MDC PARTNERS INC
Form 10-Q
November 03, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015
or

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

For the transition period from ______________ to ______________
Commission File Number: 001-13718
MDC Partners Inc.
(Exact name of registrant as specified in its charter)

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

(646) 429-1800
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer; a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

The numbers of shares outstanding as of October 26, 2015 were: 50,794,578 Class A subordinate voting shares and 3,755 Class B multiple voting shares.

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MDC PARTNERS INC.

QUARTERLY REPORT ON FORM 10-Q

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue: | | | | |
| Services | $328,415 | $309,391 | $967,243 | $883,601 |
| Operating Expenses: | | | | |
| Cost of services sold | 212,925 | 205,549 | 648,386 | 575,892 |
| Office and general expenses | 78,786 | 70,815 | 206,169 | 213,587 |
| Depreciation and amortization | 13,086 | 11,684 | 39,393 | 32,083 |
| | 304,797 | 288,048 | 893,948 | 821,562 |
| Operating profit | 23,618 | 21,343 | 73,295 | 62,039 |
| Other Income (Expense): | | | | |
| Other, net | (15,623) | (9,641) | (29,315) | (8,648) |
| Interest expense and finance charges | (14,638) | (14,022) | (43,022) | (40,663) |
| Interest income | 114 | 105 | 338 | 287 |
| | (30,147) | (23,558) | (71,999) | (49,024) |
| Income (loss) from continuing operations before income taxes and equity in non-consolidated affiliates | (6,529) | (2,215) | 1,296 | 13,015 |
| Income tax expense (benefit) | (1,191) | (266) | (566) | 2,764 |
| Income (loss) from continuing operations before equity in non-consolidated affiliates | (5,338) | (1,949) | 1,862 | 10,251 |
| Equity in earnings of non-consolidated affiliates | 172 | 81 | 627 | 223 |
| Income (loss) from continuing operations | (5,166) | (1,868) | 2,489 | 10,474 |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | (1,316) | (1,369) | (6,281) | (2,976) |
| Net income (loss) | (6,482) | (3,237) | (3,792) | 7,498 |
| Net income attributable to the noncontrolling interests | (2,122) | (1,685) | (7,343) | (4,796) |
| Net income (loss) attributable to MDC Partners Inc. | $(8,604) | $(4,922) | $(11,135) | $2,702 |
| Income (loss) Per Common Share | | | | |
| Basic | | | | |
| Income (loss) from continuing operations attributable to MDC Partners Inc. common shareholders | $(0.15) | $(0.07) | $(0.10) | $0.11 |
| Discontinued operations attributable to MDC Partners Inc. common shareholders | (0.02) | (0.03) | (0.12) | (0.06) |
| Net income (loss) attributable to MDC Partners Inc. common shareholders | $(0.17) | $(0.10) | $(0.22) | $0.05 |
| Diluted | | | | |
| Income (loss) from continuing operations attributable to MDC Partners Inc. common shareholders | $(0.15) | $(0.07) | $(0.10) | $0.11 |
| | (0.02) | (0.03) | (0.12) | (0.06) |

Discontinued operations attributable to MDC Partners Inc.
common shareholders

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| | | | | |
|---|---|---|---|---|
| Net income (loss) attributable to MDC Partners Inc. common shareholders | $(0.17 ) | $(0.10 ) | $(0.22 ) | $0.05 |
| Weighted Average Number of Common Shares Outstanding: | | | | |
| Basic | 49,915,807 | 49,630,532 | 49,843,980 | 49,506,427 |
| Diluted | 49,915,807 | 49,630,532 | 49,843,980 | 50,134,263 |
| Stock-based compensation expense is included in the following line items above: | | | | |
| Cost of services sold | $1,727 | $1,516 | $8,415 | $6,270 |
| Office and general expenses | 1,539 | 1,921 | 4,610 | 5,963 |
| Total | $3,266 | $3,437 | $13,025 | $12,233 |

