MDC PARTNERS INC
Form 10-Q
July 31, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from ______________ to ______________

Commission file number: 001-13178

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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

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

The numbers of shares outstanding as of July 30, 2009 were: 28,058,818 Class A subordinate voting shares and 2,503 Class B multiple voting shares.

Website Access to Company Reports

MDC Partners Inc.’s internet website address is www.mdc-partners.com. The Company’s annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act, will be made available free of charge through the Company’s website as soon as reasonably practical after those reports are electronically filed with, or furnished to, the Securities and Exchange Commission.

MDC PARTNERS INC.

QUARTERLY REPORT ON FORM 10-Q

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Item 1. Financial Statements

MDC PARTNERS INC. AND SUBSIDIARIES

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008 Reclassified (Note 1)	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 Reclassified (Note 1)
Revenue:				
Services	$ 134,882	$ 156,949	$ 261,620	$ 297,851
Operating Expenses:				
Cost of services sold	88,238	102,333	174,117	197,852
Office and general expenses	30,173	36,435	61,325	70,890
Depreciation and amortization	7,604	8,585	15,197	18,361
	126,015	147,353	250,639	287,103
Operating profit	8,867	9,596	10,981	10,748
Other Income (Expenses):				
Other income (expense)	(2,541)	(501)	89	3,127
Interest expense	(3,723)	(3,656)	(7,484)	(7,567)
Interest income	70	428	272	894
	(6,194)	(3,729)	(7,123)	(3,546)
Income from continuing operations before income taxes, equity in affiliates	2,673	5,867	3,858	7,202
Income tax expense	1,608	4,485	2,223	4,193
Income from continuing operations before equity in affiliates	1,065	1,382	1,635	3,009
Equity in earnings of non-consolidated affiliates	105	81	198	221
Income from continuing operations	1,170	1,463	1,833	3,230
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(108)	(2,891)	(361)	(5,927)
Net income (loss)	1,062	(1,428)	1,472	(2,697)
Net income attributable to the noncontrolling interests	(983)	(3,044)	(1,365)	(5,167)
Net income (loss) attributable to MDC Partners Inc.	$ 79	$ (4,472)	$ 107	(7,864)
Income (loss) Per Common Share:				
Basic and Diluted:				
Income (loss) from continuing operations attributable to MDC Partners Inc. common shareholders	$ 0.01	$ (0.06)	$ 0.02	(0.07)
Discontinued operations attributable to MDC Partners Inc. common shareholders	(0.00)	(0.11)	(0.01)	(0.22)
Net income (loss) attributable to MDC Partners Inc. common shareholders	$ 0.01	$ (0.17)	$ 0.01	(0.29)
Weighted Average Number of Common Shares Outstanding:				
Basic	27,440,030	26,831,952	27,278,786	26,664,557
Diluted	27,684,194	26,831,952	27,278,786	26,664,557

Non cash stock-based compensation expense is included in the following line items above:								
Cost of services sold	$	286	$	303	$	497	$	542
Office and general expenses		1,759		1,560		3,445		3,319
Total	$	2,045	$	1,863	$	3,942	$	3,861

See notes to the unaudited condensed consolidated financial statements.

