loss per common share	$(0.56)	$(0.21)
Diluted loss per common share	$(0.56)	$(0.21)

As of March 31, 2018, options and other rights to purchase 1,561,856 shares of common stock were outstanding, all of which were anti-dilutive during the three months ended March 31, 2018, and therefore excluded from the computation of diluted loss per common share. Additionally, 1,343,781 shares of non-vested restricted stock and restricted stock unit awards, which are contingent upon the Company meeting an undefined cumulative three year earnings target and continued employment, are excluded from the computation of diluted income per common share as the contingency has not been satisfied at March 31, 2018. Lastly, there were 95,000 shares of Preference Shares outstanding which were convertible into 10,337,949 Class A common shares at March 31, 2018. These Preference Shares were anti-dilutive for the three months ended March 31, 2018, and are therefore excluded from the diluted loss per common share calculation for the period.

As of March 31, 2017, options and other rights to purchase 1,263,635 shares of common stock were outstanding, of which 898,635 shares of non-vested restricted stock and restricted stock units were anti-dilutive during the three months ended March 31, 2018 and therefore excluded from the computation of diluted income per common share. Additionally, 1,445,921 shares of non-vested restricted stock and restricted stock unit awards, which are contingent upon the Company meeting an undefined cumulative three year earnings target and continued employment, are excluded from the computation of diluted income per common share as the contingency had not been satisfied as of March 31, 2017. Lastly, there were 95,000 shares of Preference Shares outstanding which were convertible into 9,550,667 Class A common shares at March 31, 2017. These Preference Shares were anti-dilutive for the three months ended March 31, 2017 and were therefore excluded from the diluted loss per common share calculation for the period.

5. Acquisitions and Dispositions

Valuations 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. The Company's strategy includes acquiring ownership stakes in well-managed businesses with strong reputations in the industry. The Company's model of "Perpetual Partnership" often involves acquiring a majority interest rather than a 100% interest and leaving management owners with a significant financial interest in the performance of the acquired entity for a minimum period of time, typically not less than five years. The Company's acquisition model in this scenario typically provides for (i) an initial payment at the time of closing, (ii) additional contingent purchase price obligations based on the future performance of the acquired entity, and (iii) an option by the Company to purchase (and in some instances a requirement to so purchase) the remaining interest of the acquired entity under a predetermined formula.

Contingent purchase price obligations. The Company's contingent purchase price obligations are generally payable within a five-year period following the acquisition date, and are based on (i) the achievement of specific thresholds of future earnings, and (ii) in certain cases, the growth rate of those earnings. Contingent purchase price obligations are recorded as deferred acquisition consideration on the balance sheet at the acquisition date fair value and adjusted at each reporting period through operating income or net interest expense, depending on the nature of the arrangement. On occasion, the Company may initiate a renegotiation of previously acquired ownership interests and any resulting change in the estimated amount of consideration to be paid is adjusted in the reporting period through operating income or net interest expense, depending on the nature of the arrangement. See Note 2, 10, and 13 for additional information on deferred acquisition consideration.

Options to purchase. When acquiring less than 100% ownership, the Company may enter into agreements that give the Company an option to purchase, or require the Company to purchase, the incremental ownership interests under certain circumstances. Where the option to purchase the incremental ownership is within the Company's control, the amounts are recorded as noncontrolling interests in the equity section of the Company's balance sheet. Where the incremental purchase may be required of the Company, the amounts are recorded as redeemable noncontrolling interests in mezzanine equity at their estimated acquisition date redemption value and adjusted at each reporting period for changes to their estimated redemption value through additional paid-in capital (but not less than their initial redemption value), except for foreign currency translation adjustments. On occasion, the Company may initiate a renegotiation to acquire an incremental ownership interest and the amount of consideration paid may differ materially from the balance sheet amounts. See Note 13 for additional information on redeemable noncontrolling interests.