See notes to the unaudited condensed consolidated financial statements.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Comprehensive Income (Loss) | | | | |
| Net income (loss) | $(6,482) | $(3,237) | $(3,792) | $7,498 |
| Other comprehensive income (loss), net of applicable tax: | | | | |
| Foreign currency translation adjustment | 5,893 | 1,597 | 9,337 | 2,356 |
| Other comprehensive income | 5,893 | 1,597 | 9,337 | 2,356 |
| Comprehensive income (loss) for the year | (589) | (1,640) | 5,545 | 9,854 |
| Comprehensive income (loss) attributable to noncontrolling interests | (344) | 202 | (3,409) | (4,014) |
| Comprehensive income (loss) attributable to MDC Partners Inc. | $(933) | $(1,438) | $2,136 | $5,840 |

See notes to the unaudited condensed consolidated financial statements.

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

| | September 30, 2015 (Unaudited) | December 31, 2014 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $15,758 | $113,348 |
| Cash held in trusts | 5,667 | 6,419 |
| Accounts receivable, less allowance for doubtful accounts of $1,207 and $1,409 | 418,725 | 355,295 |
| Expenditures billable to clients | 56,715 | 40,202 |
| Other current assets | 30,465 | 36,978 |
| Total Current Assets | 527,330 | 552,242 |
| Fixed assets, at cost, less accumulated depreciation of $104,068 and $95,083 | 62,109 | 60,240 |
| Investment in non-consolidated affiliates | 10,805 | 6,110 |
| Goodwill | 869,869 | 851,373 |
| Other intangible assets, net | 74,833 | 86,121 |
| Deferred tax asset | 21,849 | 18,758 |
| Other assets | 50,406 | 74,046 |
| Total Assets | $1,617,201 | $1,648,890 |
| LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND SHAREHOLDERS' DEFICIT | | |
| Current Liabilities: | | |
| Accounts payable | $293,491 | $316,285 |
| Trust liability | 5,667 | 6,419 |
| Accruals and other liabilities | 313,349 | 264,854 |
| Advance billings | 134,867 | 142,608 |
| Current portion of long-term debt | 508 | 534 |
| Current portion of deferred acquisition consideration | 105,986 | 90,804 |
| Total Current Liabilities | 853,868 | 821,504 |
| Long-term debt, less current portion | 826,678 | 742,593 |
| Long-term portion of deferred acquisition consideration | 185,741 | 114,564 |
| Other liabilities | 43,782 | 45,861 |
| Deferred tax liabilities | 83,869 | 77,997 |
| Total Liabilities | 1,993,938 | 1,802,519 |
| Redeemable Noncontrolling Interests (Note 2) | 71,326 | 194,951 |
| Commitments, Contingencies and Guarantees (Note 11) | | |
| Shareholders' Deficit: | | |
| Preferred shares, unlimited authorized, none issued | — | — |
| Class A Shares, no par value, unlimited authorized, 49,935,095 and 49,680,109 shares issued and outstanding in 2015 and 2014 | 269,557 | 265,817 |
| Class B Shares, no par value, unlimited authorized, 3,755 shares issued and outstanding in 2015 and 2014, each convertible into one Class A share | 1 | 1 |
| Charges in excess of capital | (302,385) | (209,668) |
| Accumulated deficit | (500,768) | (489,633) |

| | | |
|---|---|---|
| Accumulated other comprehensive income (loss) | 5,519 | (7,752) |
| MDC Partners Inc. Shareholders' Deficit | (528,076) | (441,235) |
| Noncontrolling Interests | 80,013 | 92,655 |
| Total Shareholders' Deficit | (448,063) | (348,580) |
| Total Liabilities, Redeemable Noncontrolling Interests and Shareholders’ Deficit | $1,617,201 | $1,648,890 |