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

	June 30, 2009 (Unaudited)	December 31, 2008 (Reclassified) (Note 1)
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 57,934	$ 41,331
Accounts receivable, less allowance for doubtful accounts of $2,481 and $2,179	118,151	106,954
Expenditures billable to clients	18,676	16,949
Prepaid expenses	5,502	5,240
Other current assets	3,548	5,270
Total Current Assets	203,811	175,744
Fixed assets, at cost, less accumulated depreciation of $75,392 and $69,018	38,406	44,021
Investment in affiliates	1,938	1,593
Goodwill	239,534	238,214
Other intangibles assets, net	39,888	46,852
Deferred tax asset	10,788	11,926
Other assets	9,915	10,889
Total Assets	$ 544,280	$ 529,239
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY		
Current Liabilities:		
Accounts payable	$ 79,692	$ 75,360
Accruals and other liabilities	58,553	55,338
Advance billings	51,301	50,053
Current portion of long-term debt	40,183	1,546
Deferred acquisition consideration	3,311	5,538
Total Current Liabilities	233,040	187,835
Revolving credit facility	11,860	9,701
Long-term debt	132,767	133,305
Convertible notes	—	36,946
Other liabilities	9,529	6,949
Deferred tax liabilities	4,596	4,700
Total Liabilities	391,792	379,436
Redeemable Noncontrolling Interests (Note 14)	56,068	21,751
Commitments, contingencies and guarantees (Note 13)		
Shareholders' Equity:		
Preferred shares, unlimited authorized, none issued	—	—
Class A Shares, no par value, unlimited authorized, 27,443,346 and 26,987,017 shares issued in 2009 and 2008	217,774	213,533
Class B Shares, no par value, unlimited authorized, 2,503 shares issued in 2009 and 2008, each convertible into one Class A share	1	1
Additional paid-in capital	—	33,470
Charges in excess of capital	(2,508)	—

Accumulated deficit	(112,732)	(112,836)
Stock subscription receivable	(341)	(354)
Accumulated other comprehensive income (loss)	(6,570)	(6,633)
MDC Partners Inc. Shareholders' Equity	95,624	127,181
Noncontrolling Interests	796	871
Total Equity	96,420	128,052
Total Liabilities, Redeemable Noncontrolling Interests and Equity	$ 544,280	$ 529,239

See notes to the unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cash flows from operating activities:		
Net income (loss)	$ 1,472	$ (2,697)
Net income attributable to the noncontrolling interests	(1,365)	(5,167)
Net income (loss) attributable to MDC Partners Inc.	107	(7,864)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(361)	(5,927)
Income (loss) attributable to MDC Partners Inc. from continuing operations	468	(1,937)
Adjustments to reconcile net income (loss) attributable to MDC Partners Inc. from continuing operations to cash provided by operating activities		
Depreciation	8,171	8,275
Amortization of intangibles	7,026	10,086
Non-cash stock-based compensation	3,511	3,458
Amortization of deferred finance charges	661	688
Deferred income taxes	1,034	577
Earnings of non-consolidated affiliates	(198)	(221)
Other non-current assets and liabilities	3,303	1,017
Foreign exchange	920	(3,062)
Changes in non-cash working capital:		
Accounts receivable	(11,191)	(15,155)
Expenditures billable to clients	(1,727)	(9,626)
Prepaid expenses and other current assets	1,021	(289)
Accounts payable, accruals and other liabilities	7,474	8,889
Advance billings	1,248	19,921
Cash flows provided by continuing operating activities	21,721	22,621
Discontinued operations	(290)	534
Net cash provided by operating activities	21,431	23,155
Cash flows from investing activities:		
Capital expenditures	(2,087)	(8,594)
Acquisitions, net of cash acquired	(3,643)	(9,782)
Proceeds (loss) from sale of assets	(56)	231
Other investments	(33)	(114)
Profit distributions from non-consolidated affiliates	59	68
Cash Flows used in continuing investing activities	(5,760)	(18,191)
Discontinued operations	—	(297)
Net cash used in investing activities	(5,760)	(18,488)
Cash flows from financing activities:		
Proceeds from revolving credit facility	2,159	4,900
Repayment of long-term debt	(897)	(443)
Proceeds from stock subscription receivable	13	3
Purchase of treasury shares	(402)	(876)
Net cash provided by continuing financing activities	873	3,584
Effect of exchange rate changes on cash and cash equivalents	59	(151)
Net increase in cash and cash equivalents	16,603	8,100

Cash and cash equivalents at beginning of period		41,331		10,410
Cash and cash equivalents at end of period	$	57,934	$	18,510
Supplemental disclosures:				
Cash paid to noncontrolling partners	$	4,574	$	7,247
Cash income taxes paid	$	402	$	873
Cash interest paid	$	6,962	$	6,981
Non-cash transactions:				
Share capital issued on acquisitions	$	—	$	1,573
Capital leases	$	288	$	284

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, unless otherwise stated)

1. Basis of Presentation

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

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

These statements should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 31, 2008.