Employment conditions. From time to time, specifically when the projected success of an acquisition is deemed to be dependent on retention of specific personnel, such acquisition may include deferred payments that are contingent upon employment terms as well as financial performance. The Company accounts for those payments through operating income as stock-based compensation over the required retention period. For the three months ended March 31, 2018 and 2017, stock-based compensation included $2,829 and $3,268, respectively of expense relating to those payments.

Distributions to noncontrolling shareholders. If noncontrolling shareholders have the right to receive distributions based on the profitability of an acquired entity, the amount is recorded as income attributable to noncontrolling interests. However, there are circumstances when the Company acquires a majority interest and the selling shareholders waive their right to receive distributions with respect to their retained interest for a period of time, typically not less than five years. Under this model, the right to receive such distributions typically begins concurrently with the purchase option period and, therefore, if such option is exercised at the first available date, the Company may not record any noncontrolling interest over the entire period from the initial acquisition date through the acquisition date of the remaining interests.

2018 Acquisitions

Effective January 1, 2018, the Company acquired the remaining 24.5% ownership interest of Allison & Partners LLC for an aggregate purchase price of $10,023, comprised of a closing cash payment of $300 and additional deferred acquisition payments with an estimated present value at the acquisition date of $9,723. The deferred payments are based on the future financial results of the underlying business from 2017 to 2020 with final payments due in 2021. As a result of the transaction, the Company reduced redeemable noncontrolling interests by $8,857. The difference between the purchase price and the noncontrolling interest of $1,166 was recorded in additional paid-in capital.

2017 Acquisitions

In 2017, the Company entered into various non-material transactions in connection with certain of its majority-owned entities. As a result of the foregoing, the Company made total cash closing payments of $3,858, increased fixed deferred consideration

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liability by $7,208, reduced redeemable noncontrolling interests by $816, reduced noncontrolling interests equity by $11,965, reduced noncontrolling interest payable by $397, and increased additional paid-in capital by $2,315. In addition, a stock-based compensation charge of $996 was recognized representing the consideration paid in excess of the fair value of the interest acquired.

2017 Dispositions

In 2017, the Company sold all of its ownership interests in three subsidiaries resulting in recognition of a net loss on sale of business of $1,732. The net assets reflected in the calculation of the net loss on sale was inclusive of goodwill of $17,593. Goodwill was allocated to the subsidiaries based on the relative fair value of the sold subsidiaries compared to the fair value of the respective reporting units. Additionally, the Company recorded a reduction in noncontrolling interests of $10,657. In 2018, the Company subsequently further reduced noncontrolling interests from 2017 by $5,965.

Noncontrolling Interests

Changes in the Company's ownership interests in our less than 100% owned subsidiaries during the three months ended March 31, 2018 and 2017 were as follows:

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

	Three Months Ended March 31,	
	2018	2017
Net loss attributable to MDC Partners Inc.	$(29,416)	$(10,566)
Transfers from the noncontrolling interest:		
Decrease in MDC Partners Inc. paid-in capital for purchase of equity interests in excess of Redeemable Noncontrolling Interests and Noncontrolling Interests	(1,166)	—
Net transfers from noncontrolling interests	$(1,166)	$—
Change from net loss attributable to MDC Partners Inc. and transfers to noncontrolling interests	$(30,582)	$(10,566)

6. Accounts Payable, Accruals and Other Liabilities

At March 31, 2018 and December 31, 2017, accruals and other liabilities included accrued media of $164,462 and $207,482, respectively; and included amounts due to noncontrolling interest holders for their share of profits, which will be distributed within the next twelve months of $8,227 and $11,030, respectively.

Changes in amounts due to noncontrolling interest holders included in accrued and other liabilities for the year ended December 31, 2017 and three months ended March 31, 2018 were as follows:

	Noncontrolling Interests
Balance, December 31, 2016	$ 4,154
Income attributable to noncontrolling interests	15,375
Distributions made	(8,865)
Other [(1)]	366
Balance, December 31, 2017	$ 11,030
Income attributable to noncontrolling interests	897
Distributions made	(3,295)
Other [(1)]	(405)
Balance, March 31, 2018	$ 8,227

(1) Other consists primarily of business acquisitions, sale of a business, step-up transactions, and cumulative translation adjustments.

