MDC PARTNERS INC
Form 10-Q
November 03, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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 x 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 x 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 x
Non-accelerated Filer ¨ (Do not check if a smaller reporting company.)	Smaller reporting company ¨

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

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

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, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 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)

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)

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)

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.

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.

9

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	2010	Nine Months Ended September 30, 2011	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)		