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

In accordance with the adoption of FAS 160 (See Note 14), Noncontrolling Interests (formerly minority interests) have been reclassified in the prior periods to conform with the current period presentation.

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.

Fair Value Measurements. The Company adopted Financial Accounting Standards Board ("FASB") Statement No. 157 "Fair Value Measurements" related to nonfinancial assets and nonfinancial liabilities effective January 1, 2009. This statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. The effect of adopting this pronouncement did not have a material impact on the Company's financial position or results of operations.

Concentration of Credit Risk. The Company provides marketing communications services to clients who operate in most industry sectors. Credit is granted to qualified clients in the ordinary course of business. Due to the diversified nature of the Company's client base, the Company does not believe that it is exposed to a concentration of credit risk; however, one client accounted for approximately 12% and 17% of the Company's consolidated accounts receivable at June 30, 2009 and December 31, 2008, respectively. This client also accounted for 18% of revenue for the three and six months ended June 30, 2009, and 19% and 20% of revenue for the three and six months ended June 30, 2008, respectively.

Cash and Cash Equivalents. The Company's cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. The Company has a concentration risk in that there are cash deposits in excess of federally insured amounts. Included in cash and cash equivalents at June 30, 2009 and December 31, 2008, is approximately $62 and $51, respectively, of cash restricted as to its use by the Company.

Redeemable Noncontrolling Interests. In accordance with EITF Topic No. D-98 "Classification and Measurement of Redeemable Securities", ("D-98"), the Company has recorded its put options at their current estimated redemption amounts. D-98 requires that these obligations be recorded as mezzanine equity. Changes in the estimated redemption amounts of the put options are adjusted at each reporting period with a corresponding adjustment to equity. These adjustments will not impact the calculation of earnings per share. At December 31, 2008, the Company has reclassified $21,751 of the originally reflected minority interest of $22,622 to redeemable noncontrolling interests and $871 to noncontrolling interests. The amount reclassified to redeemable noncontrolling interests of $21,751 represents minority interest equity which are subject to put obligations. In addition, as of June 30, 2009, the Company has recorded $34,170 to redeemable noncontrolling interests which represents the estimated put option redemption amounts.

Revenue Recognition. The Company's revenue recognition policies are in compliance with the SEC Staff Accounting Bulletin 104, "Revenue Recognition" ("SAB 104"), 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.

In November 2002, EITF Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (“EITF 00-21”) was issued. EITF 00-21 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. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Also, in July 2000, the EITF of the Financial Accounting Standards Board released Issue No. 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent” (“EITF 99-19”). This Issue summarized the EITF’s views on when revenue should be recorded at the gross amount billed because it has earned revenue from the sale of goods or services, or the net amount retained because it has earned a fee or commission. The Company also follows EITF No. 01-14, “Income Statement Characterization of Reimbursements Received for Out-Of-Pocket Expenses”. This issue summarized the EITF’s views that reimbursements received for out-of-pocket expenses incurred should be characterized in the income statement as revenue. Accordingly, the Company has included in revenue such reimbursed expenses.

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

Non refundable retainer fees are generally recognized on a straight line basis over the term of the specific customer contract. Commission revenue is earned and recognized upon the placement of advertisements in various media when the Company has no further performance obligations. Fixed fees for services are recognized upon completion of the earnings process and acceptance by the client. Per diem fees are recognized upon the performance of the Company’s services. In addition, for certain service transactions, which require delivery of a number of service acts, the Company uses the Proportional Performance model, which generally results in revenue being recognized based on the straight-line method due to the acts being non-similar and there being insufficient evidence of fair value for each service provided.

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

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

Stock-Based Compensation. The fair value method is applied to all awards granted, modified or settled on or after January 1, 2003. Under the fair value method, compensation cost is measured at fair value at the date of grant and is expensed over the service period that is the award’s vesting period. When awards are exercised, share capital is credited by the sum of the consideration paid together with the related portion previously credited to additional paid-in capital when compensation costs were charged against income or acquisition consideration. The Company uses its historical volatility derived over the expected term of the award, to determine the volatility factor used in determining the fair value of the award. The Company uses the “simplified” method to determine the term of the award.

