MDC PARTNERS INC
Form 10-K
March 02, 2015

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2014
Commission File Number 001-13718

MDC PARTNERS INC.
(Exact Name of Registrant as Specified in Its Charter)

Canada	98-0364441
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

745 Fifth Avenue,
New York, NY, 10151
(646) 429-1800
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Subordinate Voting Shares, no par value	NASDAQ; Toronto Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.Yes o No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.Yes o No ý
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Yes ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. (Check one):

Large Accelerated Filer x Accelerated Filer o Non-Accelerated o Smaller reporting company o

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

The aggregate market value of the shares of all classes of voting and non-voting common stock of the registrant held by non-affiliates as of June 30, 2014 was approximately $916 million, computed upon the basis of the closing sales price ($21.11/share) of the Class A subordinate voting shares on that date.

As of February 22, 2015, there were 50,494,080 outstanding shares of Class A subordinate voting shares without par value, and 3,755 outstanding shares of Class B multiple voting shares without par value, of the registrant.

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References in this Annual Report on Form 10-K to "MDC Partners", "MDC", the "Company," "we," "us" and "our" refer to M Partners Inc. and, unless the context otherwise requires or otherwise is expressly stated, its subsidiaries. References in the Annual Report on Form 10-K to "Partners" refer to the subsidiaries of the Company.

All dollar amounts are stated in U.S. Dollars unless otherwise stated.

DOCUMENTS INCORPORATED BY REFERENCE

The following sections of the Proxy Statement for the Annual Meeting of Stockholders to be held on June 4, 2015, are incorporated by reference in Parts I and III: "Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Executive Compensation," "Report of the Human Resources & Compensation Committee on Executive Compensation," "Outstanding Shares," "Appointment of Auditors," and "Certain Relationships and Related Transactions".

AVAILABLE INFORMATION

Information regarding the Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports, will be made available, free of charge, at the Company's website at http://www.mdc-partners.com, as soon as reasonably practicable after the Company electronically files such reports with or furnishes them to the Securities and Exchange Commission (the "SEC"). The information found on, or otherwise accessible through, the Company's website is not incorporated into, and does not form a part of, this Annual Report or Form 10-K. Any document that the Company files with the SEC may also be read and copied at the SEC's public reference room located at 100 F. Street, N.E., Washington, DC 20549. Please call the SEC at 1 (800) SEC-0330 for further information on the public reference room. The Company's filings are also available to the public from the SEC's website at http://www.sec.gov.

The Company's Code of Conduct, Whistleblower Policy, and each of the charters for the Audit Committee, Human Resources & Compensation Committee and the Nominating and Corporate Governance Committee, are available free of charge on the Company's website at http://www.mdc-partners.com or by writing to MDC Partners Inc., 745 Fifth Avenue, New York, NY 10151, Attention: Investor Relations.

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FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. The Company's representatives may also make forward-looking statements orally from time to time. Statements in this document that are not historical facts, including statements about the Company's beliefs and expectations, recent business and economic trends, potential acquisitions, estimates of amounts for deferred acquisition consideration and "put" option rights, constitute forward-looking statements. These statements are based on current plans, estimates and projections, and are subject to change based on a number of factors, including those outlined in this section. Forward- looking statements speak only as of the date they are made, and the Company undertakes no obligation to update publicly any of them in light of new information or future events, if any.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statements. Such risk factors include, but are not limited to, the following:

- risks associated with severe effects of international, national and regional economic conditions;
- the Company's ability to attract new clients and retain existing clients;
- the spending patterns and financial success of the Company's clients;
- the Company's ability to retain and attract key employees;
- the Company's ability to remain in compliance with its debt agreements and the Company's ability to finance its contingent payment obligations when due and payable, including but not limited to those relating to "put" option rights and deferred acquisition consideration;
- the successful completion and integration of acquisitions which complement and expand the Company's business capabilities; and
- foreign currency fluctuations.

The Company's business strategy includes ongoing efforts to engage in material acquisitions of ownership interests in entities in the marketing communications services industry. The Company intends to finance these acquisitions by using available cash from operations, from borrowings under the Credit Agreement and through incurrence of bridge or other debt financing, any of which may increase the Company's leverage ratios, or by issuing equity, which may have a dilutive impact on existing shareholders proportionate ownership. At any given time, the Company may be engaged in a number of discussions that may result in one or more material acquisitions. These opportunities require confidentiality and may involve negotiations that require quick responses by the Company. Although there is uncertainty that any of these discussions will result in definitive agreements or the completion of any transactions, the announcement of any such transaction may lead to increased volatility in the trading price of the Company's securities.

Investors should carefully consider these risk factors and the additional risk factors outlined in more detail in this Annual Report on Form 10-K under the caption "Risk Factors" and in the Company's other SEC filings.

SUPPLEMENTARY FINANCIAL INFORMATION

The Company reports its financial results in accordance with generally accepted accounting principles ("GAAP") of the United States of America ("U.S. GAAP"). However, the Company has included certain non-U.S. GAAP financial measures and ratios, which it believes, provide useful information to both management and readers of this report in measuring the financial performance and financial condition of the Company. These measures do not have a standardized meaning prescribed by U.S. GAAP and, therefore, may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to other titled measures determined in accordance with U.S. GAAP.

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PART I

Item 1. Business

BUSINESS

MDC PARTNERS INC.

MDC was formed by Certificate of Amalgamation effective December 19, 1986, pursuant to the Business Corporations Act (Ontario). Effective December 19, 1986, MDC amalgamated with Branbury Explorations Limited, and thereby became a public company operating under the name of MDC Corporation. On January 1, 2004, MDC changed its name to its current name, MDC Partners Inc., and on June 28, 2004, MDC was continued under Section 187 of the Canada Business Corporations Act. MDC's registered address is located at 45 Hazelton Avenue, Toronto, Ontario, M5R 2E3, and head office address is located at 745 Fifth Avenue, New York, NY 10151.

MDC is a leading provider of marketing, activation, communications and consulting solutions and services to customers globally with operating units throughout the world.

MDC's subsidiaries provide a comprehensive range of customized marketing, activation, communications and consulting services, including a wide range of advertising and consumer communication services, media management and effectiveness across all channels, interactive and mobile marketing, direct marketing, database and customer relationship management, sales promotion, corporate communications, market research, data, analytics and insights, corporate identity, design and branding, social media, marketing, product and service innovation, ecommerce and other related services.

Part I — Business

MDC's strategy is to build, grow and acquire market-leading businesses that deliver innovative, value-added marketing, communications and strategic consulting services to their clients. MDC Partners strives to be a partnership of marketing communications and consulting companies (or Partners) whose strategic, creative and innovative solutions are media-agnostic, challenge the status quo, and achieve measurable superior returns on investment, and drive transformative growth and business performance for clients and stakeholders.

MDC has a "Corporate Group" which provides certain accounting, administrative, strategic, financial, human resource and legal functions for the Company and the Partners. The Corporate Group ensures that MDC is the most Partner-responsive marketing services network through its strategic mandate to help Partner firms accelerate their growth by contributing clients, talent and tuck under acquisitions, as well as working with partner firms to cross-sell services, expand their offerings, expand their geographic footprints by leveraging the collective expertise and scale of the group as a whole. The Corporate Group uses this leverage to provide various shared services to help reduce costs across the group.

The MDC model is driven by three key elements:

Perpetual Partnership. The perpetual partnership model creates ongoing alignment of interests to drive performance. The perpetual partnership model functions by (1) identifying the "right" Partners with a sustainable differentiated position in the marketplace; (2) creating the "right" Partnership structure generally by taking a majority ownership position and leaving a substantial noncontrolling equity or economic ownership position in the hands of operating management to incentivize long-term growth; (3) providing access to more strategic resources, best practices, and leveraging the network's scale; and (4) focusing on delivering financial results.

Entrepreneurialism. MDC's entrepreneurial spirit and that of its Partner firms is optimized through (1) its unique perpetual partnership model that incentivizes senior-level involvement and ambition; (2) Partner access to shared resources within the Corporate Group that allow individual firms to focus on client business and company growth; and (3) MDC's collaborative creation of customized solutions to support and grow Partner businesses.

Human and Financial Capital. The model balances accountability with financial flexibility and meaningful incentives to support growth.

MDC operates through "Partner" companies within the following reportable segment and other segment:

Strategic Marketing Services

The Strategic Marketing Services segment consists of integrated marketing consulting services firms that offer a full complement of marketing, activation and consulting services including advertising and media, marketing communications including direct marketing, public relations, corporate communications, market research, corporate identity and branding, interactive marketing, and sales promotion. Each of the entities within the Strategic Marketing Services Group share similar economic characteristics, specifically related to the nature of their respective services, the manner in which the services are

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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.

Performance Marketing Services

The Performance Marketing Services segment is an "other" segment and includes our firms that provide specialized consumer insights and analytics to satisfy the growing need for targetable, measurable solutions or cost effective means of driving return on marketing investment. These services interface directly with the consumer of a client's product or service. Such services include the design, development, research and implementation of consumer services, media planning and buying, and direct marketing initiatives. In addition, the firms included in this segment also provide consumer activation services, investor relations services, and general public insights.

Ownership Information

The following table includes certain information about MDC's operating subsidiaries as of December 31, 2014.

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MDC PARTNERS INC.
SCHEDULE OF CURRENT AND POTENTIAL MARKETING COMMUNICATIONS COMPANY OWNERSHIP

Company	Year of Initial Investment	Locations
Consolidated:		
Strategic Marketing Services		
6degrees Communications	1993	Canada
72andSunny	2010	Los Angeles, New York, Netherlands, UK
Allison & Partners	2010	San Francisco, Los Angeles, New York and other U.S. Locations, China, France, Singapore, UK
Anomaly	2011	New York, Netherlands, Canada, UK, China
Bruce Mau Design	2004	Canada
Colle + McVoy	1999	Minneapolis
Concentric Partners	2011	New York
Crispin Porter + Bogusky	2001	Miami, Boulder, Los Angeles, UK, Sweden, Denmark, Brazil, China
Doner	2012	Detroit, Atlanta, Cleveland, Los Angeles, UK
Hello Design	2004	Los Angeles
HL Group Partners	2007	New York, Los Angeles, China
Hunter PR	2014	New York
kirshenbaum bond senecal + partners	2004	New York, Canada, China, UK
Albion	2014	UK
Attention	2009	New York
The Media Kitchen	2010	New York
Varick Media Management	2010	New York
Kwittken	2010	New York, UK
Laird + Partners	2011	New York
Mono Advertising	2004	Minneapolis
Northstar Research Partners	1998	Canada, New York, UK
Redscout	2007	New York, San Francisco, UK
Sloane & Company	2010	New York
TargetCom	2000	Chicago
Union	2013	Canada
Veritas	1993	Canada
Vitro	2004	San Diego
Yamamoto	2000	Minneapolis
Performance Marketing Services		
Assembly	2014	New York, Detroit, Atlanta, Los Angeles
Integrated Media Solutions	2010	New York
RJ Palmer	2011	New York
TargetCast	2012	New York
Trade X	2011	New York
Boom Marketing	2005	Canada
Bryan Mills Iradesso	1989	Canada
Gale43	2014	Canada, New York

Kenna Communications	2010	Canada
Kingsdale	2014	Canada, New York
LBN Partners	2013	Detroit, Los Angeles
Luntz Global	2014	Washington, D.C.
Relevent	2010	New York
Source Marketing	1998	Connecticut, Pennsylvania
TEAM	2010	Ft. Lauderdale

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Financial Information Relating to Business Segments and Geographic Regions

For financial information relating to the Company's Marketing Communications Businesses and the geographic regions the businesses operate within, refer to Note 14 (Segment Information) of the Notes to the Consolidated Financial Statements included in this Annual Report and to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion.

Competition

In the competitive, highly fragmented marketing and communications industry, MDC's operating companies compete for business and talent with the operating subsidiaries of large global holding companies such as Omnicom Group Inc., Interpublic Group of Companies, Inc., WPP Group plc, Publicis Group SA, Dentsu Inc., and Havas Advertising. These global holding companies generally have greater resources than those available to MDC and its subsidiaries, and such resources may enable them to aggressively compete with the Company's marketing communications businesses. Each of MDC's operating companies also faces competition from numerous independent agencies that operate in multiple markets. MDC's operating companies must compete with all of these other companies to maintain existing client relationships and to obtain new clients and assignments. MDC's operating companies compete at this level by providing clients with disruptive marketing ideas and strategies that are focused on increasing clients' revenues and profits. These existing and potential clients include multinational corporations and national companies with mid-to-large sized marketing budgets. MDC also benefits from cooperation among its entrepreneurial operating companies through referrals and the sharing of both services and expertise, which enables MDC to service clients' varied marketing needs around the world by crafting custom integrated solutions.

A partner's ability to compete for new clients is affected in some instances by the policy, which many advertisers and marketers impose, of not permitting their agencies to represent competitive accounts in the same market. In the vast majority of cases, however, MDC's consistent maintenance of separate, independent operating companies has enabled MDC to represent competing clients across its network.

Industry Trends

Historically, advertising has been the primary service provided by the marketing communications industry. However, as clients aim to establish one-to-one relationships with customers, and more accurately measure the effectiveness of their marketing expenditures, specialized and digital communications services and database marketing and analytics are consuming a growing portion of marketing dollars. The Company believes this is increasing the demand for a broader range of non-advertising marketing communications services (i.e., direct marketing, sales promotion, interactive, strategic communications and public relations, etc). The notion of a mass market audience is giving way to life-style segments, social events/networks, and online/mobile communities, each segment requiring a customized message and/or different, often non- traditional, channels of communication and connection to our clients' e-commerce capabilities. Global marketers now demand breakthrough and integrated creative ideas, and no longer require traditional brick-and-mortar communications partners in every market to optimize the effectiveness of their marketing efforts. Combined with the fragmentation of the media landscape, these factors provide new opportunities for small to mid-sized communications companies like those in the MDC network. In addition, marketers now require ever greater speed-to-market to drive financial returns on their marketing and media investment, causing them to turn to more nimble, entrepreneurial and collaborative communications firms like MDC Partners.

There are several recent economic and industry trends that affect or may be expected to affect the Company's results of operations. For example, the increase in media fragmentation and new consumer offerings are indicative of the changing needs of clients and the evolving competitive landscape. Changes in the way consumers interact with media due to increased use of the Internet, and adoption of smartphones and tablets, as well as the emergence of new platforms, has led to increased demand for digital offerings, which we expect could have a positive impact on our results of operation.

Over the last several years, client procurement departments have focused increasingly on marketing services company fees to ensure efficiency of the investment the client is making in marketing. This has led to a more competitive pricing environment and increased efforts on delivering and measuring proper value for the fees received from clients. We have invested in resources to work with client procurement departments to ensure that we are able to deliver against client goals in a mutually beneficial way. For example, we have explored new compensation models, such as performance-based incentive payments and equity, in order to greater align our success with our clients. These incentive payments may offset negative pricing pressure from client procurement departments.

Clients

The Company serves clients in virtually every industry, and in many cases, the same clients in various locations, and through several partners. Representation of a client rarely means that MDC handles marketing communications for all brands or product lines of the client in every geographical location. MDC’s agencies have written contracts with many of their clients.

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As is customary in the industry, these contracts provide for termination by either party on relatively short notice. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Executive Overview" for a further discussion of MDC's arrangements with its clients.

During 2014, 2013 and 2012, the Company did not have a client that accounted for 5% or more of revenues. In addition, MDC's ten largest clients (measured by revenue generated) accounted for 24%, 27% and 25% of 2014, 2013 and 2012 revenues, respectively.

Employees

As of December 31, 2014, MDC and its subsidiaries had the following number of employees within its segments:

Segment	Total
Strategic Marketing Services	4,302
Performance Marketing Services	894
Corporate	54
Total	5,250

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the effect of cost of services sold on MDC's historical results of operations. Because of the personal service character of the marketing communications businesses, the quality of personnel is of crucial importance to MDC's continuing success. MDC considers its relations with employees to be satisfactory.

Effect of Environmental Laws

MDC believes it is substantially in compliance with all regulations concerning the discharge of materials into the environment, and such regulations have not had a material effect on the capital expenditures or operations of MDC.