At March 31, 2018 and December 31, 2017, accounts payable included $25,116 and $41,989 of outstanding checks, respectively.

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7. Debt

The Company’s indebtedness was comprised as follows:

	March 31, 2018	December 31, 2017
Revolving credit agreement	$59,016	$—
6.50% Notes due 2024	900,000	900,000
Debt issuance costs	(16,532)	(17,587)
	942,484	882,413
Obligations under capital leases	644	706
	943,128	883,119
Less: Current portion of long-term debt	322	313
	$942,806	$882,806

6.50% Notes

On March 23, 2016, MDC entered into an indenture (the “Indenture”) among MDC, its existing and future restricted subsidiaries that guarantee, are co-borrowers under, or grant liens to secure, the Credit Agreement, as guarantors (the “Guarantors”) and The Bank of New York Mellon, as trustee, relating to the issuance by MDC of $900,000 aggregate principal amount of the 6.50% Notes. The 6.50% Notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933. The 6.50% Notes bear interest at a rate of 6.50% per annum, accruing from March 23, 2016. Interest is payable semiannually in arrears on May 1 and November 1 of each year, beginning November 1, 2016. The 6.50% Notes mature on May 1, 2024, unless earlier redeemed or repurchased. The Company received net proceeds from the offering of the 6.50% Notes equal to approximately $880,000. The Company used the net proceeds to redeem all of its existing 6.75% Notes, together with accrued interest, related premiums, fees and expenses and recorded a charge for the loss on redemption of such notes of $33,298, including write offs of unamortized original issue premium and debt issuance costs. Remaining proceeds were used for general corporate purposes, including funding of deferred acquisition consideration.

The 6.50% Notes are guaranteed on a senior unsecured basis by all of MDC’s existing and future restricted subsidiaries that guarantee, or are co-borrowers under or grant liens to secure, the Credit Agreement. The 6.50% Notes are unsecured and unsubordinated obligations of MDC and rank (i) equally in right of payment with all of MDC’s or any Guarantor’s existing and future senior indebtedness, (ii) senior in right of payment to MDC’s or any Guarantor’s existing and future subordinated indebtedness, (iii) effectively subordinated to all of MDC’s or any Guarantor’s existing and future secured indebtedness to the extent of the collateral securing such indebtedness, including the Credit Agreement, and (iv) structurally subordinated to all existing and future liabilities of MDC’s subsidiaries that are not Guarantors.

MDC may, at its option, redeem the 6.50% Notes in whole at any time or in part from time to time, on and after May 1, 2019 (i) at a redemption price of 104.875% of the principal amount thereof if redeemed during the twelve-month period beginning on May 1, 2019, (ii) at a redemption price of 103.250% of the principal amount thereof if redeemed during the twelve-month period beginning on May 1, 2020, (iii) at a redemption price of 101.625% of the principal amount thereof if redeemed during the twelve-month period beginning on May 1, 2021, and (iv) at a redemption price of 100% of the principal amount thereof if redeemed on May 1, 2022 and thereafter.

Prior to May 1, 2019, MDC may, at its option, redeem some or all of the 6.50% Notes at a price equal to 100% of the principal amount of the 6.50% Notes plus a “make whole” premium and accrued and unpaid interest. MDC may also redeem, at its option, prior to May 1, 2019, up to 35% of the 6.50% Notes with the proceeds from one or more equity offerings at a redemption price of 106.50% of the principal amount thereof.

If MDC experiences certain kinds of changes of control (as defined in the Indenture), holders of the 6.50% Notes may require MDC to repurchase any 6.50% Notes held by them at a price equal to 101% of the principal amount of the 6.50% Notes plus accrued and unpaid interest. In addition, if MDC sells assets under certain circumstances, it must apply the proceeds from such sale and offer to repurchase the 6.50% Notes at a price equal to 100% of the principal amount plus accrued and unpaid interest.