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

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

exercising party.

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

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

For the three and six months ended June 30, 2009, the Company has recorded charges of $739 and $1,008, respectively, relating to these equity incentive grants. The value of the awards was determined based on the fair market value of the underlying award using the Black-Scholes Option Pricing Model. The weighted average fair value of the awards was $1.17, based on a volatility range of 39.84% to 41.06%, risk free interest range of 1.76% to 1.82%, no dividends and an expected life range of 3 to 4 years.

A total of 615,472 Class A shares of restricted stock, granted to employees as equity incentive awards, are included in the Company's calculation of Class A shares outstanding as of June 30, 2009.

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3. Income (loss) Per Common Share

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Numerator				
Numerator for basic income (loss) per common share - income from continuing operations	$ 1,170	$ 1,463	$ 1,833	$ 3,230
Net income attributable to the noncontrolling interests	(983)	(3,044)	(1,365)	(5,167)
Income (loss) attributable to MDC Partners Inc. common shareholders from continuing operations	$ 187	$ (1,581)	$ 468	$ (1,937)
Effect of dilutive securities	—	—	—	—
Numerator for diluted income (loss) per common share – income (loss) attributable to MDC Partners Inc. common shareholders from continuing operations	$ 187	$ (1,581)	$ 468	$ (1,937)
Denominator				
Denominator for basic income (loss) per common share - weighted average common shares	27,440,030	26,831,952	27,278,786	26,664,557
Effect of dilutive securities:	244,164	—	—	—
Denominator for diluted income (loss) per common share - adjusted weighted shares	27,684,194	26,831,952	27,278,786	26,664,557
Basic income (loss) per common share from continuing operations	$ 0.01	$ (0.06)	$ 0.02	$ (0.07)

Diluted income (loss) per common share from continuing operations	$ 0.01	$ (0.06)	$ 0.02	$ (0.07)

The 8% convertible debentures, options and other rights to purchase 8,863,413 shares of common stock, which includes 615,472 shares of non-vested restricted stock, were outstanding during the six months ended June 30, 2009, but were not included in the computation of diluted income per common share because their effect would be antidilutive because of the market price of the stock at June 30, 2009. During the six months ended June 30, 2008, the 8% convertible debentures, options and other rights to purchase 6,602,450 shares of common stock, which includes 472,436 shares of non-vested restricted stock, were outstanding but were not included in the computation of diluted loss per common share because their effect would be antidilutive.

4. Acquisitions

First Quarter 2009 Acquisitions

Effective January 22, 2009, the Company acquired an additional 8.9% of equity interests in HL Group LLC, thereby increasing MDC's ownership to 64.3%. The purchase price totaled $1,100 and was paid in cash at closing. Pursuant to the adoption of FAS 141R and FAS 160 (Note 14), the Company recorded an entry to reduce Redeemable Noncontrolling Interests, as this purchase was pursuant to the early exercise of an existing put/call option. Accordingly, no additional intangibles have been recorded. However, the amount of the purchase price will be tax deductible.

2008 Acquisitions

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

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

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

Effective November 10, 2008, the Company acquired an additional 17% of equity interests in Crispin Porter & Bogusky LLC ("CPB"), increasing the Company's ownership to 94%. The purchase price totaled $6,823 plus a contingent payment in April of 2010 based on the financial performance of 2009. This contingent payment will be calculated in accordance with CPB's existing limited liability company agreement. The consideration was paid in cash of $6,430 and the issuance of 105,000 newly-issued shares of the Company's Class A subordinated voting stock valued at $393. For accounting purposes, the value of the Company's Class A shares issued as consideration was calculated based on the price of the Company's Class A shares over a period of two days before and after the November 10, 2008 announcement date. This acquisition represented an accelerated exercise of the Company's existing call option that was otherwise exercisable in April 2010. The allocation of the excess purchase consideration of this acquisition to the

fair value of the net assets acquired resulted in $5,008 being allocated to identifiable intangibles, existing backlog. This intangible will be amortized over 14.5 month period. This intangible is tax deductible.