Item 1A. Risk Factors

The following factors could adversely affect the Company's revenues, results of operations or financial condition. See also "Statement Regarding Forward-Looking Disclosure."

Future economic and financial conditions could adversely impact our financial condition and results.

Economic and financial conditions deteriorated sharply in the latter part of 2008, and these deteriorating conditions continued in 2009 and 2010. In 2011 through 2014, the United States experienced modest economic growth, but the pace of the global economic recovery is uneven and a future economic downturn could renew reductions in client spending levels and adversely affect our results of operations and financial position in 2015.

a. As a marketing services company, our revenues are highly susceptible to declines as a result of unfavorable economic conditions.

Global economic conditions affect the advertising and marketing services industry more severely than other industries. In the past, some clients have responded to weakening economic conditions with reductions to their marketing budgets, which include discretionary components that are easier to reduce in the short term than other operating expenses. This pattern may recur in the future. Decreases in our revenue would negatively affect our financial results, including a reduction of our estimates of free cash flow from operations.

b. If our clients experience financial distress, their weakened financial position could negatively affect our own financial position and results.

We have a diverse client base, and at any given time, one or more of our clients may experience financial difficulty, file for bankruptcy protection or go out of business. The unfavorable economic and financial conditions that have impacted many sectors of the global economy could result in an increase in client financial difficulties that affect us. The direct impact on us could include reduced revenues and write-offs of accounts receivable. If these effects were severe, the indirect impact could include impairments of goodwill, covenant violations relating to MDC's senior secured revolving credit agreement (the "Credit Agreement") or the $735 million aggregate principal amount 6.75% notes due 2020 (the "6.75% Notes"), or reduced liquidity. Our 10 largest clients (measured by revenue generated) accounted for 24% of revenue in 2014.

c. Conditions in the credit markets could adversely impact our results of operations and financial position.

Turmoil in the credit markets or a contraction in the availability of credit would make it more difficult for businesses to meet their capital requirements and could lead clients to change their financial relationship with their vendors, including us. If that were to occur, it could materially adversely impact our results of operations and financial position.

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MDC competes for clients in highly competitive industries.

The Company operates in a highly competitive environment in an industry characterized by numerous firms of varying sizes, with no single firm or group of firms having a dominant position in the marketplace. MDC is, however, smaller than several of its larger industry competitors. Competitive factors include creative reputation, management, personal relationships, quality and reliability of service and expertise in particular niche areas of the marketplace. In addition, because a firm’s principal asset is its people, barriers to entry are minimal, and relatively small firms are, on occasion, able to take all or some portion of a client’s business from a larger competitor.

While many of MDC’s client relationships are long-standing, companies put their advertising and marketing services businesses up for competitive review from time to time, including at times when clients enter into strategic transactions or experienced senior management changes. From year to year, the identities of MDC’s 10 largest customers may change, as a result of client losses and additions and other factors. To the extent that the Company fails to maintain existing clients or attract new clients, MDC’s business, financial condition and operating results may be affected in a materially adverse manner.

The loss of lines of credit under the Credit Agreement could adversely affect MDC’s liquidity and our ability to implement MDC’s acquisition strategy and fund any put options if exercised.

MDC uses amounts available under the Credit Agreement, together with cash flow from operations, to fund its working capital needs, to fund the exercise of put option obligations and to fund our strategy of making selective acquisitions of ownership interests in entities in the marketing communications services industry, including through contingent deferred acquisition payments.

The Company is currently in compliance with all of the terms and conditions of the Credit Agreement. If, however, events were to occur, which result in MDC losing all or a substantial portion of its available credit under the Credit Agreement, or if MDC was prevented from accessing such lines of credit due to other restrictions such as those in the indenture governing the 6.75% Notes, MDC could be required to seek other sources of liquidity. In addition, if MDC were unable to replace this source of liquidity, then MDC’s ability to fund its working capital needs and any contingent obligations with respect to put options or contingent deferred acquisition payments would be materially adversely affected.

We have significant contingent obligations related to deferred acquisition consideration and minority interests in our subsidiaries, which will require us to utilize our cash flow and/or to incur additional debt to satisfy.

The Company has made a number of acquisitions for which it has deferred payment of a portion of the purchase price, usually for a period between one to five years after the acquisition. The deferred acquisition consideration is generally payable based on achievement of certain thresholds of future earnings of the acquired company and, in certain cases, also based on the rate of growth of those earnings. Once any contingency is resolved, the Company may pay the contingent consideration over time.

The Company records liabilities on its balance sheet for deferred acquisition payments at their estimated value based on the current performance of the business, which are re-measured each quarter. At December 31, 2014, these aggregate liabilities were $205.4 million, of which $90.8 million, $70.5 million, $23.8 million and $20.3 million would be payable in 2015, 2016, 2017 and thereafter, respectively.

In addition to the Company’s obligations for deferred acquisition consideration, managers of certain of the Company’s acquired subsidiaries hold minority interests in such subsidiaries. In the case of certain minority interests related to acquisitions, the founder of such entity is entitled to a proportionate distribution of earnings from the relevant subsidiary, which is recognized on the Company’s consolidated income statement under “Net income attributable to the noncontrolling interests.”

Minority shareholders often have the right to require the Company to purchase all or part of its interest, either at specified dates or upon the termination of such shareholder’s employment with the subsidiary or death (put rights). In addition, the Company usually has rights to call minority shareholders' interests at a specified date. The purchase price for both puts and calls is typically calculated based on specified formulas tied to the financial performance of the

subsidiary.
The Company recorded $195.0 million on its December 31, 2014 balance sheet as Redeemable Noncontrolling Interests for its estimated obligations in respect of minority shareholder put and call rights based on the current performance of the subsidiaries, $19.7 million of which related to put rights for which, if exercised, the payments are due at specified dates, with the remainder of Redeemable Noncontrolling Interests attributable to put or call rights exercisable only upon termination of employment or death. No estimated obligation is recorded on the balance sheet for minority interests for which the Company has a call right but the minority holder has no put right.
Payments to be made by the Company in respect of deferred acquisition consideration and minority shareholder put rights may be significantly higher than the estimated amounts described above because the actual obligation adjusts based on the performance of the acquired businesses over time, including future growth in earnings from the calculations made at December 31, 2014. Similarly, the payments made by the Company under call rights would increase with growth in earnings of the

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acquired businesses. The Company expects that deferred contingent consideration and minority share interests for managers may be features of future acquisitions that it may undertake and that it may also grant similar minority share interests to managers of its subsidiaries unrelated to acquisitions.

The Company expects that its obligations in respect of deferred acquisition consideration and payments to minority shareholders under put and call rights will be a significant use of the Company's liquidity in the foreseeable future, whether in the form of free cash flow or borrowings under the Company's revolving credit facility or from other funding sources. For further information, see the disclosure under the heading "Business — Ownership Information" and the heading "Liquidity and Capital Resources".

MDC may not realize the benefits it expects from past acquisitions or acquisitions MDC may make in the future.

MDC's business strategy includes ongoing efforts to engage in material acquisitions of ownership interests in entities in the marketing communications services industry. MDC intends to finance these acquisitions by using available cash from operations and through incurrence of debt or bridge financing, either of which may increase its leverage ratios, or by issuing equity, which may have a dilutive impact on its existing shareholders. At any given time MDC may be engaged in a number of discussions that may result in one or more material acquisitions. These opportunities require confidentiality and may involve negotiations that require quick responses by MDC. Although there is uncertainty that any of these discussions will result in definitive agreements or the completion of any transactions, the announcement of any such transaction may lead to increased volatility in the trading price of its securities.

Our expenses have, in recent periods, increased at a greater rate than revenues, which in part reflects both the increase in expenses for deferred acquisition consideration and from our investment in headcount for certain growth initiatives. Should our acquisitions continue to outperform current expectations, expenses for deferred acquisition consideration could increase as well in future periods. If our growth initiatives do not provide sufficient revenue to offset the incremental costs in future periods, profits could be reduced and severance expense could be incurred in order to return to targeted profit margins over time.

The success of acquisitions or strategic investments depends on the effective integration of newly acquired businesses into MDC's current operations. Such integration is subject to risks and uncertainties, including realization of anticipated synergies and cost savings, the ability to retain and attract personnel and clients, the diversion of management's attention from other business concerns, and undisclosed or potential legal liabilities of the acquired company. MDC may not realize the strategic and financial benefits that it expects from any of its past acquisitions, or any future acquisitions.

MDC's business could be adversely affected if it loses key clients or executives.

MDC's strategy has been to acquire ownership stakes in diverse marketing communications businesses to minimize the effects that might arise from the loss of any one client or executive. The loss of one or more clients could materially affect the results of the individual operating companies and the Company as a whole. Management succession at our operating units is very important to the ongoing results of the Company because, as in any service business, the success of a particular agency is dependent upon the leadership of key executives and management personnel. If key executives were to leave our operating units, the relationships that MDC has with its clients could be adversely affected.

MDC's ability to generate new business from new and existing clients may be limited.

To increase its revenues, MDC needs to obtain additional clients or generate demand for additional services from existing clients. MDC's ability to generate initial demand for its services from new clients and additional demand from existing clients is subject to such clients' and potential clients' requirements, pre-existing vendor relationships, financial condition, strategic plans and internal resources, as well as the quality of MDC's employees, services and reputation and the breadth of its services. To the extent MDC cannot generate new business from new and existing clients due to these limitations, MDC's ability to grow its business and to increase its revenues will be limited.

MDC's business could be adversely affected if it loses or fails to attract key employees.

Employees, including creative, research, media, account and practice group specialists, and their skills and relationships with clients, are among MDC's most important assets. An important aspect of MDC's competitiveness is its ability to retain key employee and management personnel. Compensation for these key employees is an essential factor in attracting and retaining them, and MDC may not offer a level of compensation sufficient to attract and retain these key employees. If MDC fails to hire and retain a sufficient number of these key employees, it may not be able to compete effectively. If key executives were to leave our operating units, the relationships that MDC has with its clients could be adversely affected.

MDC is exposed to the risk of client defaults.

MDC's agencies often incur expenses on behalf of their clients for productions in order to secure a variety of media time and space, in exchange for which they receive a fee. The difference between the gross cost of the production and media and the net revenue earned by us can be significant. While MDC takes precautions against default on payment for these services (such

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as credit analysis and advance billing of clients) and has historically had a very low incidence of default, MDC is still exposed to the risk of significant uncollectible receivables from our clients. The risk of a material loss could significantly increase in periods of severe economic downturn. Such a loss could have a material adverse effect on our results of operations and financial position.

MDC's results of operations are subject to currency fluctuation risks.

Although MDC's financial results are reported in U.S. Dollars, a portion of its revenues and operating costs are denominated in currencies other than the U.S. Dollar. As a result, fluctuations in the exchange rate between the U.S. Dollar and other currencies, particularly the Canadian Dollar, may affect MDC's financial results and competitive position.

Goodwill and intangible assets may become impaired.

We have recorded a significant amount of goodwill and intangible assets in our consolidated financial statements in accordance with U.S. GAAP resulting from our acquisition activities, which principally represents the specialized know-how of the workforce at the agencies we have acquired. We test, at least annually, the carrying value of goodwill for impairment, as discussed in Note 2 of the Notes to the Consolidated Financial Statements included herein. The estimates and assumptions about future results of operations and cash flows made in connection with the impairment testing could differ from future actual results of operations and cash flows. While we have concluded, for each year presented in our financial statements, that our goodwill and intangible assets relating to continuing operations is not impaired, future events could cause us to conclude that the asset values associated with a given operation may become impaired. Any resulting impairment loss could materially adversely affect our results of operations and financial condition.

MDC is subject to regulations and litigation risk that could restrict our activities or negatively impact our revenues.

Advertising and marketing communications businesses are subject to government regulation, both domestic and foreign. There has been an increasing tendency in the United States on the part of advertisers to resort to litigation and self-regulatory bodies to challenge comparative advertising on the grounds that the advertising is false and deceptive. Moreover, there has recently been an expansion of specific rules, prohibitions, media restrictions, labeling disclosures, and warning requirements with respect to advertising for certain products and usage of personally identifiable information. Representatives within government bodies, both domestic and foreign, continue to initiate proposals to ban the advertising of specific products and to impose taxes on or deny deductions for advertising which, if successful, may have an adverse effect on advertising expenditures and consequently MDC's revenues.

Certain of MDC's agencies produce software and e-commerce tools for their clients, and these product offerings have become increasingly subject to litigation based on allegations of patent infringement or other violations of intellectual property rights. As we expand these product offerings, the possibility of an intellectual property claim against us grows. Any such claim, with or without merit, could result in costly litigation and distract management from day-to-day operations and may result in us deciding to enter into license agreements to avoid ongoing patent litigation costs. If we are not successful in defending such claims, we could be required to stop offering these services, pay monetary amounts as damages, enter into royalty or licensing arrangements, or satisfy indemnification obligations that we have with some of our clients. Such arrangements may cause our operating margins to decline.

In addition, laws and regulations related to user privacy, use of personal information and internet tracking technologies have been proposed or enacted in the United States and certain international markets. These laws and regulations could affect the acceptance of the internet as an advertising medium. These actions could affect our business and reduce demand for certain of our services, which could have a material adverse effect on our results of operations and financial position.

We rely extensively on information technology systems.

We rely on information technologies and infrastructure to manage our business, including digital storage of client marketing and advertising information, developing new business opportunities and processing business transactions.

Our information technology systems are potentially vulnerable to system failures and network disruptions, malicious intrusion and random attack. While we have taken what we believe are prudent measures to protect our data and information technology systems, there can be no assurance that our efforts will prevent system failures or network disruptions or breaches in our systems. Any such breakdowns or breaches in our systems or data-protection policies could adversely affect our reputation or business.

The indenture governing the 6.75% Notes and the Credit Agreement governing our secured line of credit contain various covenants that limit our discretion in the operation of our business.

The indenture governing the 6.75% Notes and the Credit Agreement governing our lines of credit contain various provisions that limit our discretion in the operation of our business by restricting our ability to:

- sell assets;

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- pay dividends and make other distributions;
- redeem or repurchase our capital stock;
- incur additional debt and issue capital stock;
- create liens;
- consolidate, merge or sell substantially all of our assets;
- enter into certain transactions with our affiliates;
- make loans, investments or advances;
- repay subordinated indebtedness;
- undergo a change in control;
- enter into certain transactions with our affiliates;
- engage in new lines of business; and
- enter into sale and leaseback transactions.

These restrictions on our ability to operate our business in our discretion could seriously harm our business by, among other things, limiting our ability to take advantage of financing, mergers and acquisitions and other corporate opportunities. The Credit Agreement is subject to various additional covenants, including a senior leverage ratio, a total leverage ratio, a fixed charge coverage ratio, and a minimum EBITDA level (as defined). Events beyond our control could affect our ability to meet these financial tests, and we cannot assure you that we will meet them.

Our substantial indebtedness could adversely affect our cash flow and prevent us from fulfilling our obligations, including the 6.75% Notes.

As of December 31, 2014, MDC had $743.1 million, inclusive of original issue premium, of indebtedness. In addition, we expect to make additional drawings under the Credit Agreement from time to time. Our ability to pay principal and interest on our indebtedness is dependent on the generation of cash flow by our subsidiaries. Our subsidiaries' business may not generate sufficient cash flow from operations to meet MDC's debt service and other obligations. If we are unable to meet our expenses and debt service obligations, we may need to obtain additional debt, refinance all or a portion of our indebtedness on or before maturity, sell assets or raise equity. We may not be able to obtain additional debt, refinance any of our indebtedness, sell assets or raise equity on commercially reasonable terms or at all, which could cause us to default on our obligations and impair our liquidity. Our inability to generate sufficient cash flow to satisfy our debt obligations, to obtain additional debt or to refinance our obligations on commercially reasonable terms would have a material adverse effect on our business, financial condition and results of operations.

If we cannot make scheduled payments on our debt, we will be in default and, as a result, our debt holders could declare all outstanding principal and interest to be due and payable; the lenders under the Credit Agreement could terminate their commitments to loan us money and foreclose against the assets securing our borrowings; and we could be forced into bankruptcy or liquidation. Our level of indebtedness could have important consequences. For example it could:

- make it more difficult for us to satisfy our obligations with respect to the 6.75% Notes;
- make it difficult for us to meet our obligations with respect to our contingent deferred acquisition payments;
- limit our ability to increase our ownership stake in our Partner firms;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital and other activities;
- limit our flexibility in planning for, or reacting to, changes in our business and the advertising industry, which may place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit, particularly in concert with the financial and other restrictive covenants in our indebtedness, our ability to borrow additional funds or take other actions.