The Indenture includes covenants that, among other things, restrict MDC’s ability and the ability of its restricted subsidiaries (as defined in the Indenture) to incur or guarantee additional indebtedness; pay dividends on or redeem or repurchase the capital stock of MDC; make certain types of investments; create restrictions on the payment of dividends or other amounts from MDC's restricted subsidiaries; sell assets; enter into transactions with affiliates; create liens; enter into sale and leaseback transactions; and consolidate or merge with or into, or sell substantially all of MDC's assets to, another person. These covenants are subject to a number of important limitations and exceptions. The 6.50% Notes are also subject to customary events of default, including a cross-payment default and cross-acceleration provision. The Company was in compliance with all covenants at March 31, 2018.

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Redemption of 6.75% Notes
On March 23, 2016, the Company redeemed the 6.75% Notes in whole at a redemption price of 103.375% of the principal amount thereof with the proceeds from the issuance of the 6.50% Notes.
Credit Agreement
On March 20, 2013, MDC, Maxxcom Inc. (a subsidiary of MDC) and each of their subsidiaries party thereto entered into an amended and restated, $225,000 senior secured revolving credit agreement due 2018 (the “Credit Agreement”) with Wells Fargo Capital Finance, LLC, as agent, and the lenders from time to time party thereto. Advances under the Credit Agreement are to be used for working capital and general corporate purposes, in each case pursuant to the terms of the Credit Agreement. Capitalized terms used in this section and not otherwise defined have the meanings set forth in the Credit Agreement.
Effective October 23, 2014, MDC and its subsidiaries entered into an amendment to its Credit Agreement. The amendment: (i) expanded the commitments under the facility by $100,000, from $225,000 to $325,000; (ii) extended the date by an additional eighteen months to September 30, 2019; (iii) reduced the base borrowing interest rate by 25 basis points (the applicable margin for borrowing is 1.00% in the case of Base Rate Loans and 1.75% in the case of LIBOR Rate Loans); and (iv) modified certain covenants to provide the Company with increased flexibility to fund its continued growth and other general corporate purposes.
Effective May 3, 2016, MDC and its subsidiaries entered into an additional amendment to its Credit Agreement. The amendment: (i) extends the date by an additional nineteen months to May 3, 2021; (ii) reduces the base borrowing interest rate by 25 basis points; (iii) provides the Company the ability to borrow in foreign currencies; and (iv) certain other modifications to provide additional flexibility in operating the Company’s business.
Advances under the Credit Agreement bear interest as follows: (a)(i) LIBOR Rate Loans bear interest at the LIBOR Rate and (ii) Base Rate Loans bear interest at the Base Rate, plus (b) an applicable margin. The initial applicable margin for borrowing is 1.50% in the case of Base Rate Loans and 1.75% in the case of LIBOR Rate Loans. In addition to paying interest on outstanding principal under the Credit Agreement, MDC is required to pay an unused revolver fee to lenders under the Credit Agreement in respect of unused commitments thereunder.
The Credit Agreement is guaranteed by substantially all of MDC’s present and future subsidiaries, other than immaterial subsidiaries and subject to customary exceptions. The Credit Agreement includes covenants that, among other things, restrict MDC’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 MDC’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 MDC’s assets to, another person. These covenants are subject to a number of important limitations and exceptions. The Credit Agreement also contains financial covenants, including a total leverage ratio, a senior leverage ratio, a fixed charge coverage ratio and a minimum earnings level (each as more fully described in the Credit Agreement). The Credit Agreement is also subject to customary events of default.
The Company is currently in compliance with all of the terms and conditions of its 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 March 31, 2018, there were $59,016 borrowings under the Credit Agreement.
At March 31, 2018, the Company had issued $5,248 of undrawn outstanding letters of credit.
8. Share Capital
The Company’s issued and outstanding share capital is as follows:
Series 4 Convertible Preference Shares
A total of 95,000, non-voting convertible preference shares, all of which were issued and outstanding as of March 31, 2018 and December 31, 2017. See Note 9 for further information.
Class A Common Shares (“Class A Shares”)
An unlimited number of subordinate voting shares, carrying one vote each, entitled to dividends equal to or greater than Class B Shares, convertible at the option of the holder into one Class B Share for each Class A Share after the occurrence of certain events related to an offer to purchase all Class B shares. There were 56,432,312 and 56,371,376

Class A Shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively.