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

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

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

In January 2008, the Company's 62% owned subsidiary, Zyman Group, purchased certain assets of Core Strategy Group and DMG Inc. The aggregate purchase price paid at closing consisted of $1,000 paid in cash and the issuance of 126,478 newly issued shares of the Company's Class A stock valued at $1,110. In addition, the principals of Core Strategy Group and DMG received 1,000,000 newly-issued Restricted Class C units of Zyman Group, which will entitle them to a profit interest of 15% of Zyman Group's pre-tax income in excess of a specified threshold amount. For accounting purposes, the value of the Company's Class A shares issued as consideration was calculated based on the price of the Company's Class A share on the date of the acquisitions. The accounting value of the Restricted Class C units of Zyman Group was determined based on a Black-Scholes value of $1,001. The allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $497 (consisting of customer lists and covenants not to compete) and goodwill of $2,626. The identified intangibles will be amortized up to a five year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationship are realized. The intangibles and goodwill are tax deductible.

Throughout 2008, the Company completed 16 equity acquisitions with various shareholders of Allard Johnson Communications Inc. ("Allard"). The aggregate purchase price for the 16 transactions was cash equal to $3,442. These

transactions increased the Company's equity ownership in Allard to 75.06%, an increase of 14.8%. The allocation of the excess purchase consideration of these step acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $247 (consisting of customer lists and existing backlog), goodwill of $2,752 and a stock based compensation charge of $467, relating to amounts paid in excess of the fair value of the equity purchased. The identified intangibles will be amortized over a five year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationship are realized. The intangible and goodwill are not tax deductible.

Pro forma Information

The following unaudited pro forma results of operations of the Company for the three and six months ended June 30, 2008 assume that the acquisition of the operating assets of the significant businesses acquired during 2008 had occurred on January 1, 2008. For the three and six months ended June 30, 2009, there were no significant businesses acquired. These unaudited pro forma results are not necessarily indicative of either the actual results of operations that would have been achieved had the companies been combined during these periods, or are they necessarily indicative of future results of operations.

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Revenues	$ 156,949	$ 297,851
Net loss attributable to MDC Partners Inc.	$ (3,834)	$ (7,313)
Loss per common share:		
Basic – net loss attributable to MDC Partners Inc.	$ (0.14)	$ (0.27)
Diluted – net loss attributable to MDC Partners Inc.	$ (0.14)	$ (0.27)

5. Accrued and Other Liabilities

At June 30, 2009 and December 31, 2008, accrued and other liabilities included amounts due to noncontrolling interest holders, for their share of profits, which will be distributed within the next twelve months of $2,336 and $4,856, respectively.

6. Discontinued Operations

In December 2008, the Company entered into negotiations to sell certain remaining assets in Bratskeir to management. This transaction was completed in April 2009. As a result of this transaction, the Company has classified this entity's results as discontinued operations. Bratskeir's results of operations, net of income tax benefits, for the three and six months ended June 30, 2009, were losses of $108 and $361, respectively. The results of operations, net of income tax benefits, for the three and six months ended June 30, 2008, were losses of $614 and $1,318, respectively. This entity had been previously included in the Company's Specialized Communication Service segment.

Effective December 3, 2008, Colle & McVoy, LLC ("Colle'), completed the sale of certain assets of its Mobium division. Mobium's results of operations, net of income tax benefits for the three and six months ended June 30, 2008, were a loss of $452 and $770, respectively. This entity had been previously included in the Company's Strategic Marketing Service segment.

Effective June 30, 2008, the Company sold its 60% interest in The Ito Partnership ("Ito"), a start-up operation formed in 2006. Ito's results of operations, net of income tax benefits for the three and six months ended June 30, 2008, were a loss of $791 and $806, respectively. This entity had been previously included in the Company's Specialized Communication service segment.