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Despite our current debt levels, we may be able to incur substantially more indebtedness, which could further increase the risks associated with our leverage.

We may incur substantial additional indebtedness in the future. The terms of our Credit Agreement and the indenture governing the 6.75% Notes permit us and our subsidiaries to incur additional indebtedness subject to certain limitations. If we or our subsidiaries incur additional indebtedness, the related risks that we face could increase.

We are a holding company dependent on our subsidiaries for our ability to service our debt and pay dividends.

MDC is a holding company with no operations of our own. Consequently, our ability to service our debt and to pay cash dividends on our common stock is dependent upon the earnings from the businesses conducted by our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Although our operating subsidiaries have generally agreed to allow us to consolidate and “sweep” cash, subject to the timing of payments due to minority holders, any distribution of earnings to us from our subsidiaries is contingent upon the subsidiaries’ earnings and various other business considerations. Also, our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of the holders of common stock to participate in those assets, will be structurally subordinated to the claims of that subsidiary’s creditors. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

We could change or suspend our existing dividend practice in the future.

The declaration and payment of dividends on our common stock is at the discretion of MDC’s board of directors and will depend upon limitations contained in our Credit Agreement and the indenture governing the 6.75% Notes, future earnings, capital requirements, our general financial condition and general business conditions. MDC’s practice is to pay dividends only out of excess free cash flow from operations, and in the event that worsening economic conditions, disruptions in the credit markets or other factors have a significant effect on our liquidity, MDC’s board of directors could decide to reduce or suspend dividend payments in the future.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

See the notes to the Company’s consolidated financial statements included in this Annual Report for a discussion of the Company’s lease commitments and the “Management’s Discussion and Analysis” for the impact of occupancy costs on the Company’s operating expenses.

The Company maintains office space in many cities in the United States, Canada, Europe, Asia, and South America. This space is primarily used for office and administrative purposes by the Company’s employees in performing professional services. This office space is in suitable and well-maintained condition for MDC’s current operations. All of the Company’s materially important office space is leased from third parties with varying expiration dates. Certain of these leases are subject to rent reviews or contain various escalation clauses and certain of our leases require our payment of various operating expenses, which may also be subject to escalation. In addition, leases related to the Company’s non-U.S. businesses are denominated in currencies other than U.S. Dollars and are therefore subject to changes in foreign exchange rates.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant’s Common Equity Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders of Class A Subordinate Voting Shares

The principal United States market on which the Company’s Class A subordinate voting shares are traded is the NASDAQ National Market (“NASDAQ”) (symbol: “MDCA”), and the principal market in Canada is the Toronto Stock Exchange (symbol: “MDZ.A”). As of February 28, 2015, the approximate number of holders of our Class A subordinate voting shares, including those whose shares are held in nominee name, was 788. Quarterly high and low sales prices per share of the Company’s Class A subordinate voting shares, as reported on NASDAQ and the Toronto Stock Exchange, respectively, for each quarter in the years ended December 31, 2014 and 2013, are as follows:

Nasdaq

Quarter Ended	High	Low
	($ per Share)	
March 31, 2013	10.78	7.75
June 30, 2013	12.55	9.52
September 30, 2013	18.65	12.48
December 31, 2013	25.51	18.41
March 31, 2014	26.62	20.55
June 30, 2014	25.48	19.31
September 30, 2014	22.71	18.54
December 31, 2014	23.45	17.99

The Toronto Stock Exchange

Quarter Ended	High	Low
	(C$ per Share)	
March 31, 2013	10.89	7.70
June 30, 2013	12.73	9.71
September 30, 2013	19.22	12.67
December 31, 2013	27.30	18.83
March 31, 2014	29.06	22.67
June 30, 2014	28.00	20.51
September 30, 2014	24.80	20.48
December 31, 2014	27.00	19.89

As of February 20, 2015, the last reported sale price of the Class A subordinate voting shares was $25.51 on NASDAQ and C$32.10 on the Toronto Stock Exchange.

Dividend Practice

In 2014, MDC’s board of directors declared the following dividends: a $0.18 per share quarterly dividend to all shareholders of record as of the close of business on March 4, 2014; a $0.18 per share quarterly dividend to all shareholders of record as of the close of business on May 5, 2014; a $0.19 per share quarterly dividend to all shareholders of record as of the close of business on August 5, 2014; and a $0.19 per share quarterly dividend to all shareholders of record as of the close of business on November 10, 2014. MDC’s practice is to pay dividends only out of excess free cash flow from operations. MDC is further limited in the extent to which we are able to pay dividends under our Credit Agreement and the indenture governing the 6.75% Notes. The payment of any future dividends will be at the discretion of MDC’s board of directors and will depend upon limitations contained in our Credit Agreement and the indenture governing the 6.75% Notes, future earnings, capital requirements, our general financial condition and general business conditions.

In 2013, MDC's board of directors declared the following dividends: a $0.19 per share semi-annual dividend to all shareholders of record as of the close of business on May 10, 2013; a $0.11 per share quarterly dividend to all shareholders of record as of the close of business on August 6, 2013; and a $0.16 per share quarterly dividend to all shareholders of record as of the close of business on November 7, 2013.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information regarding securities issued under our equity compensation plans as of December 31, 2014.

	Number of Securities to Be Issued Upon Exercise of Outstanding Options and Rights	Weighted Average Exercise Price of Outstanding Options and Rights	Number of Securities Remaining Available for Future Issuance (Excluding Column (a))
	(a)	(b)	(c)
Equity Compensation Plans:			
Approved by stockholders:			
Share options	112,500	$5.70	1,002,172
Not approved by stockholders:			
None	—	—	—

On May 26, 2005, the Company's shareholders' approved the 2005 Stock Incentive Plan, which provides for the issuance of three million Class A shares. On June 2, 2009 and June 1, 2007, the Company's shareholders approved amendments to the 2005 Stock Incentive Plan, which increased the number of shares available for issuance to 6.75 million Class A shares. In addition, the plan was amended to allow shares under this plan to be used to satisfy share obligations under the Stock Appreciation Rights Plan. On May 30, 2008, the Company's shareholders approved the 2008 Key Partner Incentive Plan, which provides for the issuance of 900,000 Class A shares. On June 1, 2011, the Company's shareholders approved the 2011 Stock Incentive Plan, which provides for the issuance of up to 3 million Class A shares.

See also Note 12 of the Notes to the Consolidated Financial Statements included herein.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

On April 2, 2014, the Company issued an additional $75 million principal amount of 6.75% Senior Notes to various institutional investors in a private offering exempt from registration in reliance on Rule 144A and Regulation S under the Securities Act. We received net proceeds from the offering of approximately $77.5 million, and we used the proceeds for general corporate purposes, including the funding of deferred acquisition consideration, working capital, acquisitions and the repayment of the amount outstanding under our senior secured revolving credit facility.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

Issuer Purchases of Equity Securities:

Shares — Class A subordinate voting shares

For the twelve months ended December 31, 2014, the Company made no open market purchases of its Class A shares or its Class B shares. Pursuant to its Credit Agreement and indenture governing the 6.75% Notes, the Company is currently limited from repurchasing its shares in the open market.

During 2014, the Company's employees surrendered 216,004 Class A shares valued at approximately $5.4 million in connection with the required tax withholding resulting from the vesting of restricted stock. The Company paid these withholding taxes on behalf of the related employees. These Class A shares were subsequently retired and no longer remain outstanding as of December 31, 2014.

Transfer Agent and Registrar for Common Stock

The transfer agent and registrar for the Company's common stock is Canadian Stock Transfer Trust Company (f/k/a CIBC Mellon Trust Company). Canadian Stock Transfer Trust Company operates a telephone information inquiry line

that can be reached by dialing toll-free 1-800-387-0825 or 416-643-5500.
Correspondence may be addressed to:
MDC Partners Inc.
C/o Canadian Stock Transfer Trust Company
P.O. Box 4202, Postal Station A
Toronto, Ontario M5W 0E4
Item 6. Selected Financial Data

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The following selected financial data should be read in connection with Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes that are included in this annual report on Form 10-K.

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in Thousands, Except per Share Data)				
Operating Data					
Revenues	$1,223,512	$1,062,478	$972,973	$853,240	$616,157
Operating profit (loss)	$87,749	$(34,594)	$(17,969)	$10,287	$33,573
Income (loss) from continuing operations	$4,093	$(133,202)	$(73,448)	$(73,886)	$2,134
Stock-based compensation included in income (loss) from continuing operations	$17,696	$100,405	$32,197	$23,657	$16,507
Income (Loss) per Share					
Basic					
Continuing operations attributable to MDC Partners Inc. common shareholders	$(0.06)	$(2.96)	$(1.74)	$(1.69)	$(0.20)
Diluted					
Continuing operations attributable to MDC Partners Inc. common shareholders	$(0.06)	$(2.96)	$(1.74)	$(1.69)	$(0.20)
Cash dividends declared per share	$0.74	$0.46	$0.38	$0.45	$0.23
Financial Position Data					
Total assets	$1,648,890	$1,425,227	$1,344,945	$1,055,745	$914,348
Total debt	$743,127	$665,128	$431,703	$385,174	$286,216
Redeemable noncontrolling interests	$194,951	$148,534	$117,953	$107,432	$77,560
Deferred acquisition consideration	$205,368	$153,913	$196,446	$137,223	$107,991
Fixed charge coverage ratio	1.23	N/A	N/A	N/A	1.04
Fixed charge deficiency	N/A	$134,754	$63,240	$27,780	N/A

Several significant factors that should be considered when comparing the annual results shown above are as follows:

Year Ended December 31, 2014

During 2014, the Company completed a number of acquisitions and a number of transactions with majority owned subsidiaries. Please see Note 4 of the Notes to the Consolidated Financial Statements included herein for a summary of these acquisitions.

On April 2, 2014, the Company issued an additional $75 million aggregate principal amount of its 6.75% Notes. The additional notes were issued under the indenture governing the 6.75% Notes and treated as a single series with the original 6.75% Notes. We received net proceeds from the offering of approximately $77.5 million, and we used the proceeds for general corporate purposes, including the funding of deferred acquisition consideration, working capital, acquisitions, and the repayment of the amount outstanding under our senior secured revolving credit facility.

During the quarter ended December 31, 2014, the Company made the decision to strategically sell the net assets of Accent Marketing Services, L.L.C. All periods reflect these discontinued operations. See Note 10 of the Notes to the Consolidated Financial Statements included herein.

Year Ended December 31, 2013

During 2013, the Company completed an acquisition and a number of transactions with majority owned subsidiaries. Please see Note 4 of the Notes to the Consolidated Financial Statements included herein for a summary of these acquisitions.

On March 20, 2013, the Company issued and sold $550 million aggregate principal amount 6.75% Notes due 2020. The 6.75% Notes are guaranteed on a senior unsecured basis by all of MDC's existing and future restricted subsidiaries that guarantee, or are co-borrowers under or grant liens to secure the Credit Agreement. The 6.75% Notes bear interest at a rate of

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6.75% per annum, accruing from March 20, 2013. Interest is payable semiannually in arrears in cash on May 1 and November 1 of each year, beginning on October 1, 2013. The 6.75% Notes will mature on April 1, 2020, unless earlier redeemed or repurchased. The 6.75% Notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds from the offering of the 6.75% Notes equal to approximately $537.6 million. The Company used net proceeds to redeem all of the existing 11% Notes, together with accrued interest, related premiums, fees and expenses and recorded a charge for loss on redemption of notes of $55.6 million, including write offs of unamortized original issue premium and debt issuance costs. Remaining proceeds were used for general corporate purposes. In addition, the Company entered into an amended and restated, $225 million senior secured revolving credit agreement due 2018.

In November 2013, stock-based compensation included a charge of $78.0 million relating to the cash settlement of the outstanding Stock Appreciation Rights (“SAR’s”).

On November 15, 2013, the Company issued an additional $110 million aggregate principal amount of its 6.75% Notes. The additional notes were issued under the indenture governing the 6.75% Notes and treated as a single series with the original 6.75% Notes.

During 2013, the Company discontinued two subsidiaries and an operating division. All periods reflect these discontinued operations. See Note 10 of the Notes to the Consolidated Financial Statements included herein.

Year Ended December 31, 2012

During 2012, the Company completed a number of acquisitions. Please see Note 4 of the Notes to the Consolidated Financial Statements included herein for a summary of these acquisitions.

On December 10, 2012, the Company and its wholly-owned subsidiaries, as guarantors, issued and sold an additional $80 million aggregate principal amount of 11% Notes due 2016. The additional notes were issued under the indenture governing the 11% Notes and treated as a single series with the original 11% Notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of $83.2 million, which included an original issue premium of $4.8 million, and underwriter fees of $1.6 million. The Company used the net proceeds of the offering to repay the outstanding balance under the Company’s revolving credit agreement described elsewhere herein, and for general corporate purposes.

During 2012, the Company discontinued a subsidiary and certain operating divisions. All periods reflect these discontinued operations. See Note 10 of the Notes to the Consolidated Financial Statements included herein.

Year Ended December 31, 2011

During 2011, the Company completed a number of acquisitions.

On April 19, 2011, the Company and its wholly-owned subsidiaries, as guarantors, issued and sold an additional $55 million aggregate principal amount of 11% Notes due 2016. The additional notes were issued under the indenture governing the 11% Notes and treated as a single series with the original 11% Notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of $59.6 million, which included an original issue premium of $6.1 million, and underwriter fees of $1.5 million. The Company used the net proceeds of the offering to repay the outstanding balance under the Company’s revolving credit agreement described elsewhere herein, and for general corporate purposes.

Effective December 31, 2011, the Company discontinued an operating division. All periods reflect this discontinued operation. See Note 10 of the Notes to the Consolidated Financial Statements included herein.

Year Ended December 31, 2010

During 2010, the Company completed a significant number of acquisitions.

On May 14, 2010, the Company and its wholly-owned subsidiaries, as guarantors issued and sold $65 million aggregate principal amount of 11% Notes due 2016. The additional notes were issued under the indenture governing the 11% notes and treated as a single series with the original 11% notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of $67.2 million, which included an original issue premium of $2.6 million, and underwriter fees of $0.4 million. The Company used the net proceeds of the offering to repay the outstanding balance under the Company's revolving Credit Agreement described elsewhere herein, and for general corporate purposes, including acquisitions.

Effective September 30, 2010, the Company ceased a subsidiary. All periods reflect these discontinued operations. See Note 10 of the Notes to the Consolidated Financial Statements included herein.

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated, references to a fiscal year means the Company’s year commencing on January 1 of that year and ending December 31 of that year (e.g., fiscal 2014 means the period beginning January 1, 2014, and ending December 31, 2014). References in the Annual Report on Form 10-K to "partners" refer to the subsidiaries of the Company.

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

Executive Summary

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

MDC manages the business by monitoring several financial and non-financial performance indicators. The key indicators that we review focus on the areas of revenues and operating expenses and capital expenditures. Revenue growth is analyzed by reviewing the components and mix of the growth, including: growth by major geographic location; existing growth by major segment (organic); growth from currency changes; and growth from acquisitions.

MDC conducts its businesses through the Marketing Communications Group. Within the Marketing Communications Group, there is one reportable operating segment, the Strategic Marketing Services, and an other segment, the Performance Marketing Services. In addition, MDC has a “Corporate Group” which provides certain accounting, administrative, financial, human resource and legal functions.

Marketing Communications Businesses

Through its partners, MDC provides value-added marketing and communications and strategic consulting services to clients throughout the world.

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

MDC measures operating expenses in two distinct cost categories: cost of services sold, and office and general expenses. Cost of services sold is primarily comprised of employee compensation related costs and direct costs related primarily to providing services. Office and general expenses are primarily comprised of rent and occupancy costs and administrative service costs including related employee compensation costs. Also included in office and general expenses are the changes of the estimated value of our contingent purchase price obligations, including the accretion of present value and acquisition related costs. Depreciation and amortization are also included in operating expenses. Because we are a service business, we monitor these costs on a percentage of revenue basis. Cost of services sold tend to fluctuate in conjunction with changes in revenues, whereas office and general expenses and depreciation and amortization, which are not directly related to servicing clients, tend to decrease as a percentage of revenue as revenues increase because a significant portion of these expenses are relatively fixed in nature.

