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<br>(State or other jurisdiction of incorporation or organization) | 98-0364441<br>(IRS Employer Identification No.) |
| 745 Fifth Avenue<br>New York, New York<br>(Address of principal executive offices) | 10151<br>(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

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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.

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, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 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 ) | | |