In 2007, the Company ceased all operations relating to Margeotes Fertitta Powell, LLC ("MFP") and accordingly have classified these operations as discontinued. The results of operations of MFP for the three and six months ended June 30, 2008 was a loss, net of income tax benefits of $1,033 and $3,034 and consists primarily of the accrual of lease abandonment costs and severance costs. In 2008, second quarter loss includes income tax expense of $1,031 relating to the increase in the valuation allowance relating to net operating loss carry forwards. For the six months ended June

30, 2009, MFP had no results of operations.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue	$ —	$ 1,907	$ 481	$ 4,506
Operating loss	$ (167)	$ (1,431)	$ (549)	$ (5,670)
Other expense	$ —	$ (1,129)	$ —	$ (1,524)
Net loss from discontinued operations attributable to MDC Partners Inc., net of taxes	$ (108)	$ (2,891)	$ (361)	$ (5,927)

7. Comprehensive Income (Loss)

Total comprehensive income (loss) and its components were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income (loss) for the period	$ 1,062	$ (1,428)	$ 1,472	$ (2,697)
Other comprehensive income, net of tax:				
Foreign currency cumulative translation adjustment	1,904	411	70	(2,977)
Comprehensive income (loss)	2,966	(1,017)	1,542	(5,674)
Comprehensive income attributable to the noncontrolling interest	(996)	(3,045)	(1,372)	(5,161)
Comprehensive income (loss) attributable to MDC Partners Inc.	$ 1,970	$ (4,062)	$ 170	$ (10,835)

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

Debt consists of:

	June 30, 2009	December 31, 2008
Revolving credit facility	$ 11,860	$ 9,701
8% convertible debentures	38,693	36,946
Term loans	130,000	130,000
Notes payable and other bank loans	2,401	2,789
	182,954	179,436
Obligations under capital leases	1,856	2,062
	184,810	181,498
Less:		
Current portions	40,183	1,546
Long term portion	$ 144,627	$ 179,952

MDC Financing Agreement and Debentures

Financing Agreement

On June 18, 2007, MDC Partners Inc. (the "Company") and its material subsidiaries entered into a $185,000 senior secured financing agreement (the "Financing Agreement") with Fortress Credit, an affiliate of Fortress Investment Group, as collateral agent and Wells Fargo Bank, as administrative agent, and a syndicate of lenders. Proceeds from the Financing Agreement were used to repay in full the outstanding balances on the Company's prior credit facility, which was terminated.

The Financing Agreement consists of a $55,000 revolving credit facility, a $60,000 term loan and a $70,000 delayed draw term loan. Borrowings under the Financing Agreement will bear interest as follows: (a) LIBOR Rate Loans bear interest at applicable interbank rates and Reference Rate Loans bear interest at the rate of interest publicly announced by the Reference Bank in New York, New York, plus (b) a percentage spread ranging from 0% to a maximum of 4.75% depending on the type of loan and the Company's Senior Leverage Ratio. In addition, the Company is required to pay a facility fee of 50 basis points. At June 30, 2009, the weighted average interest rate was 7.0%.

At June 30, 2009, $38,743 remains available under the Financing Agreement to support the Company's future cash requirements. The Company's obligations under the Financing Agreement are guaranteed by the material subsidiaries and secured by all assets of the Company. The Financing Agreement matures on June 17, 2012, and is subject to various covenants, including a senior leverage ratio, fixed charges ratio, limitations on debt incurrence, limitation on liens and limitation on dividends and other payments.

The Company is currently in compliance with all of the terms and conditions of its Financing Agreement, and management believes, based on its current financial projections, that the Company will be in compliance with all covenants under the Financing Agreement over the next twelve months.

8% Convertible Unsecured Subordinated Debentures

On June 28, 2005, the Company completed an offering in Canada of convertible unsecured subordinated debentures amounting to $36,723 (C$45,000) (the "Debentures"). The Debentures will mature on June 30, 2010. The Debentures bear interest at an annual rate of 8.00% payable semi-annually, in arrears, on June 30 and December 31 of each year, commencing December 31, 2005. Unless an event of default has occurred and is continuing, the Company may elect, from time to time, subject to applicable regulatory approval, to issue and deliver Class A subordinate voting shares to the Debenture trustee in order to raise funds to satisfy all or any part of the Company's obligations to pay interest on the Debentures in accordance with the indenture in which holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Class A subordinate voting shares by the Debenture trustee.