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Class B Common Shares ("Class B Shares")
An unlimited number of voting shares, carrying 20 votes each, convertible at any time at the option of the holder into one Class A share for each Class B share. There were 3,755 Class B Shares issued and outstanding as of March 31, 2018 and December 31, 2017.

9. Convertible Preference Shares

On March 7, 2017 (the "Issue Date"), the Company issued 95,000 newly created Preference Shares to affiliates of The Goldman Sachs Group, Inc. (collectively, the "Purchaser") pursuant to a $95,000 private placement. The Company received proceeds of approximately $90,220, net of fees and estimated expenses, which were primarily used to pay down existing debt under the Company's credit facility and for general corporate purposes. In connection with the closing of the transaction, effective March 7, 2017, the Company increased the size of its Board of Directors (the "Board") to seven members and appointed one nominee designated by the Purchaser. Except as required by law, the Preference Shares do not have voting rights, and are not redeemable at the option of the Purchaser. For the three months ended March 31, 2018, the Company recorded an additional $97 in expenses related to the Preference Share placement.

The holders of the Preference Shares have the right to convert their Preference Shares in whole at any time and from time to time, and in part at any time and from time to time after the ninetieth day following the original issuance date of the Preference Shares, into a number of Class A Shares equal to the then-applicable liquidation preference divided by the applicable conversion price at such time (the "Conversion Price"). The initial liquidation per share preference of each Preference Share is $1,000. The initial Conversion Price will be $10.00 per Preference Share, subject to customary adjustments for share splits and combinations, dividends, recapitalizations and other matters, including weighted average anti-dilution protection for certain issuances of equity or equity-linked securities.

The Preference Shares' liquidation preference accretes at 8.0% per annum, compounded quarterly until the five-year anniversary of the Issue Date. During the three months ended March 31, 2018, the Preference Shares accreted at a monthly rate of approximately $7.11 per Preference Share, for total accretion of $2,027, bringing the aggregate liquidation preference to $103,379 as of March 31, 2018. The accretion is considered in the calculation of net loss attributable to MDC Partners Inc. common shareholders. See Notes 2 and 4 for further information.

Holders of the Preference Shares are entitled to dividends in an amount equal to any dividends that would otherwise have been payable on the Class A Shares issued upon conversion of the Preference Shares. The Preference Shares are convertible at the Company's option (i) on and after the two-year anniversary of the Issue Date, if the closing trading price of the Class A Shares over a specified period prior to conversion is at least 125% of the Conversion Price or (ii) after the fifth anniversary of the Issue Date, if the closing trading price of the Class A Shares over a specified period prior to conversion is at least equal to the Conversion Price.

Following certain change in control transactions of the Company in which holders of Preference Shares are not entitled to receive cash or qualifying listed securities with a value at least equal to the liquidation preference plus accrued and unpaid dividends, (i) holders will be entitled to cash dividends on the liquidation preference at an increasing rate (beginning at 7%), and (ii) the Company will have a right to redeem the Preference Shares for cash at the greater of their liquidation preference plus accrued and unpaid dividends or their as-converted value.

10. Fair Value Measurements

Authoritative guidance for fair value establishes a framework for measuring fair value. 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.

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Financial Liabilities Measured at Fair Value on a Non-Recurring Basis

The following table presents certain information for our financial liability that is measured at fair value on a non-recurring basis at March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
6.50% Senior Notes due 2024	$900,000	$882,000	$900,000	$904,500

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

Financial Liabilities Measured at Fair Value on a Recurring Basis

The following table presents changes in deferred acquisition consideration, which is measured at fair value on a recurring basis, at March 31, 2018 and December 31, 2017:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	March 31, 2018	December 31, 2017
Beginning balance of contingent payments	$119,086	$224,754
Payments [1]	(11,869)	(110,234)
Additions [2]	9,723	