We measure capital expenditures as either maintenance or investment related. Maintenance capital expenditures are primarily composed of general upkeep of our office facilities and equipment that are required to continue to operate our businesses. Investment capital expenditures include expansion costs, the build out of new capabilities, technology, or other growth initiatives not related to the day to day upkeep of the existing operations. Growth capital expenditures are measured and approved based on the expected return of the invested capital.

Certain Factors Affecting Our Business

Overall Factors Affecting our Business and Results of Operations. The most significant factors include national, regional and local economic conditions, our clients' profitability, mergers and acquisitions of our clients, changes in top management of our clients and our ability to retain and attract key employees. New business wins and client losses occur due to a variety of factors. The two most significant factors are; clients' desire to change marketing communication firms, and the creative product our firms are offering. A client may choose to change marketing communication firms for a number of reasons, such as a

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

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

Acquisitions and Dispositions. Our strategy includes acquiring ownership stakes in well-managed businesses with strong reputations in the industry. We engaged in a number of acquisition and disposal transactions during the 2010 to 2014 period, which affected revenues, expenses, operating income and net income. Additional information regarding material acquisitions is provided in Note 4 "Acquisitions" and information on dispositions is provided in Note 10 "Discontinued Operations" in the Notes to the Consolidated Financial Statements included herein.

Foreign Exchange Fluctuation. Our financial results and competitive position are affected by fluctuations in the exchange rate between the U.S. Dollar and non-U.S. Dollars, primarily the Canadian Dollar. See also Item 7A, "Quantitative and Qualitative Disclosures About Market Risk — Foreign Exchange."

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

Fourth Quarter Results. Revenues for the fourth quarter of 2014 increased to $339.9 million, compared to 2013 fourth quarter revenues of $289.2 million. The increase consisted of organic growth of $36.2 million, acquisition revenue of $18.2 million and a decrease of $3.7 million due to foreign currency fluctuations. The Strategic Marketing Services segment had revenue growth of $42.9 million in 2014, of which $33.0 million was organic, acquisition revenue of $12.7 million, offset by a decrease of $2.8 million due to foreign currency fluctuations. The Performance Marketing Services segment had increased revenue of $7.8 million in 2014, which consisted of organic growth of $3.2 million, acquisition revenue of $5.5 million, offset by a decrease of $0.9 million related to foreign currency fluctuations.

Operating results for the fourth quarter of 2014 resulted in a profit of $25.7 million, compared to a loss of $70.1 million in 2013. The increase in operating profits was primarily related to two compensation related items from 2013: a stock based compensation charge of $55.8 million relating to the Company's settlement of its outstanding SAR's in cash, and a one-time contractual bonus to the Company's CEO of $9.6 million for the Company's stock price achieving specified targets and to a reduction of $28.8 million relating to the estimated deferred acquisition consideration expense. Loss from continuing operations for the fourth quarter of 2014 was $6.4 million, compared to $90.1 million in 2013. Other expense net increased to $9.1 million in 2014, compared to $4.6 million in 2013 due to unrealized losses due to foreign currency fluctuations. Interest expense was higher in 2014 by $2.9 million, income tax expense was also higher by $5.8 million and equity in earnings of non-consolidated affiliates was $1.2 million in 2014, compared to $0.1 million in 2013. Interest expense increased due to the Company's additional issuance of $75 million aggregate principal 6.75% Notes in April 2014.

Summary of Key Transactions

Year Ended December 31, 2014

The Company completed several key acquisitions in 2014. MDC acquired a 60% equity interest in Luntz Global Partners LLC, a 65% equity interest in Kingsdale Partners LP, a 100% equity interest in The House Worldwide Ltd, an additional 82% equity interest in Trapeze Media Limited, a 65% equity interest in Hunter PR LLC, a 75% equity interest in Albion Brand Communications Limited and two additional non-material acquisitions.

The total aggregate purchase price for these 2014 transactions was $151.2 million, which included closing cash payments equal to $67.2 million, plus additional estimated contingent purchase payments in future years of

approximately $84.0 million. See Note 4 of the Notes to the Consolidated Financial Statements included herein for additional information on these and other acquisitions.
On April 2, 2014, the Company issued an additional $75 million aggregate principal amount of its 6.75% Notes. The additional notes were issued under the indenture governing the 6.75% Notes and treated as a single series with the original 6.75% Notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of $77.5 million, which included an original issue premium of $3.9 million, payment of underwriter fees of $1.5 million. The Company used the net proceeds of the

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offering for general corporate purposes including the funding of deferred acquisition consideration, working capital, acquisitions, and the repayment of the amount outstanding under our senior secured revolving credit facility.

Year Ended December 31, 2013

On March 20, 3013, the Company issued and sold $550 million aggregate principal amount 6.75% Notes. The Company received net proceeds from the offering of the 6.75% Notes equal to approximately $537.6 million. The Company used the net proceeds to redeem all of the 11% Notes, together with accrued interest, related premiums, fees and expenses and recorded a charge for loss on redemption of notes of $55.6 million, including write offs of unamortized original issue premium and debt issuance costs. Remaining proceeds were used for general corporate purposes. In addition, the Company entered into an amended and restated $225 million senior secured revolving credit agreement due 2018.

On November 15, 2013, the Company issued an additional $110 million aggregate principal amount of its 6.75% Notes. The additional notes were issued under the indenture governing the 6.75% Notes and treated as a single series with the original 6.75% Notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of $111.9 million, which included an original issue premium of $4.1 million, and underwriter fees of $2.2 million. The Company used the net proceeds of the offering for general corporate purposes.

Year Ended December 31, 2012

The Company completed several key acquisitions and transactions in 2012. These acquisitions included the acquisition of Doner Partners LLC. The Company acquired a 30% voting interest and a convertible preferred interest that allows the Company to increase ordinary voting ownership to 70% at MDC’s option, at no additional cost to the Company. Doner is a full service integrated creative agency. In addition, the Company acquired a 70% interest in TargetCast LLC, a full service integrated media agency.

The total aggregate purchase price for these 2012 transactions was $82.8 million, which included closing cash payments equal to $18.5 million and $8.0 million of working capital payments, plus additional estimated contingent purchase payments in future years of approximately $59.5 million. See Note 4 of the Notes to the Consolidated Financial Statements included herein for additional information on these and other acquisitions.

On December 10, 2012, the Company and its wholly-owned subsidiaries, as guarantors, issued and sold an additional $80 million aggregate principal amount of 11% Notes due 2016. The additional notes were issued under the Indenture governing the 11% Notes and treated as a single series with the original 11% Notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of $83.2 million, which included an original issue premium of $4.8 million, less underwriter fees of $1.6 million. The Company used the net proceeds of the offering to repay the outstanding balance under the Company’s revolving credit agreement described elsewhere herein, and for general corporate purposes.

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Results of Operations for the Years Ended December 31, 2014, 2013 and 2012:

	For the Year Ended December 31, 2014			
	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$954,211	$269,301	$—	$1,223,512
Cost of services sold	617,914	180,604	—	798,518
Office and general expenses	200,716	45,224	44,133	290,073
Depreciation and amortization	24,158	21,229	1,785	47,172
Operating profit (loss)	111,423	22,244	(45,918)	87,749
Other income (expense):				
Other income, net				689
Foreign exchange loss				(18,482)
Interest expense and finance charges, net				(54,847)
Income from continuing operations before income taxes, equity in non-consolidated affiliates				15,109
Income tax expense				12,422
Income from continuing operations before equity in non-consolidated affiliates				2,687
Equity in earnings of non-consolidated affiliates				1,406
Income from continuing operations				4,093
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(21,260)
Net loss				(17,167)
Net (income) loss attributable to noncontrolling interests	(6,943)	53	—	(6,890)
Net loss attributable to MDC Partners Inc.				$(24,057)
Stock based compensation	$9,616	$3,553	$4,527	$17,696

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	For the Year Ended December 31, 2013			
	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$836,936	$225,542	$—	$1,062,478
Cost of services sold	535,085	169,884	—	704,969
Office and general expenses	190,699	38,551	126,714	355,964
Depreciation and amortization	24,210	10,535	1,394	36,139
Operating profit (loss)	86,942	6,572	(128,108)	(34,594)
Other income (expense):				
Other income, net				2,531
Foreign exchange loss				(5,516)
Interest expense, finance charges and loss on redemption of notes, net				(100,271)
Loss from continuing operations before income taxes, equity in non-consolidated affiliates				(137,850)
Income tax benefit				(4,367)
Loss from continuing operations before equity in non-consolidated affiliates				(133,483)
Equity in earnings of non-consolidated affiliates				281
Loss from continuing operations				(133,202)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(9,200)
Net loss				(142,402)
Net income attributable to noncontrolling interests	(6,150)	(311)	—	(6,461)
Net loss attributable to MDC Partners Inc.				$(148,863)
Stock based compensation	$7,657	$3,017	$89,731	$100,405

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	For the Year Ended December 31, 2012			
	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$751,464	$221,509	$—	$972,973
Cost of services sold	504,407	162,922	—	667,329
Office and general expenses	193,758	48,561	38,847	281,166
Depreciation and amortization	27,807	13,298	1,342	42,447
Operating profit (loss)	25,492	(3,272)	(40,189)	(17,969)
Other income (expense):				
Other income, net				450
Foreign exchange loss				(1,138)
Interest expense and finance charges, net				(45,871)
Loss from continuing operations before income taxes, equity in non-consolidated affiliates				(64,528)
Income tax expense				9,553
Loss from continuing operations before equity in non-consolidated affiliates				(74,081)
Equity in earnings of non-consolidated affiliates				633
Loss from continuing operations				(73,448)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(5,128)
Net loss				(78,576)
Net income attributable to noncontrolling interests	(6,326)	(537)	—	(6,863)
Net loss attributable to MDC Partners Inc.				$(85,439)
Stock based compensation	$9,186	$8,227	$14,784	$32,197

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Revenue was $1.2 billion for the year ended 2014, representing an increase of $161.0 million, or 15.2%, compared to revenue of $1.1 billion for the year ended 2013. This increase relates primarily to an increase in organic revenue of $115.0 million and acquisition growth of $54.6 million. A strengthening of the U.S. Dollar, primarily versus the Canadian Dollar during the year ended December 31, 2014, resulted in a decrease of $8.6 million.

Operating income for the year ended 2014 was $87.7 million, compared to a loss of $34.6 million in 2013. Operating profit increased by $24.5 million in the Strategic Marketing Services segment and by $15.7 million in the Performance Marketing Services segment. Corporate operating expenses decreased by $82.2 million in 2014.

Income from continuing operations was $4.1 million in 2014, compared to a loss of $133.2 million in 2013. This increase of $137.3 million was primarily attributable to an increase in operating profits of $122.3 million, primarily due to increased revenue and a decrease in stock based compensation of $82.7 million, and a decrease in net interest expense equal to $45.4 million, offset by an increase in tax expense of $16.8 million. The decrease in net interest expense was primarily due to the Company’s redemption of its 11% Notes in March 2013 and related premium, fees and expenses of $55.6 million offset by higher overall debt outstanding. These amounts were also impacted by an increase in foreign exchange losses of $12.9 million in 2014 and a decrease in other income, net of $1.9 million.

Marketing Communications Group

Revenues attributable to the Marketing Communications Group, which consists of two segments — Strategic Marketing Services and Performance Marketing Services, were $1.2 billion in the aggregate in 2014, compared to $1.1 billion in 2013, representing a year-over-year increase of 15.2%.

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The components of the change in revenue for 2014 are shown in the following table:

	Revenue $000's	%
Year ended December 31, 2013	$1,062,478	
Acquisition	54,626	5.1%
Organic	114,969	10.8%
Foreign exchange impact	(8,561)	(0.7)%
Year ended December 31, 2014	$1,223,512	15.2%

The geographic mix in revenues was relatively consistent between 2014 and 2013 and is demonstrated in the following table:

	2014	2013
US	81%	82%
Canada	12%	13%
Europe and other	7%	5%

The operating profit of the Marketing Communications Group increased by $40.2 million to $133.7 million from $93.5 million. Operating margins increased by 2.1% and were 10.9% for 2014, compared to 8.8% for 2013. The increase in operating profit and operating margin was primarily due to increases in revenue, decreases in total staff costs and decreases in office and general, offset by an increase in direct cost (excluding staff labor). Total staff costs as a percentage of revenue decreased by 1.9% from 57.7% in 2013 to 55.8% in 2014. Direct costs (excluding staff labor) increased as a percentage of revenues from 14.4% in 2013, to 15.8% in 2014. Direct costs increased as there were more pass-through costs incurred on the clients' behalf during 2014 where the company was acting as principal versus agent for certain client contracts. Office and general expenses decreased as a percentage of revenue by 1.5% from 21.6% in 2013, to 20.1% in 2014. This decrease was primarily due to a reduction of $19.4 million in expense relating to estimated deferred acquisition consideration and the increase in revenue on relatively fixed costs. Depreciation and amortization as a percentage of revenue increased from 3.3% in 2013 to 3.7% in 2014, due primarily to the increase in revenue.

Marketing Communications Businesses

Strategic Marketing Services

Revenues attributable to Strategic Marketing Services in 2014 were $954.2 million, compared to $836.9 million in 2013. The year-over-year increase of $117.3 million, or 14.0%, was attributable primarily to organic growth of $102.2 million, or 12.2%, as a result of net new business wins, and acquisition growth of $20.3 million or 2.4%. These increases were offset by a foreign exchange translation decrease of $5.2 million, due to the strengthening of the U.S. Dollar compared to the Canadian Dollar.

The operating profit of Strategic Marketing Services increased by $24.5 million from $86.9 million in 2013 to $111.4 million in 2014. Operating margins increased from 10.4% in 2013 to 11.7% in 2014. The increase in operating profits and operating margins were primarily due to increases in revenues, decrease in total staff costs and decreases in office and general, offset by an increase in direct costs (excluding staff labor). Total staff costs as a percentage of revenue decreased from 59.3% in 2013 to 58.7% in 2014. Direct costs (excluding staff labor) increased as a percentage of revenue from 10.1% in 2013 to 11.6% in 2014. Direct costs increased as there were more pass-through costs incurred on the clients' behalf during 2014 where the company was acting as principal versus agent for certain client contracts. Office and general expenses decreased as a percentage of revenue from 22.8% in 2013 to 21.0% in 2014. The decrease was due to a reduction of $12.5 million in expense relating to estimated deferred acquisition consideration and the increased revenue on relatively fixed costs. Depreciation and amortization as a percentage of revenue decreased from 2.9% in 2013 to 2.5% in 2014 due to the increase in revenue.

Performance Marketing Services

Performance Marketing Services generated revenues of $269.3 million for 2014, an increase of $43.8, or 19.4%, compared to revenues of $225.5 million in 2013. The year-over-year increase was attributable primarily to an organic growth of $12.7 million or 5.6% as a result of net new business and an increase in acquisition growth of $34.4 million or 15.2%, offset by a foreign translation decrease of $3.3 million.

The operating profit of Performance Marketing Services increased by $15.7 million, from $6.6 million in 2013 to $22.2 million in 2014. Operating margins increased from 2.9% in 2013 to 8.3% in 2014. The increase in operating profits and operating margins were primarily due to increased revenue, decreases in total staff costs, offset by an increase in direct costs (excluding staff labor). Total staff costs decreased from 51.8% in 2013 to 45.3% in 2014. Direct costs increased from 30.1% in 2013 to 30.5% in 2014 due to increased pass-through costs incurred on the clients' behalf during 2014 where the agency was acting as principal versus agent for certain client contracts. Office and general costs decreased from 17.1% in 2013 to 16.8% in 2014 due primarily to decreased expenses relating to estimated deferred acquisition consideration. Depreciation and amortization increased from 4.7% in 2013 to 7.9% in 2014 due primarily to the additional amortization expense related to the 2014 acquisitions.