The Debentures are convertible at the holder's option into fully-paid, non-assessable and freely tradable Class A subordinate voting shares of the Company, at any time prior to maturity or redemption, subject to the restrictions on transfer, at a conversion price of $12.04 (C$14.00) per Class A subordinate voting share being a ratio of approximately 71.4286 Class A subordinate voting shares per $859.85 (C$1,000.00) principal amount of Debentures.

From July 1, 2009 until the maturity of the Debentures, the Debentures may be redeemed by the Company at a price equal to the principal amount of the Debenture plus accrued and unpaid interest, if any. The Company may elect to satisfy the redemption consideration, in whole or in part, by issuing Class A subordinate voting shares of the Company to the holders, the number of which will be determined by dividing the principal amount of the Debenture by 95% of the current market price of the Class A subordinate voting shares on the redemption date. Upon the occurrence of a change of control, the Company shall be required to make an offer to purchase all of the then outstanding Debentures at a price equal to 100% of the principal amount of the Debentures plus accrued and unpaid interest to the purchase date.

9. Total Equity

During the six months ended June 30, 2009, Class A share capital increased by $4,643, as the Company issued 579,320 Class A shares related to vested restricted stock. During the six months ended June 30, 2009, "Additional paid-in capital" decreased by $4,643 related to the vested restricted stock, by $34,718 relating to the recording of existing put options in accordance with the adoption of FAS 160 and EITF Topic D-98 (Note 14), and $213 related to acquisitions offset by $3,511 related to an increase from stock-based compensation that was expensed during the same period and a reclassification of the $2,508 to charges in excess of capital.

In March and April 2009, the Company purchased and retired 122,991 Class A shares for $402 from employees in connection with the required tax withholding resulting from the vesting of shares of restricted stock.

Total equity decreased $31,632, which is comprised of the put options of $34,718, treasury stock purchases of $402, and acquisition related adjustments of $213, offset in part by an increase in stock-based compensation of $3,511, net income attributable to MDC Partners of $107, and an increase in total accumulated other comprehensive income of $63, and other transactions of $20.

10. Fair Value Measurements

Effective January 1, 2008, the Company adopted FASB Statement No. 157, Fair Value Measurements ("FAS 157"), for financial assets and liabilities. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The statement indicates, among other things, that a fair value measurement assumes a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

In order to increase consistency and comparability in fair value measurements, FAS No. 157 establishes a hierarchy for observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

- Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

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

	Fair Value Measurement at June 30, 2009 Using			
(In Thousands)	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value at June 30, 2009

Put options	$	—	$	—	$	34,170	$	34,170

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

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

	Level 3 (Unobservable Inputs) Put Options	
Balance, January 1, 2009	$	37,849
Transfers to Level 3		—
Put options exercised		(1,121)
Put options granted		—
Currency translation		576
Gains and losses:		
Reported in earnings		—
Reported in additional paid in capital		(3,134)
Balance, June 30, 2009	$	34,170

11. Other Income (Expense)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2009		2008		2009		2008	
Other income (expense)	$	(56)	$	9	$	(22)	$	46
Foreign currency transaction gain (loss)		(2,491)		(555)		116		3,084
Gain (loss) on sale of assets		6		45		(5)		(3)
	$	(2,541)	$	(501)	$	89	$	3,127

12. Segmented Information

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

- The Strategic Marketing Services ("SMS") segment consists of integrated marketing consulting services firms that offer a complement of marketing consulting services including advertising and media, marketing communications including direct marketing, public relations, corporate communications, market research, corporate identity and branding, interactive marketing and sales promotion. Each of the entities within SMS share similar economic characteristics, specifically related to the nature of their respective services, the manner in which the services are provided and the similarity of their respective customers. Due to the similarities in these businesses, they exhibit similar long term financial performance and have been aggregated together.

- The Customer Relationship Management ("CRM") segment provides marketing services that interface directly with the consumer of a client's product or service. These services include the design, development and implementation of

a complete customer service and direct marketing initiative intended to acquire, retain and develop a client's customer base.

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

The significant accounting policies of these segments are the same as those described in the summary of significant accounting policies included in the notes to the consolidated financial statements.

The SCS segment is an "Other" segment pursuant SFAS 131 "Disclosures about Segments of an Enterprise and Related Information".

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

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

	Strategic Marketing Services	Customer Relationship Management	Specialized Communication Services	Corporate	Total
Revenue	$ 82,502	$ 30,294	$ 22,086	$ —	$ 134,882
Cost of services sold	49,045	22,120	17,073	—	88,238
Office and general expenses	17,318	5,311	3,405	4,139	30,173
Depreciation and amortization	5,341	1,768	415	80	7,604
Operating Profit/(Loss)	10,798	1,095	1,193	(4,219)	8,867
Other Income (Expense):					
Other expense, net					(2,541)
Interest expense, net					(3,653)
Income from continuing operations before income taxes, equity in affiliates					2,673
Income tax expense					1,608
Income from continuing operations before equity in affiliates					1,065
Equity in earnings of non-consolidated affiliates					105
Income from continuing operations					1,170
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes					(108)
Net Income					1,062
Net income attributable to the noncontrolling interests	(783)	—	(200)	—	(983)
Net income attributable to MDC Partners Inc.					$ 79

Non cash stock based compensation	$ 371	$ 19	$ 164	$ 1,491	$ 2,045
Supplemental Segment Information:					
Capital expenditures	$ 662	$ 518	$ 37	$ 40	$ 1,257
Goodwill and intangibles	$ 214,735	$ 34,048	$ 30,639	$ —	$ 279,422
Total assets	$ 338,592	$ 65,925	$ 73,014	$ 66,749	$ 544,280

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

Restated for Discontinued Operations

	Strategic Marketing Services	Customer Relationship Management	Specialized Communication Services	Corporate	Total
Revenue	$ 88,126	$ 36,843	$ 31,980	$ —	$ 156,949
Cost of services sold	53,811	26,358	22,164	—	102,333
Office and general expense	19,649	6,310	5,631	4,845	36,435
Depreciation and amortization	5,932	1,880	706	67	8,585
Operating Profit/(Loss)	8,734	2,295	3,479	(4,912)	9,596
Other Income (Expense):					
Other expense, net					(501)
Interest expense, net					(3,228)
Income from continuing operations before income taxes, equity in affiliates					5,867
Income tax expense					4,485
Income from continuing operations before equity in affiliates					1,382
Equity in earnings of non-consolidated affiliates					81
Income from continuing operations					1,463
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes					(2,891)
Net Loss					(1,428)
Net income attributable to the noncontrolling interests	(1,842)	(130)	(1,072)	—	(3,044)
Net Loss attributable to MDC Partners Inc.					$ (4,472)
Non cash stock based compensation	$ 571	$ 35	$ 222	$ 1,035	$ 1,863
Supplemental Segment Information:					
Capital expenditures	$ 2,823	$ 1,234	$ 351	$ 9	$ 4,417
Goodwill and intangibles	$ 200,738	$ 29,000	$ 45,600	$ —	$ 275,338

Total assets	$ 361,440	$ 76,038	$ 96,983	$ 18,210	$ 552,671

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

	Strategic Marketing Services	Customer Relationship Management	Specialized Communication Services	Corporate	Total
Revenue	$ 161,372	$ 59,426	$ 40,822	$ —	$ 261,620
Cost of services sold	98,064	44,089	31,964	—	174,117
Office and general expenses	35,598	10,796	6,880	8,051	61,325
Depreciation and amortization	10,581	3,608	835	173	15,197
Operating Profit/(Loss)	17,129	933	1,143	(8,224)	10,981
Other Income (Expense):					
Other income, net					89
Interest expense, net					(7,212)
Income from continuing operations before income taxes, equity in affiliates					3,858
Income tax expense					2,223
Income from continuing operations before equity in affiliates					1,635
Equity in earnings of non-consolidated affiliates					198
Income from continuing operations					1,833
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes					(361)
Net Income					1,472
Net income attributable to the noncontrolling interests	(1,148)	—	(217)	—	(1,365)
Net income attributable to MDC Partners Inc.					$ 107