Corporate

Operating costs related to the Company's Corporate operations decreased by $82.2 million to $45.9 million in 2014, compared to $128.1 million in 2013. This decrease was primarily due to the 2013 settlement of SAR's in cash resulting in a stock based compensation charge of $78.0 million and a one-time bonus payment of $9.6 million to our CEO for the Company's stock price achieving specified targets, offset by a reduction of expense relating to the $5.3 million repayment of a previously fully reserved loan by the Company's CEO. Excluding these items, corporate expenses were consistent year over year.

Other Income (Expense), Net

Other income (expense), net, decreased by $1.9 million from income of $2.5 million in 2013 to income of $0.7 million in 2014. The decrease relates to the 2013 distribution received in excess of the assets carrying value of $3.1 million.

Foreign Exchange

The foreign exchange loss was $18.5 million for 2014, compared to a loss of $5.5 million recorded in 2013. This unrealized loss was due primarily to the fluctuation in the U.S. Dollar during 2014 and 2013 compared to the Canadian Dollar relating to the Company's U.S. Dollar denominated intercompany balances with its Canadian subsidiaries.

Interest Expense and Finance Charges, Net

Interest expense and finance charges, net for 2014 was $54.8 million, a decrease of $45.4 million over the $100.3 million of interest expense and finance charges, net incurred during 2013. This decrease was due to the loss paid on the redemption of the Company's 11% Notes of $55.6 million and by the lower borrowing costs related to the 6.75% Notes issued to replace those notes offset by an overall increase in total debt outstanding in 2014.

Income Tax Expense

Income tax expense in 2014 was $12.4 million compared to a benefit of $4.4 million for 2013. The Company's effective rate was substantially higher than the statutory rate in 2014, primarily due to nondeductible stock-based compensation, an increase in the valuation allowance, and the effect of the difference in the U.S. and foreign federal rates compared to the Canadian statutory rate, offset in part by noncontrolling interest charges. The Company's effective tax rate was substantially higher than the statutory rate in 2013 due to non-deductible stock-based compensation and an increase in the Company's valuation allowance, offset in part by noncontrolling interest charges. The Company's U.S. operating units are generally structured as limited liability companies, which are treated as partnerships for tax purposes. The Company is only taxed on its share of profits, while noncontrolling holders are responsible for taxes on their share of the profits.

Equity in Affiliates

Equity in affiliates represents the income attributable to equity-accounted affiliate operations. In 2014, the Company recorded income of $1.4 million compared to income of $0.3 million in 2013 due to the Company increasing the number of entities accounted for under the equity method.

Noncontrolling Interests

The effects of noncontrolling interest was $6.9 million for 2014, an increase of $0.4 million from the $6.5 million during 2013. This increase relates to the overall increase in profits offset by step-up transactions of entities the Company does not own 100% in both the Strategic Marketing Services and Performance Marketing Service segments.

Discontinued Operations

The loss net of taxes from discontinued operations for 2014 was $21.3 million and $9.2 million in 2013. The increase in discontinued operations results from the 2014 decision to strategically sell the net assets of the Company's Accent division and the write-off of that company's goodwill of $15.6 million.

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Net Loss Attributable to MDC Partners Inc.

As a result of the foregoing, the net loss attributable to MDC Partners Inc. for 2014 was $24.1 million or a loss of $0.49 per diluted share, compared to a net loss of $148.9 million or $3.16 per diluted share reported for 2013.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenue was $1.1 billion for the year ended 2013, representing an increase of $89.5 million, or 9.2%, compared to revenue of $973.0 million for the year ended 2014. This increase relates primarily to an increase in organic revenue of $91.3 million and acquisition growth of $2.6 million. A strengthening of the U.S. Dollar, primarily versus the Canadian Dollar during the year ended December 31, 2013, resulted in a decrease of $4.4 million.

Operating loss for the year ended 2013 was $34.6 million, compared to a loss of $18.0 million in 2012. Operating profit increased by $61.5 million in the Strategic Marketing Services segment and by $9.8 million in the Performance Marketing Services segment. Corporate operating expenses increased by $87.9 million in 2013.

Loss from continuing operations was a loss of $133.2 million in 2013, compared to a loss of $73.4 million in 2012. This increase in loss of $60.1 million was primarily attributable to a decrease in operating profits of $16.6 million (primarily due to an increase in stock based compensation of $68.2 million), and an increase in net interest expense equal to $54.4 million, offset by a decrease in tax expense of $13.9 million. The increase in net interest expense was primarily due to the Company’s redemption of its 11% Notes in March 2013 and related premium, fees and expenses of $55.6 million. These amounts were also impacted by an increase in foreign exchange losses of $4.4 million in 2013 and an increase in other income, net of $2.1 million.

Marketing Communications Group

Revenues attributable to the Marketing Communications Group, which consists of two segments — Strategic Marketing Services and Performance Marketing Services, were $1.1 billion in the aggregate in 2013, compared to $1.0 billion in 2012, representing a year-over-year increase of 9.2%.

The components of the change in revenue for 2013 are shown in the following table:

	Revenue $000’s		%	
Year ended December 31, 2012	$972,973			
Acquisition	2,572		0.3	%
Organic	91,346		9.4	%
Foreign exchange impact	(4,413	)	(0.5	)%
Year ended December 31, 2013	$1,062,478		9.2	%

The geographic mix in revenues was relatively consistent between 2013 and 2012 and is demonstrated in the following table:

	2013		2012	
US	82	%	80	%
Canada	13	%	15	%
Europe and other	5	%	5	%

The operating profit of the Marketing Communications Group increased by $71.3 million to $93.5 million from $22.2 million. Operating margins increased by 6.5% and were 8.8% for 2013, compared to 2.3% for 2012. The increase in operating profit and operating margin was primarily due to increases in revenue and decreases in direct costs, office and general expenses, and depreciation and amortization. Total staff costs were consistent at approximately 58%. Direct costs (excluding staff costs) decreased as a percentage of revenues from 18.2% in 2012, to 14.4% in 2013. Direct costs decreased as there were fewer pass-through costs incurred on the clients’ behalf during 2013 where the company was acting as principal versus agent for certain client contracts. Office and general expenses decreased as a percentage of revenue from 24.9% in 2012, to 21.6% in 2013. This decrease was primarily due to a reduction of $17.1

million in expense relating to estimated deferred acquisition consideration and the increase in revenue on relatively fixed costs. Depreciation and amortization as a percentage of revenue decreased from 4.2% in 2012 to 3.3% in 2013 due to the increase in revenue.

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Marketing Communications Businesses
Strategic Marketing Services
Revenues attributable to Strategic Marketing Services in 2013 were $836.9 million, compared to $751.5 million in 2012. The year-over-year increase of $85.5 million, or 11.4%, was attributable primarily to organic growth of $91.4 million or 12.2%; these increases were offset by a foreign exchange translation decrease due to the strengthening of the U.S. Dollar compared to the Canadian Dollar. This organic revenue growth was driven by net new business wins.
The operating profit of Strategic Marketing Services increased by $61.4 million from $25.5 million in 2012 to $86.9 million in 2013. Operating margins increased from 3.4% in 2012 to 10.4% in 2013. The increase in operating profits and operating margins were primarily due to increases in revenues and decreases in direct costs, office and general costs and depreciation and amortization. Total staff costs were relatively consistent at 59%. Direct costs (excluding staff labor) decreased as a percentage of revenue from 14.5% 2012 to 10.1% in 2013. Direct costs decreased as there were fewer pass-through costs incurred on the clients' behalf during 2013 where the company was acting as principal versus agent for certain client contracts. Office and general expenses decreased as a percentage of revenue from 25.8% in 2012 to 22.8% in 2013. The decrease was due to a reduction of $12.4 million in expense relating to estimated deferred acquisition consideration and the increased revenue on relatively fixed costs. Depreciation and amortization as a percentage of revenue decreased from 3.7% in 2012 to 2.9% in 2013, due to the increase in revenue.
Performance Marketing Services
Performance Marketing Services generated revenues of $225.5 million for 2013, an increase of $4.0 million, or 1.8%, compared to revenues of $221.5 million in 2012. The year-over-year increase was attributable primarily to acquisition growth of $5.8 million and foreign translation decrease of $1.7 million.
The operating profit of Performance Marketing Services increased by $9.8 million, from a loss of $3.3 million in 2012 to income of $6.6 million in 2013. Operating margins increased from a loss of 1.5% in 2012 to income of 2.9% in 2013. The increase in operating profits and operating margins were primarily due to increased revenue and decreases in total staff costs, direct costs (excluding staff labor), office and general expenses, and depreciation and amortization. Total staff costs decreased from 52.6% in 2012 to 51.8% in 2013. Direct costs decreased from 30.7% in 2012 to 30.1% in 2013 due to decreased pass-through costs incurred on the clients' behalf during 2013 where the agency was acting as principal versus agent for certain client contracts. Office and general costs decreased as a percentage of revenue from 21.9% in 2012 to 17.1% in 2013 primarily due to decreased expenses relating to estimated deferred acquisition consideration and increased revenue on relatively fixed costs. Depreciation and amortization decreased from 6.0% in 2012 to 4.7% in 2013, due to the increase in revenue.
Corporate
Operating costs related to the Company's Corporate operations increased by $87.9 million to $128.1 million in 2013, compared to $40.2 million in 2012. This increase was primarily related to increased compensation and related costs of $89.0 million. The increase in compensation and related costs is due to the Company's settlement of its SAR's in cash resulting in a stock based compensation charge of $78.0 million and a one-time bonus payment of $9.6 million to our CEO for the Company's stock price achieving specified targets. Increases in benefits and severance costs accounted for the remaining increase. Additional advertising and promotion costs, occupancy, travel and entertainment, professional fees, and other administrative costs were offset by the repayment in full of a previously fully reserved loan by the Company's CEO of $5.3 million.
Other Income, Net
Other income, net, increased by $2.1 million from income of $0.5 million in 2012 to income of $2.5 million in 2013. The increase was primarily related to a distribution received in excess of the assets carrying value of $3.1 million.
Foreign Exchange
The foreign exchange loss was $5.5 million for 2013, compared to a loss of $1.1 million recorded in 2012. This unrealized loss was due primarily to the fluctuation in the U.S. Dollar during 2013 and 2012 compared to the Canadian Dollar relating to the Company's U.S. Dollar denominated intercompany balances with its Canadian

subsidiaries.

Interest Expense and Finance Charges, Net

Interest expense and finance charges, net for 2013 was $100.3 million, an increase of $54.4 million over the $45.9 million of interest expense and finance charges, net incurred during 2012. This increase was due to the loss paid on the redemption of the Company’s 11% Notes of $55.6 million, offset in part by lower borrowing costs related to the 6.75% Notes issued to replace those notes.

Income Tax Expense

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Income tax expense in 2012 was $9.6 million compared to a benefit of $4.4 million for 2013. The Company's effective rate was substantially lower than the statutory rate in 2013, primarily due to nondeductible stock-based compensation, an increase in the valuation allowance, offset in part by noncontrolling interest charges. The Company's effective tax rate was substantially higher than the statutory rate in 2012 due to non-deductible stock-based compensation and an increase in the Company's valuation allowance, offset in part by noncontrolling interest charges.

The Company's U.S. operating units are generally structured as limited liability companies, which are treated as partnerships for tax purposes. The Company is only taxed on its share of profits, while noncontrolling holders are responsible for taxes on their share of the profits.

Equity in Affiliates

Equity in affiliates represents the income attributable to equity-accounted affiliate operations. In 2013, the Company recorded income of $0.3 million compared to income of $0.6 million in 2012.

Noncontrolling Interests

The effects of noncontrolling interest was $6.5 million for 2013, a decrease of $0.4 million from the $6.9 million during 2012. The decrease relates to step-up transactions of entities the Company does not own 100% in both the Strategic Marketing Services and Performance Marketing Service segments.

Discontinued Operations

The loss net of taxes from discontinued operations for 2013 was $9.2 million and $5.1 million in 2012, due to the 2014 decision to strategically sell the Company's Accent division.

Net Loss Attributable to MDC Partners Inc.

As a result of the foregoing, the net loss attributable to MDC Partners Inc. for 2013 was $148.9 million or a loss of $3.16 per diluted share, compared to a net loss of $85.4 million or $1.85 per diluted share reported for 2012.

Liquidity and Capital Resources

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

Liquidity	2014	2013	2012
	(In Thousands, Except for Long-Term Debt to Shareholders' Equity Ratio)		
Cash and cash equivalents	$119,767	$102,007	$60,330
Working capital (deficit)	$(269,262)	$(189,815)	$(226,682)
Cash from operating activities	$133,942	$59,299	$76,304
Cash from (used in) investing activities	$(99,686)	$(30,124)	$7,811
Cash from (used in) financing activities	$(15,428)	$10,492	$(31,858)
Ratio of long-term debt to shareholders' deficit	(2.13)	(2.40)	(5.09)

As of December 31, 2014, 2013, and 2012, $6.5 million, $0.7 million and $2.5 million, respectively, of the Company's consolidated cash position was held by subsidiaries. Although this amount is available for the subsidiaries' use, it does not represent cash that is distributable as earnings to MDC for use to reduce its indebtedness. It is the Company's intent through its cash management system to reduce outstanding borrowings under the Credit Agreement by using available cash.

Working Capital

At December 31, 2014, the Company had a working capital deficit of $269.3 million compared to a deficit of $189.8 million at December 31, 2013. Working capital deficit increased by $79.5 million primarily related to a $37.8 million increase in short term deferred acquisition consideration. The increase in deficit was primarily due to timing in the amounts collected from clients, and when paid to suppliers, primarily media outlets. At December 31, 2014, the Company had no borrowings under its Credit Agreement. The Company includes amounts due to noncontrolling interest holders, for their share of profits, in accrued and other liabilities. During 2014, 2013 and 2012, the Company made distributions to these noncontrolling interest holders of $6.5 million, $5.5 million and $7.7 million, respectively. At December 31, 2014, $6.0 million remains outstanding to be distributed to noncontrolling interest holders over the next twelve months.

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The Company expects that available borrowings under its Credit Agreement, together with cash flows from operations and other initiatives, will be sufficient over the next twelve months to adequately fund working capital deficits should there be a need to do so from time to time, as well as all of the Company's obligations including put options and capital expenditures.

Operating Activities

Cash flows provided by continuing operations for 2014 was $135.8 million. This was attributable primarily to income from continuing operations of $4.1 million, plus non-cash stock based compensation of $17.7 million, depreciation and amortization of $49.4 million, and adjustments to deferred acquisition consideration of $18.7 million, an increase in accounts payable, accruals and other current liabilities of $57.5 million, a decrease in expenditures billable to clients of $23.4 million, foreign exchange of $14.8 million, and deferred income taxes of $11.0. This was partially offset by an increase in accounts receivable of $35.8 million, an increase in advanced billings of $13.8 million, other non-current assets and liabilities of $8.5 million, an increase in prepaid expenses and other current assets of $1.9 million, and earnings of non-consolidated affiliates of $1.4 million. Discontinued operations used cash of $1.8 million.

Cash flows provided by continuing operations for 2013 was $56.0 million. This was attributable primarily to a loss on the redemption of notes of $50.4 million, plus non-cash stock based compensation of $22.4 million, depreciation and amortization of $43.9 million, and adjustments to deferred acquisition consideration of $36.1 million, an increase in accounts payable, accruals and other current liabilities of $30.0 million, a decrease in accounts receivable of $16.1 million, an increase in advanced billings of $17.6 million and foreign exchange of $3.0 million. This was partially offset by a loss from continuing operations of $133.2 million, other non-current assets and liabilities of $9.4 million, an increase in prepaid expenses and other current assets of $7.8 million, deferred income tax of $5.4 million, an increase in expenditures billable to clients of $4.4 million, and distributions in excess of carrying value of $3.1 million. Discontinued operations provided cash of $3.3 million.

Cash flows provided by continuing operations for 2012 was $74.9 million. This was attributable primarily to non-cash stock based compensation of $32.2 million, depreciation and amortization of $44.7 million, and adjustments to deferred acquisition consideration of $53.3 million, an increase in accounts payable, accruals and other current liabilities of $65.9 million, deferred income taxes of $8.4 million, an increase in advanced billings of $1.8 million and foreign exchange of $0.9 million. This was partially offset by a loss from continuing operations of $73.5 million, an increase in accounts receivable of $28.9 million, an increase in expenditures billable to clients of $17.2 million, other non-current assets and liabilities of $9.2 million, an increase in prepaid expenses and other current assets of $3.0 million and earnings of non-consolidated affiliates of $0.6 million. Discontinued operations provided cash of $1.4 million.

Investing Activities

Cash flows used in investing activities were $99.7 million for 2014, compared with $30.1 million for 2013, and cash flows provided by investing activities of $7.8 million in 2012.

In the year ended December 31, 2014, capital expenditures totaled $26.4 million, of which $22.5 million was incurred by the Strategic Marketing Services segment, $2.6 million was incurred by the Performance Marketing Services segment, and $1.3 million was incurred by corporate. These expenditures consisted primarily of computer equipment, furniture and fixtures, and leasehold improvements. Discontinued operations used cash of $2.1 million in 2014 related to capital expenditures.

In the year ended December 31, 2014, the Company paid $68.3 million, net of cash acquired for acquisitions and $6.3 million for other investments. These outflows were offset by $3.4 million of profit distributions from non-consolidated affiliates.

In the year ended December 31, 2013, capital expenditures totaled $16.8 million, of which $12.3 million was incurred by the Strategic Marketing Services segment, $2.4 million was incurred by the Performance Marketing Services segment, and $2.1 million was incurred by corporate. These expenditures consisted primarily of computer equipment, furniture and fixtures, and leasehold improvements. Discontinued operations used cash of $2.8 million in 2013 related to capital expenditures.

In the year ended December 31, 2013, the Company paid $11.9 million, net of cash acquired for acquisitions and $2.7 million for other investments. These outflows were offset by $3.8 million of profit distributions from non-consolidated affiliates, and $0.2 million of proceeds from the sale of assets.

Expenditures for capital assets in 2012 were equal to $16.5 million. Of this amount, $11.6 million was incurred by the Strategic Marketing Services segment, $4.5 million was incurred by the Performance Marketing Services segment. These expenditures consisted primarily of computer equipment, leasehold improvements, furniture and fixtures, and $0.4 million related to the purchase of Corporate assets. These outflows were offset by $1.3 million in profit distributions.

Cash provided by acquisitions during 2012 was $30.9 million, $26.6 million related to acquisition payments, offset by $57.5 million of cash acquired. The Company also used cash of $2.2 million for other investments.

In 2012, discontinued operations used cash of $5.8 million relating to capital expenditures.

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Financing Activities

During the year ended December 31, 2014, cash flows used in financing activities amounted to $15.4 million, and consisted of $78.3 million of acquisition related payments, payment of dividends of $37.7 million, distributions to noncontrolling partners of $6.5 million, the purchase of treasury shares for income tax withholding requirements of $5.4 million, payment of $3.7 million for deferred financing costs and repayments of long term debt of $0.7 million. This was partially offset by proceeds from the issuance of additional 6.75% Notes of $78.9 million and cash overdrafts of $37.8 million.

During the year ended December 31, 2013, cash flows provided by financing activities amounted to $10.5 million, and consisted of proceeds from the issuance of the 6.75% Notes of $664.1 million, which in turn was offset by the repayment of the 11% Notes of $425.0 million, and the premium paid on redemption of notes of $50.4 million. Bank overdrafts provided an additional $4.9 million in cash. These proceeds were offset by $119.6 million of acquisition related payments, deferred financing costs of $20.8 million, the purchase of treasury shares for income tax withholding requirements of $13.8 million, distributions to noncontrolling partners of $5.5 million, payment of dividends of $22.0 million and repayments of long term debt of $0.7 million. Discontinued operations used cash of $1.3 million relating to the repayment of long term debt.

During the year ended December 31, 2012, cash flows used in financing activities amounted to $31.9 million and primarily consisted of $84.8 million of proceeds from the additional 11% Notes issuance, and bank overdrafts of $26.0 million. These proceeds were offset by acquisition related payments of $68.7 million, repayments of the revolving credit facility of $38.0 million, dividends paid of $22.0 million, distributions to noncontrolling shareholders of $7.7 million, purchase of shares of $3.3 million, deferred financing costs of $2.2 million and repayment of long-term debt of $0.7 million.

Total Debt

6.75% Senior Notes Due 2020

On March 20, 2013, MDC entered into an indenture (the "Indenture") among MDC, its existing and future restricted subsidiaries that guarantee, or are co-borrowers under or grant liens to secure, the Credit Agreement, as guarantors (the "Guarantors") and The Bank of New York Mellon, as trustee, relating to the issuance by MDC of the $500 million aggregate principal amount 6.75% Notes. The 6.75% Notes bear interest at a rate of 6.75% per annum, accruing from March 20, 2013. Interest is payable semiannually in arrears in cash on April 1 and October 1 of each year, beginning on October 1, 2013. The 6.75% Notes will mature on April 1, 2020, unless earlier redeemed or repurchased. The Company received net proceeds from the offering of the 6.75% Notes equal to approximately $537.6 million. The Company used the net proceeds to redeem all of the existing 11% Notes, together with accrued interest, related premiums, fees and expenses and recorded a charge during the nine months ended September 30, 2013, for loss on redemption of notes of $55.6 million, including write offs of unamortized original issue premium and debt issuance costs. Remaining proceeds were used for general corporate purposes.

On November 15, 2013, the Company issued an additional $110 million aggregate principal amount of its 6.75% Notes. The additional notes were issued under the Indenture governing the 6.75% Notes and treated as a single series with the original 6.75% Notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of $111.9 million, which included an original issue premium of $4.1 million, and underwriter fees of $2.2 million. The Company used the net proceeds of the offering for general corporate purposes.

On April 2, 2014, the Company issued an additional $75 million aggregate principal amount of 6.75% Notes due 2020. The additional notes were issued under the Indenture governing the 6.75% Notes and treated as a single series with the original 6.75% Notes. The additional notes were sold in private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of $77.5 million, which included an original issue premium of $3.9 million, payment of underwriter fees of $1.5 million. The Company used the net proceeds of the offering for general corporate purposes, including the funding of deferred acquisition consideration, working capital, acquisitions and the repayment of the amount outstanding under our senior secured revolving credit facility.

The 6.75% Notes are guaranteed on a senior unsecured basis by all of MDC's existing and future restricted subsidiaries that guarantee, or are co-borrowers under or grant liens to secure, the Credit Agreement. The 6.75% Notes are unsecured and unsubordinated obligations of MDC and rank (i) equally in right of payment with all of MDC's or any Guarantor's existing and future senior indebtedness, (ii) senior in right of payment to MDC's or any Guarantor's existing and future subordinated indebtedness, (iii) effectively subordinated to all of MDC's or any Guarantor's existing and future secured indebtedness to the extent of the collateral securing such indebtedness, including the Credit Agreement, and (iv) structurally subordinated to all existing and future liabilities of MDC's subsidiaries that are not Guarantors.

MDC may, at its option, redeem the 6.75% Notes in whole at any time or in part from time to time, on and after April 1, 2016 at a redemption price of 103.375% of the principal amount thereof if redeemed during the twelve-month period beginning on April 1, 2016, at a redemption price of 101.688% of the principal amount thereof if redeemed during the twelve-month period beginning on April 1, 2017 and at a redemption price of 100% of the principal amount thereof if redeemed on April 1, 2018 and thereafter.

Prior to April 1, 2016, MDC may, at its option, redeem some or all of the 6.75% Notes at a price equal to 100% of the principal amount of the 6.75% Notes plus a "make whole" premium and accrued and unpaid interest. MDC may also redeem, at its option, prior to April 1, 2016, up to 35% of the 6.75% Notes with the proceeds from one or more equity offerings at a redemption price of 106.750% of the principal amount thereof.

If MDC experiences certain kinds of changes of control (as defined in the Indenture), holders of the 6.75% Notes may require MDC to repurchase any 6.75% Notes held by them at a price equal to 101% of the principal amount of the 6.75% Notes plus accrued and unpaid interest. In addition, if MDC sells assets under certain circumstances, it must offer to repurchase the 6.75% Notes at a price equal to 100% of the principal amount of the 6.75% Notes plus accrued and unpaid interest.

The Indenture includes covenants that, among other things, restrict MDC's ability and the ability of its restricted subsidiaries (as defined in the Indenture) to incur or guarantee additional indebtedness; pay dividends on or redeem or repurchase the capital stock of MDC; make certain types of investments; create restrictions on the payment of dividends or other amounts from MDC's restricted subsidiaries; sell assets; enter into transactions with affiliates; create liens; enter into sale and leaseback transactions; and consolidate or merge with or into, or sell substantially all of MDC's assets to, another person. These covenants are subject to a number of important limitations and exceptions. The 6.75% Notes are also subject to customary events of default, including cross-payment default and cross-acceleration provisions.

Redemption of 11% Senior Notes Due 2016

On March 20, 2013, the Company redeemed all of the 11% Notes due 2016.

Revolving Credit Agreement

On March 20, 2013, MDC, Maxxcom Inc. (a subsidiary of MDC) and each of their subsidiaries party thereto entered into an amended and restated, $225 million senior secured revolving credit agreement due 2018 (the "Credit Agreement") with Wells Fargo Capital Finance, LLC, as agent, and the lenders from time to time party thereto. Advances under the Credit Agreement will be used for working capital and general corporate purposes, in each case pursuant to the terms of the Credit Agreement. Capitalized terms used in this section and not otherwise defined have the meanings set forth in the Credit Agreement.

Effective October 23, 2014, MDC and its subsidiaries entered into an amendment of its Credit Agreement. The amendment: (i) expands the commitments under the facility by $100 million, from $225 million to $325 million; (ii) extends the maturity date by an additional eighteen months to September 30, 2019; (iii) reduces the base borrowing interest rate by 25 basis points (the applicable margin for borrowing is 1.00% in the case of Base Rate Loans and 1.75% in the case of LIBOR Rate Loans) ; and (iv) modifies certain covenants to provide the Company with increased flexibility to fund its continued growth and other general corporate purposes.

Advances under the Credit Agreement bear interest as follows: (a)(i) LIBOR Rate Loans bear interest at the LIBOR Rate and (ii) Base Rate Loans bear interest at the Base Rate, plus (b) an applicable margin. The initial applicable margin for borrowing is 1.00% in the case of Base Rate Loans and 1.75% in the case of LIBOR Rate Loans. In addition to paying interest on outstanding principal under the Credit Agreement, MDC is required to pay an unused revolver fee to lenders under the Credit Agreement in respect of unused commitments thereunder.

The Credit Agreement is guaranteed by substantially all of MDC's present and future subsidiaries, other than immaterial subsidiaries and subject to customary exceptions. The Credit Agreement includes covenants that, among other things, restrict MDC's ability and the ability of its subsidiaries to incur or guarantee additional indebtedness; pay dividends on or redeem or repurchase the capital stock of MDC; make certain types of investments; impose limitations on dividends or other amounts from MDC's subsidiaries; incur certain liens, sell or otherwise dispose of certain assets; enter into transactions with affiliates; enter into sale and leaseback transactions; and consolidate or merge with or into, or sell substantially all of MDC's assets to, another person. These covenants are subject to a number of important limitations and exceptions. The Credit Agreement also contains financial covenants, including a total leverage ratio, a senior leverage ratio, a fixed charge coverage ratio and a minimum earnings level (each as more fully described in the Credit Agreement). The Credit Agreement is also subject to customary events of default.

The foregoing descriptions of the Indenture and the Credit Agreement do not purport to be complete and are qualified in their entirety by reference to the full text of the agreements.

Debt excluding the premium on the notes as December 31, 2014 was $736.1 million, an increase of $75.0 million, compared with $661.1 million outstanding at December 31, 2013. This increase in debt was a result of the Company's issuance of its 6.75% Notes offset by the repayment of its 11% Notes. At December 31, 2014, approximately $320.2 million was available under the Credit Agreement.

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

If the Company loses all or a substantial portion of its lines of credit under the Credit Agreement, or if the Company uses the maximum available amount under the Credit Agreement, it will be required to seek other sources of liquidity. If the Company were unable to find these sources of liquidity, for example through an equity offering or access to the capital markets, the Company's ability to fund its working capital needs and any contingent obligations with respect to put options would be adversely affected.

Pursuant to the Credit Agreement, the Company must comply with certain financial covenants including, among other things, covenants for (i) senior leverage ratio, (ii) total leverage ratio, (iii) fixed charges ratio, and (iv) minimum earnings before interest, taxes and depreciation and amortization, in each case as such term is specifically defined in the Credit Agreement. For the period ended December 31, 2014, the Company's calculation of each of these covenants, and the specific requirements under the Credit Agreement, respectively, were as follows:

	December 31, 2014
Total Senior Leverage Ratio	(0.52)
Maximum per covenant	2.00
Total Leverage Ratio	3.45
Maximum per covenant	5.50
Fixed Charges Ratio	2.48
Minimum per covenant	1.00
Earnings before interest, taxes, depreciation and amortization	$185.6 million
Minimum per covenant	$105.0 million

These ratios are not based on generally accepted accounting principles and are not presented as alternative measures of operating performance or liquidity. They are presented here to demonstrate compliance with the covenants in the Company's Credit Agreement, as non-compliance with such covenants could have a material adverse effect on the Company.

Disclosure of Contractual Obligations and Other Commercial Commitments

The following table provides a payment schedule of present and future obligations. Management anticipates that the obligations outstanding at December 31, 2014 will be repaid with new financing, equity offerings and/or cash flow from operations (in thousands):

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Indebtedness	$735,000	$—	$—	$—	$735,000
Capital lease obligations	1,110	534	576	—	—
Operating leases	234,901	41,871	72,746	57,640	62,644
Interest on debt	260,551	49,677	99,246	99,225	12,403
Deferred acquisition consideration	205,368	90,804	94,253	16,633	3,678
Other Long-term Liabilities	23,582	8,674	9,129	5,027	752
Total contractual obligations (1)	$1,460,512	$191,560	$275,950	$178,525	$814,477

(1) Pension obligations of $15,439 are not included since the timing of payments are not known.

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The following table provides a summary of other commercial commitments (in thousands) at December 31, 2014:

	Payments Due by Period				
Other Commercial Commitments	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
Lines of credit	$—	$—	$—	$—	$—
Letters of credit	$4,822	4,822	—	—	—
Total Other Commercial Commitments	$4,822	$4,822	$—	$—	$—

For further detail on MDC's long-term debt principal and interest payments, see Note 11 Debt and Note 16 Commitments, Contingents and Guarantees of the Company's consolidated financial statements included in this Form 10-K. See also "Deferred Acquisition and Contingent Consideration (Earnouts)" and "Other-Balance Sheet Commitments" below.

Capital Resources

At December 31, 2014, the Company had only utilized the Credit Agreement in the form of undrawn letters of credit of $4.8 million. Cash and undrawn available bank credit facilities to support the Company's future cash requirements at December 31, 2014 was approximately $320.2 million.

The Company expects to incur approximately $23 million of capital expenditures in 2015. Such capital expenditures are expected to include leasehold improvements, furniture and fixtures, and computer equipment at certain of the Company's operating subsidiaries. The Company intends to maintain and expand its business using cash from operating activities, together with funds available under the Credit Agreement. Management believes that the Company's cash flow from operations, funds available under the Credit Agreement and other initiatives will be sufficient to meet its ongoing working capital, capital expenditures and other cash needs over the next twelve months. If the Company continues to spend capital on future acquisitions, management expects that the Company may need to obtain additional financing in the form of debt and/or equity financing.

Deferred Acquisition and Contingent Consideration (Earnouts)

Acquisitions of businesses by the Company may include commitments to contingent deferred purchase consideration payable to the seller. These contingent purchase obligations are generally payable within a one to five-year period following the acquisition date, and are based on achievement of certain thresholds of future earnings and, in certain cases, also based on the rate of growth of those earnings.

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. At December 31, 2014, there was $205.4 million of deferred consideration included in the Company's balance sheet.

Other-Balance Sheet Commitments

Media and Production

The Company's agencies enter into contractual commitments with media providers and agreements with production companies on behalf of our clients at levels that exceed the revenue from services. Some of our agencies purchase media for clients and act as an agent for a disclosed principal. These commitments are included in accounts payable when the media services are delivered by the media providers. MDC takes precautions against default on payment for these services and has historically had a very low incidence of default. MDC is still exposed to the risk of significant uncollectible receivables from our clients. The risk of a material loss could significantly increase in periods of severe economic downturn.

Put Rights of Subsidiaries' Noncontrolling Shareholders

Owners of interests in certain of the Company's subsidiaries have the right in certain circumstances to require the Company to acquire either a portion of or all of the remaining ownership interests held by them. The owners' ability to exercise any such "put option" right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise. In addition, these rights cannot be exercised prior to specified staggered exercise dates. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund the related amounts during the period 2015 to 2023. It is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights.

The amount payable by the Company in the event such put option rights are exercised is dependent on various valuation formulas and on future events, such as the average earnings of the relevant subsidiary through that date of exercise, the growth

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rate of the earnings of the relevant subsidiary during that period, and, in some cases, the currency exchange rate at the date of payment.

Management estimates, assuming that the subsidiaries owned by the Company at December 31, 2014, perform over the relevant future periods at their 2014 earnings levels, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate amount of approximately $19.7 million to the owners of such rights to acquire such ownership interests in the relevant subsidiaries. Of this amount, the Company is entitled, at its option, to fund approximately $0.1 million by the issuance of the Company's Class A subordinate voting shares. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately $175.2 million only upon termination of such owner's employment with the applicable subsidiary or death. The Company intends to finance the cash portion of these contingent payment obligations using available cash from operations, borrowings under the Credit Agreement (and refinancings thereof) and, if necessary, through incurrence of additional debt. The ultimate amount payable and the incremental operating income in the future relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised. Approximately $2.5 million of the estimated $19.7 million that the Company would be required to pay subsidiaries noncontrolling shareholders' upon the exercise of outstanding "put" rights, relates to rights exercisable within the next twelve months. Upon the settlement of the total amount of such put options, the Company estimates that it would receive incremental operating income before depreciation and amortization of $5.8 million that would be attributable to MDC Partners Inc.

The following table summarizes the potential timing of the consideration and incremental operating income before depreciation and amortization based on assumptions as described above.

Consideration(4)	2015	2016	2017	2018	2019 & Thereafter	Total
	($ Millions)					
Cash	$2.5	$3.6	$3.9	$4.8	$4.8	$19.6
Shares	—	—	0.1	—	—	0.1
	$2.5	$3.6	$4.0	$4.8	$4.8	$19.7 (1)
Operating income before depreciation and amortization to be received(2)	$3.1	$—	$1.4	$—	$1.3	$5.8
Cumulative operating income before depreciation and amortization(3)	$3.1	$3.1	$4.5	$4.5	$5.8	

(1) This amount is in addition to put options only exercisable upon termination or death of $175.2 million have been recognized in Redeemable Noncontrolling Interests on the Company balance sheet.

(2) This financial measure is presented because it is the basis of the calculation used in the underlying agreements relating to the put rights and is based on actual 2014 operating results. This amount represents additional amounts to be attributable to MDC Partners Inc., commencing in the year the put is exercised.

(3) Cumulative operating income before depreciation and amortization represents the cumulative amounts to be received by the company.

(4) The timing of consideration to be paid varies by contract and does not necessarily correspond to the date of the exercise of the put.

Guarantees

Generally, the Company has indemnified the purchasers of certain assets in the event that a third party asserts a claim against the purchaser that relates to a liability retained by the Company. These types of indemnification guarantees typically extend for several years. Historically, the Company has not made any significant indemnification payments under such agreements and no provision has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees. The Company continues to monitor the conditions that are subject to guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under any guarantees or indemnifications in the period when those losses are probable and estimable.

Transactions With Related Parties

CEO Services Agreement

On April 25, 2007, the Company entered into a new Management Services Agreement (as amended and restated on May 6, 2013, the “Services Agreement”) with Miles Nadal and with Nadal Management, Inc. to set forth the terms and conditions on which Miles Nadal will continue to provide services to the Company as its Chief Executive Officer. The Services Agreement is subject to automatic one-year extensions unless either party gives to the other a 60-day advance written notice of its intention not to renew. Effective January 1, 2013, the annual retainer amount (base salary) under the Services Agreement was increased to $1,750,000; effective January 1, 2014, the annual retainer amount was increased to $1,850,000; effective January 1, 2015, the annual retainer amount was increased to $2,000,000.

During 2012 and 2013 and in accordance with this Services Agreement, Mr. Nadal repaid an amount equal to $0.5 million and $5.4 million of loans due to the Company, respectively. As of April 26, 2013, Mr. Nadal has repaid and satisfied in full the remaining principal balance of all previously outstanding loans made by the Company to Mr. Nadal and his affiliates. After giving effect to this final repayment by Mr. Nadal to the Company, there is currently $0 remaining due and owing to the Company in respect of all prior loans. For further information, see Note 15 of the Notes to the Consolidated Financial Statements included herein.

Use of Private Aircraft

Beginning in 2014, MDC has chartered for business purposes an airplane and helicopter (together, the “Aircraft”) owned by entities controlled by Mr. Nadal and leased to an independent corporate aircraft management company. Entities controlled by Mr. Nadal paid for the purchases of the Aircraft and are legally responsible and have paid for all operating, personnel and maintenance costs associated with the Aircraft’s operations. Payments by third parties to charter the Aircraft from the corporate aircraft management company will offset a portion of the costs. Payments by MDC for the business use of the Aircraft by Mr. Nadal and other Executive employees of MDC are made to the corporate aircraft management company at a fixed hourly rate set forth in the aircraft service agreement between the aircraft management company and entities controlled by Mr. Nadal. In 2014, MDC paid a total of $1.6 million for the business use of the Aircraft.

Trapeze Media

In 2000, the Company purchased 1,600,000 shares in Trapeze Media Limited (“Trapeze”), a Toronto-based digital advertising company, for $0.2 million. At the same time, the Company’s CEO purchased 4,280,000 shares of Trapeze for $0.6 million, the Company’s former Chief Financial Officer and a Managing Director of the Company each purchased 50,000 Trapeze shares for $7,000 and a Board Member of the Company purchased 75,000 shares of Trapeze for $10,000. In 2001, the Company purchased an additional 1,250,000 shares for $0.2 million, and the Company’s CEO purchased 500,000 shares for $0.1 million. In 2002, the Company’s CEO purchased 3,691,930 shares of Trapeze for $0.5 million. All of these purchases were made at identical prices (C$0.20/unit). In 2003, the Company and the CEO exchanged their units in Trapeze for non-voting shares and entered into a voting trust agreement.

During 2013, an MDC Partner firm provided services to Trapeze in exchange for fees equal to $0.2 million. Trapeze did not provide any services to MDC nor its partner firms in the three years ended December 31, 2014, prior to the July 31, 2014 acquisition.

On July 31, 2014, Union Advertising Canada LP ("Union"), an MDC Partner firm, acquired 100% of the issued and outstanding stock of Trapeze. Prior to the acquisition, the Company owned 18% of the equity interests in Trapeze, and Miles Nadal (the Company’s President and Chief Executive Officer) owned 54% of the equity interests. The total estimated aggregate consideration for 100% of the equity interests in Trapeze was $5.3 million (or $4.4 million excluding the Company’s current equity interest). MDC recorded other income of $64,000 representing a gain on the previously held 18% interest in Trapeze. Mr. Nadal recused himself from all Board discussions relating to Trapeze.

The Stock Purchase Agreement for the Trapeze transaction contains customary representations and warranties and covenants of each party. Breaches of any representations and warranties will be subject to customary indemnification provisions.

The acquisition of Trapeze by Union is expected to create an integrated agency with strong digital capabilities and more significant scale. In order to maximize the operating efficiency of the combined operations, the employees of Trapeze relocated into Union’s current offices, and certain changes were made to the combined entity’s executive

management team.
The Company's Board of Directors, through its Audit Committee, has reviewed and approved these transactions.

Critical Accounting Policies

The following summary of accounting policies has been prepared to assist in better understanding the Company's consolidated financial statements and the related management discussion and analysis. Readers are encouraged to consider this information together with the Company's consolidated financial statements and the related notes to the consolidated financial statements as included herein for a more complete understanding of accounting policies discussed below.

Estimates. The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America, or "GAAP", requires management to make estimates and assumptions. These

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estimates and assumptions affect the reported amounts of assets and liabilities including goodwill, intangible assets, redeemable noncontrolling interests, and deferred acquisition consideration, valuation allowances for receivables and deferred income tax assets and stock based compensation as well as the reported amounts of revenue and expenses during the reporting period. The statements are evaluated on an ongoing basis and estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Actual results can differ from those estimates, and it is possible that the differences could be material.

Revenue Recognition. The Company's revenue recognition policies are as required by the Revenue Recognition topics of the FASB Accounting Standards Codification. 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. A small portion of the Company's contractual arrangements with clients includes performance incentive provisions, which allow the Company to earn additional revenues as a result of its performance relative to both quantitative and qualitative goals. The Company records revenue net of state taxes, when persuasive evidence of an arrangement exists, 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 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. In the majority of the Company's businesses, the Company acts as an agent and records revenue equal to the net amount retained, when the fee or commission is earned. In certain arrangements, the Company acts as principal and contracts directly with suppliers for third party media and production costs. In these arrangements, revenue is recorded at the gross amount billed. Additional information about our revenue recognition policy appears in Note 2 of the Notes to the Consolidated Financial Statements included herein.

Business Combinations. The Company has historically made and expects to continue to make selective acquisitions of marketing communications businesses. In making acquisitions, the price paid is determined by various factors, including service offerings, competitive position, reputation and geographic coverage, as well as prior experience and judgment. Due to the nature of advertising, marketing and corporate communications services companies; the companies acquired frequently have significant identifiable intangible assets, which primarily consist of customer relationships. The Company has determined that certain intangibles (trademarks) have an indefinite life, as there are no legal, regulatory, contractual, or economic factors that limit the useful life.

Valuation of acquired companies are based on a number of factors, including specialized know-how, reputation, competitive position and service offerings. Our acquisition strategy has been to focus on acquiring the expertise of an assembled workforce in order to continue building upon the core capabilities of our various strategic business platforms to better serve our clients. Consistent with our acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed after 2010 include 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 the estimated present value. The estimated liability is determined in accordance with various contractual valuation formulas that may be dependent on future events, such as the growth rate of earnings of the relevant subsidiary during the contractual period, and, in some cases, the currency exchange rate on the date of payment. These estimates are adjusted quarterly based on changes in current information affecting each subsidiaries current operating results and the impact this information will have on future results included in the calculation of the estimated liability. In addition, change in various contractual valuation formulas as well as adjustments to present value impact quarterly adjustments. Changes in estimated value are recorded in results of operations. 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 guidance on acquisition accounting.

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

Acquisitions, Goodwill and Other Intangibles. The Company reviews goodwill and other indefinite live intangible assets for impairment annually at the beginning of the fourth quarter and whenever events or circumstances indicate that the carrying amount may not be recoverable.

The Company has the option of assessing qualitative factors to determine whether it is more likely than not that the carrying value of our reporting units exceeds their respective fair value or proceeding directly to the two-step impairment test. If the Company elects to perform a qualitative assessment and concludes it is not more likely than not that the fair value of the reporting unit is less than its carrying value, no further assessment is deemed necessary. Otherwise, goodwill must be tested for impairment using a two-step process. In addition, the two-step process must be applied for any reporting units not included in the qualitative assessment. The first step involves a comparison of the estimated fair value of each of the Company's reporting units to its carrying value, including goodwill. In performing the first step, the Company determines the fair value of a reporting unit using a discounted cash flow ("DCF") analysis. Determining fair value requires the exercise of significant judgment, including judgment about the amount and timing of expected future cash flows and appropriate discount rates.

The expected cash flows used in the DCF analysis are based on the Company's most recent budget and forecasted growth rates. Assumptions used in the DCF analysis, including the discount rate, are assessed annually based on the reporting units' current results and forecast, as well as macroeconomic and industry specific factors.

If the estimated fair value of a reporting unit exceeds its carrying value, then the goodwill of the reporting unit is not impaired. Otherwise, step two must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with its carrying value to measure the amount of impairment, if any.

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.

Allowance for Doubtful Accounts. Trade receivables are stated less allowance for doubtful accounts. The allowance represents estimated uncollectible receivables usually due to customers' potential insolvency. The allowance includes amounts for certain customers where risk of default has been specifically identified.

Income Tax Valuation Allowance. The Company records a valuation allowance against deferred income tax assets when management believes it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Management considers factors such as the reversal of deferred income tax liabilities, projected future taxable income, the character of the income tax asset, tax planning strategies, changes in tax laws and other factors. A change to any of these factors could impact the estimated valuation allowance and income tax expense.

Interest Expense. Interest expense primarily consists of the cost of borrowing on the revolving Credit Agreement and the 6.75% Notes. The Company uses the effective interest method to amortize the original issue discount and original issue premium on the 6.75% Notes. The Company amortizes deferred financing costs using the effective interest method over the life of the 6.75% Notes and straight line over the life of the revolving Credit Agreement.

Stock-based Compensation. The fair value method is applied to all awards granted, modified or settled. Under the fair value method, compensation cost is measured at fair value at the date of grant and is expensed over the service period that is the award's vesting period. When awards are exercised, share capital is credited by the sum of the consideration paid together with the related portion previously credited to additional paid-in capital when compensation costs were charged against income or acquisition consideration. Stock-based awards that are settled in cash or may be settled in cash at the option of employees are recorded as liabilities. The measurement of the liability and compensation cost for these awards is based on the fair value of the award, and is recorded into operating income over the service period, that is the vesting period of the award. Changes in the Company’s payment obligation are revalued each period and recorded as compensation cost over the service period in operating income.

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

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

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New Accounting Pronouncements

Information regarding new accounting guidance can be found in Note 17 of the Notes to the Consolidated Financial Statements included herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk related to interest rates, and foreign currencies and impairment risk.

Debt Instruments: At December 31, 2014, the Company's debt obligations consisted of the 6.75% Notes. This facility bears interest at variable rates based upon the Eurodollar rate, U.S. bank prime rate and, U.S. base rate, at the Company's option. The 6.75% Notes bear interest at a fixed rate. The Company's ability to obtain the required bank syndication commitments depends in part on conditions in the bank market at the time of syndication. As of December 31, 2014, the Company had no borrowings on the revolving Credit Agreement. Given that there were no borrowings at December 31, 2014, a 1% increase in the weighted average interest rate, which was 4.25% at December 31, 2014, would have no interest impact.

Foreign Exchange: The Company primarily conducts business in six currencies, the U.S. Dollar, the Canadian Dollar, the Euro, the British Pound, the Swedish Krona, and the Chinese Renminbi. Our results of operations are subject to risk from the translation to the U.S. Dollar of the revenue and expenses of our non-U.S. operations. The effects of currency exchange rate fluctuations on the translation of our results of operations are discussed in the "Management's Discussion and Analysis of Financial Condition and Result of Operations" and in Note 2 of our consolidated financial statements. For the most part, our revenues and expenses incurred related to our non-U.S. operations are denominated in their functional currency. This minimizes the impact that fluctuations in exchange rates will have on profit margins. Intercompany debt which is not intended to be repaid is included in cumulative translation adjustments. Translation of intercompany debt, which is not intended to be repaid, is included in cumulative translation adjustments. Translation of current intercompany balances are included in net earnings. The Company generally does not enter into foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

The Company is exposed to foreign currency fluctuations relating to its intercompany balances between the U.S. and Canada. For every one cent change in the foreign exchange rate between the U.S. and Canada, the impact to the Company's financial statements would be approximately $2.0 million.

Impairment Risk: At December 31, 2014, the Company had goodwill of $851.4 million and other intangible assets of $86.1 million. The Company will assess the net realizable value of the goodwill and other intangible assets on a regular basis, but at least annually on October 1, to determine if the Company incurs any declines in the value of our capital investment. While the Company did not experience impairment during the year ended December 31, 2014, the Company may incur impairment charges in future periods.

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Item 8. Financial Statements and Supplementary Data
MDC PARTNERS INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm
Board of Directors and Stockholders
MDC Partners Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of MDC Partners Inc. as of December 31, 2014 and 2013 and the related consolidated statements of operations, comprehensive loss, shareholders’ equity (deficit), and cash flows for each of the three years in the period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MDC Partners Inc. at December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MDC Partners Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 2, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
March 2, 2015

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MDC PARTNERS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Thousands of United States Dollars, Except per Share Amounts)

	Years Ended December 31,		
	2014	2013	2012
Revenue:			
Services	$1,223,512	$1,062,478	$972,973
Operating Expenses:			
Cost of services sold	798,518	704,969	667,329
Office and general expenses	290,073	355,964	281,166
Depreciation and amortization	47,172	36,139	42,447
	1,135,763	1,097,072	990,942
Operating profit (loss)	87,749	(34,594)	(17,969)
Other Income (Expenses)			
Other income	689	2,531	450
Foreign exchange loss	(18,482)	(5,516)	(1,138)
Interest expense and finance charges	(55,265)	(45,110)	(46,501)
Loss on redemption of Notes	—	(55,588)	—
Interest income	418	427	630
	(72,640)	(103,256)	(46,559)
Income (loss) from continuing operations before income taxes and equity in non-consolidated affiliates	15,109	(137,850)	(64,528)
Income tax expense (benefit)	12,422	(4,367)	9,553
Income (loss) from continuing operations before equity in non-consolidated affiliates	2,687	(133,483)	(74,081)
Equity in earnings of non-consolidated affiliates	1,406	281	633
Income (loss) from continuing operations	4,093	(133,202)	(73,448)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(21,260)	(9,200)	(5,128)
Net loss	(17,167)	(142,402)	(78,576)
Net income attributable to the non controlling interests	(6,890)	(6,461)	(6,863)
Net loss attributable to MDC Partners Inc.	$(24,057)	$(148,863)	$(85,439)
Loss Per Common Share:			
Basic and Diluted			
Loss from continuing operations attributable to MDC Partners Inc. common shareholders	$(0.06)	$(2.96)	$(1.74)
Discontinued operations attributable to MDC Partners Inc. common shareholders	(0.43)	(0.20)	(0.11)
Net loss attributable to MDC Partners Inc. common shareholders	$(0.49)	$(3.16)	$(1.85)
Weighted Average Number of Common Shares Outstanding:			
Basic and Diluted	49,545,350	47,108,406	46,090,160
Stock based compensation expense is included in the following line items above:			
Cost of services sold	$9,883	$7,222	$4,762

Office and general expenses	7,813	93,183	27,435
Total	$17,696	$100,405	$32,197

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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MDC PARTNERS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Thousands of United States Dollars)

	Years Ended December 31,		
	2014	2013	2012
Comprehensive Loss			
Net loss	$(17,167)	$(142,402)	$(78,576)
Other comprehensive income (loss), net of tax:			
Foreign currency cumulative translation adjustment	1,736	(299)	2,548
Benefit plan adjustment, net of income tax benefit of $1,112 for 2014 and income tax expense of $1,112 for 2013	(10,403)	6,936	(5,329)
Other comprehensive income (loss)	(8,667)	6,637	(2,781)
Comprehensive loss for the year	(25,834)	(135,765)	(81,357)
Comprehensive loss attributable to the noncontrolling interests	(5,178)	(6,450)	(6,869)
Comprehensive loss attributable to MDC Partners Inc.	$(31,012)	$(142,215)	$(88,226)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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MDC PARTNERS INC.
CONSOLIDATED BALANCE SHEETS
(Thousands of United States Dollars)

	December 31, 2014	2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$119,767	$102,007
Accounts receivable, less allowance for doubtful accounts of $1,409 and $2,011	355,295	309,796
Expenditures billable to clients	40,202	63,246
Other current assets	36,978	25,458
Total Current Assets	552,242	500,507
Fixed assets, net	60,240	52,071
Investment in non-consolidated affiliates	6,110	275
Goodwill	851,373	744,333
Other intangible assets, net	86,121	56,262
Deferred tax assets	18,758	21,131
Other assets	74,046	50,648
Total Assets	$1,648,890	$1,425,227
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND SHAREHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	$316,285	$246,694
Accrued and other liabilities	271,273	240,580
Advance billings	142,608	149,540
Current portion of long-term debt	534	467
Current portion of deferred acquisition consideration	90,804	53,041
Total Current Liabilities	821,504	690,322
Long-term debt, less current portion	742,593	664,661
Long-term portion of deferred acquisition consideration	114,564	100,872
Other liabilities	45,861	34,430
Deferred tax liabilities	77,997	63,020
Total Liabilities	1,802,519	1,553,305
Redeemable Noncontrolling Interests	194,951	148,534
Commitments, Contingencies and Guarantees (Note 16)		
Shareholders' Deficit:		
Preferred shares, unlimited authorized, none issued	—	—
Class A Shares, no par value, unlimited authorized, 49,680,109 and 49,092,427 shares issued and outstanding in 2014 and 2013, respectively	265,817	262,655
Class B Shares, no par value, unlimited authorized, 3,755 issued and outstanding in 2014 and 2013, respectively, convertible into one Class A share	1	1
Shares to be issued, 42,000 shares, issued and outstanding in 2013	—	424
Additional paid-in capital	—	—
Charges in excess of capital	(209,668)	(126,352)
Accumulated deficit	(489,633)	(465,576)
Stock subscription receivable	—	(55)

Accumulated other comprehensive loss	(7,752)	(797)
MDC Partners Inc. Shareholders' Deficit	(441,235)	(329,700)
Noncontrolling Interests	92,655	53,088
Total Shareholders' Deficit	(348,580)	(276,612)
Total Liabilities, Redeemable Noncontrolling Interests and Shareholders' Deficit	$1,648,890	$1,425,227

The accompanying notes to the consolidated financial statements are an integral part of these statements.

MDC PARTNERS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of United States Dollars)

	Years Ended December 31, 2014	2013	2012
Cash flows from operating activities:			
Net Loss	$(17,167)	$(142,402)	$(78,576)
Loss from discontinued operations	(21,260)	(9,200)	(5,128)
Income (loss) from continuing operations	4,093	(133,202)	(73,448)
Adjustments to reconcile income (loss) from continuing operations to cash provided by operating activities:			
Non-cash stock-based compensation	17,696	22,438	32,197
Depreciation	16,462	16,742	15,999
Amortization of intangibles	30,710	19,397	26,448
Amortization of deferred finance charges and debt discount	2,247	7,762	2,249
Loss on redemption of Notes	—	50,385	—
Adjustment to deferred acquisition consideration	18,652	36,143	53,305
Deferred income taxes	10,963	(5,427)	8,422
Earnings of non-consolidated affiliates	(1,406)	(281)	(633)
Distributions from non-consolidated affiliates	730	—	—
Distributions in excess of carrying value	—	(3,058)	—
Other and non-current assets and liabilities	(8,535)	(9,405)	(9,167)
Foreign exchange	14,821	3,004	861
Increase/decrease in operating assets and liabilities, net of acquisitions			
Accounts receivable	(35,800)	16,086	(28,885)
Expenditures billable to clients	23,351	(4,404)	(17,151)
Prepaid expenses and other current assets	(1,949)	(7,835)	(2,993)
Accounts payable, accruals and other current liabilities	57,539	30,017	65,919
Advance billings	(13,805)	17,632	1,776
Cash flows provided by continuing operating activities	135,769	55,994	74,899
Discontinued operations	(1,827)	3,305	1,405
Net cash provided by operating activities	133,942	59,299	76,304
Cash flows from investing activities:			
Capital expenditures	(26,416)	(16,809)	(16,537)
Proceeds from sale of assets	85	239	51
Acquisitions, net of cash acquired	(68,344)	(11,872)	30,993
Profit distributions from non-consolidated affiliates	3,409	3,761	1,288
Other investments	(6,312)	(2,692)	(2,198)
Cash flows provided by (used in) continuing investing activities	(97,578)	(27,373)	13,597
Discontinued operations	(2,108)	(2,751)	(5,786)
Net cash provided by (used in) investing activities	(99,686)	(30,124)	7,811

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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MDC PARTNERS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of United States Dollars) – (continued)

	Years Ended December 31,		
	2014	2013	2012
Cash flows from financing activities:			
Proceeds from issuance of 6.75% Notes	78,937	664,125	—
Repayment of 11% Notes	—	(425,000)	—
Proceeds from issuance of 11% Notes	—	—	84,800
Repayments of revolving credit facility	—	—	(38,032)
Acquisition related payments	(78,322)	(119,572)	(68,725)
Cash overdraft	37,835	4,976	25,986
Distributions to noncontrolling interests	(6,523)	(5,525)	(7,673)
Proceeds from exercise of options	—	—	28
Payments of dividends	(37,698)	(22,047)	(22,030)
Repayment of long-term debt	(656)	(743)	(653)
Premium paid on redemption of Notes	—	(50,385)	—
Deferred financing costs	(3,659)	(20,815)	(2,232)
Purchase of shares	(5,414)	(13,817)	(3,327)
Other	112	561	—
Cash flows provided by (used in) continuing financing activities	(15,388)	11,758	(31,858)
Discontinued operations	(40)	(1,266)	—
Net cash provided by (used in) financing activities	(15,428)	10,492	(31,858)
Effect of exchange rate changes on cash and cash equivalents	(1,068)	2,010	(23)
Increase in cash and cash equivalents	17,760	41,677	52,234
Cash and cash equivalents at beginning of year	102,007	60,330	8,096
Cash and cash equivalents at end of year	$119,767	$102,007	$60,330
Supplemental disclosures:			
Cash income taxes paid	$431	$919	$1,236
Cash interest paid	$49,253	$38,727	$41,094
Non-cash transactions:			
Capital leases	$773	$595	$431
Note receivable exchanged for shares of subsidiary	$1,746	$—	$888
Dividends payable	$1,347	$1,793	$1,041

The accompanying notes to the consolidated financial statements are an integral part of these statements.

MDC PARTNERS INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(Thousands of United States Dollars)

	Common Stock				Share Capital to Be Issued		Additional Paid in Capital	Charges in Excess of Capital	Accumulated Deficit	Stock Subscription Receivable	Accumulated Other Comprehensive Loss	MDC Partners Inc. Shareholders' Deficit	Nonc Inter
	Class A		Class B										
	Shares	Amount	Shares	Amount	Shares	Amount							
Balance at December 31, 2011	43,916,112	$228,208	3,755	$1	42,000	$424	$—	$(45,102)	$(231,274)	$(55)	$(4,658)	$(52,456)	$39,
Net loss attributable to MDC Partners	—	—	—	—	—	—	—	—	(85,439)	—	—	(85,439)	—
Other Comprehensive income (loss)	—	—	—	—	—	—	—	—	—	—	(2,787)	(2,787)	6
Stock Appreciation Rights Exercised	39,639	100	—	—	—	—	(100)	—	—	—	—	—	—
Shares acquired and cancelled	(366,380)	(3,327)	—	—	—	—	—	—	—	—	—	(3,327)	—
Issuance of restricted stock	3,017,151	28,860	—	—	—	—	(28,860)		—	—	—	—	—
Options Exercised	4,730	28	—	—	—	—	—	—	—	—	—	28	—
Stock-based compensation	—	—	—	—	—	—	28,060		—	—	—	28,060	—
Changes in redemption value of redeemable noncontrolling interests	—	—	—	—	—	—	(22,912)		—	—	—	(22,912)	—

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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	Common Stock Class A		Class B		Share Capital to Be Issued		Additional Paid in Capital	Charges in Excess of Capital	Accumulated Deficit	Stock Subscription Receivable	Accumulated Other Comprehensive Loss	MDC Partners Inc. Shareholders' Deficit	Nonco Interes
	Shares	Amount	Shares	Amount	Shares	Amount							
Changes in noncontrolling and redeemable noncontrolling interests from business combinations	—	—	—	—	—	—	13,920	—	—	—	—	13,920	(15,98
Increase in noncontrolling interests from business acquisitions	—	—	—	—	—	—	—	—	—	—	—	—	34,481
Dividends paid and to be paid	—	—	—	—	—	—	(17,919)	—	—	—	—	(17,919)	—
Transfer to charges in excess of capital	—	—	—	—	—	—	27,811	(27,811)	—	—	—	—	—
Balance at December 31, 2012	46,611,252	$253,869	3,755	$1	42,000	$424	$—	$(72,913)	$(316,713)	$(55)	$(7,445)	$(142,832)	$58,02

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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MDC PARTNERS INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(Thousands of United States Dollars) – (continued)

	Common Stock				Share Capital to Be Issued		Additional Paid in Capital	Charges in Excess of Capital	Accumulated Deficit	Stock Subscription Receivable	Accumulated Other Comprehensive Loss	MDC Partners Inc. Shareholders' Deficit	Non Inte
	Class A		Class B										
	Shares	Amount	Shares	Amount	Shares	Amount							
Balance at December 31, 2012	46,611,252	$253,869	3,755	$1	42,000	$424	$—	$(72,913)	$(316,713)	$(55)	$(7,445)	$(142,832)	$58
Net loss attributable to MDC Partners	—	—	—	—	—	—	—	—	(148,863)	—	—	(148,863)	—
Other Comprehensive income (loss)	—	—	—	—	—	—	—	—	—	—	6,648	6,648	(11
Equity Value Appreciation Awards	2,201,676	16,210	—	—	—	—	(16,210)	—	—	—	—	—	—
Stock Appreciation Rights Exercised	221,384	387	—	—	—	—	(387)	—	—	—	—	—	—
Shares acquired and cancelled	(593,156)	(13,817)	—	—	—	—	—	—	—	—	—	(13,817)	—
Issuance of restricted stock	651,271	6,006	—	—	—	—	(6,006)	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	16,083	—	—	—	—	16,083	—
Changes in redemption value of redeemable noncontrolling interests	—	—	—	—	—	—	(35,689)	—	—	—	—	(35,689)	—
Decrease in noncontrolling interests from business combinations	—	—	—	—	—	—	11,074	—	—	—	—	11,074	(16

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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	Common Stock				Share Capital to Be Issued		Additional Paid in Capital	Charges in Excess of Capital	Accumulated Deficit	Stock Subscription Receivable	Accumulated Other Comprehensive Loss	MDC Partners Inc. Shareholders' Deficit	Noncon Interest
	Class A		Class B										
	Shares	Amount	Shares	Amount	Shares	Amount							
Increase in noncontrolling interests from business acquisitions	—	—	—	—	—	—	—	—	—	—	—	—	11,090
Dividends paid and to be paid	—	—	—	—	—	—	(22,865)	—	—	—	—	(22,865)	—
Other	—	—	—	—	—	—	561	—	—	—	—	561	—
Transfer to charges in excess of capital	—	—	—	—	—	—	53,439	(53,439)	—	—	—	—	—
Balance at December 31, 2013	49,092,427	$262,655	3,755	$1	42,000	$424	$—	$(126,352)	$(465,576)	$(55)	$(797)	$(329,700)	$53,08

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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MDC PARTNERS INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS’ EQUITY (DEFICIT)
(Thousands of United States Dollars) – (continued)

	Common Stock				Share Capital to Be Issued		Additional Paid in Capital	Charges in Excess of Capital	Accumulated Deficit	Stock Subscription Receivable	Accumulated Other Comprehensive Loss	MDC Partners Inc. Shareholders’ Deficit	Non Inter
	Class A		Class B										
	Shares	Amount	Shares	Amount	Shares	Amount							
Balance at December 31, 2013	49,092,427	$262,655	3,755	$1	42,000	$424	$—	$(126,352)	$(465,576)	$(55)	$(797)	$(329,700)	$53
Net loss attributable to MDC Partners	—	—	—	—	—	—	—	—	(24,057)	—	—	(24,057)	—
Other Comprehensive income (loss)	—	—	—	—	—	—	—	—	—	—	(6,955)	(6,955)	(1,7
Issuance of restricted stock	761,686	7,661	—	—	—	—	(7,661)	—	—	—	—	—	—
Shares acquired and cancelled	(216,004)	(5,414)	—	—	—	—	—	—	—	—	—	(5,414)	—
Stock Subscription Receivable										55		55	
Stock-based compensation	—	—	—	—	—	—	9,868	—	—	—	—	9,868	—
Changes in redemption value of redeemable noncontrolling interests	—	—	—	—	—	—	(38,850)	—	—	—	—	(38,850)	—
Decrease in noncontrolling interests and redeemable noncontrolling interests from business combinations	—	—	—	—	—	—							