See notes to the unaudited condensed consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net income (loss) | $(3,792) | $7,498 |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | (6,281) | (2,976) |
| Income from continuing operations | 2,489 | 10,474 |
| Adjustments to reconcile net income (loss) from continuing operations to cash (used in) provided by operating activities: | | |
| Stock-based compensation | 13,025 | 12,233 |
| Depreciation | 13,666 | 11,966 |
| Amortization of intangibles | 25,727 | 20,117 |
| Amortization of deferred finance charges and debt discount | 1,702 | 1,704 |
| Adjustment to deferred acquisition consideration | (3,866) | 16,129 |
| Deferred income tax | (1,020) | 3,237 |
| Earnings of non-consolidated affiliates | (627) | (223) |
| Other non-current assets and liabilities | 3,930 | (11,110) |
| Foreign exchange | 24,739 | 7,961 |
| Changes in working capital: | | |
| Accounts receivable | (63,134) | (55,066) |
| Expenditures billable to clients | (16,582) | (38,944) |
| Prepaid expenses and other current assets | (1,371) | (5,112) |
| Accounts payable, accruals and other liabilities | (84) | 14,152 |
| Advance billings | (7,741) | 51,437 |
| Cash flows (used in) provided by continuing operating activities | (9,147) | 38,955 |
| Discontinued operations | (1,342) | (3,571) |
| Net cash (used in) provided by operating activities | (10,489) | 35,384 |
| Cash flows used in investing activities: | | |
| Capital expenditures | (17,665) | (18,678) |
| Acquisitions, net of cash acquired | (21,050) | (57,728) |
| Proceeds from sale of assets | 21 | 77 |
| Other investments | (6,507) | (3,740) |
| Distributions from non-consolidated affiliates | 2,478 | 2,802 |
| Cash flows used in continuing investing activities | (42,723) | (77,267) |
| Discontinued operations | 17,101 | (1,956) |
| Net cash used in investing activities | (25,622) | (79,223) |
| Cash flows used in financing activities: | | |
| Proceeds from issuance of 6.75% Notes | — | 78,937 |
| Proceeds from revolving credit agreement | 85,276 | — |
| Acquisition related payments | (132,997) | (71,255) |
| Repayment of long-term debt | (397) | (340) |
| Purchase of shares | (1,792) | (4,791) |
| Deferred financing costs | — | (2,376) |
| Distributions to noncontrolling interests | (9,462) | (6,014) |
| Proceeds from exercise of options | 224 | — |
| Cash overdrafts | 27,207 | 18,364 |

| | | |
|---|---|---|
| Payment of dividends | (31,692) | (28,054) |
| Other | — | 57 |
| Cash flows used in continuing financing activities | (63,633) | (15,472) |
| Discontinued operations | (40) | (40) |
| Net cash used in financing activities | (63,673) | (15,512) |
| Effect of exchange rate changes on cash and cash equivalents | 2,194 | (194) |
| Decrease in cash and cash equivalents | (97,590) | (59,545) |
| Cash and cash equivalents at beginning of period | 113,348 | 102,007 |
| Cash and cash equivalents at end of period | $15,758 | $42,462 |
| | | |
| Supplemental disclosures: | | |
| Cash income taxes paid | $1,400 | $359 |
| Cash interest paid | $26,358 | $23,247 |
| Change in cash held in trusts | $(752) | $6,422 |
| | | |
| Non-cash transactions: | | |
| Capital leases | $106 | $766 |

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| | | |
|---|---|---|
| Dividends payable | $1,615 | $1,349 |
| Note receivable exchanged for shares of subsidiary | $— | $1,746 |

See notes to the unaudited condensed consolidated financial statements.

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

| | Common Stock | | | | | Charges in | | Accumulated Other | MDC Partners Inc. | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Class A | | Class B | | Additional Paid-in Capital | Excess of Capital | Accumulated | Comprehensive Income (Loss) | Shareholders' | Noncontrolling | Shareholders' |
| | Shares | Amount | Shares | Amount | | | Deficit | | Deficit | Interests | Deficit |
| Balance at December 31, 2014 | 49,680,109 | $265,817 | 3,755 | $1 | $— | $(209,668) | $(489,633) | $(7,752) | $(441,235) | $92,655 | $(348,580) |
| Net loss attributable to MDC Partners | — | — | — | — | — | — | (11,135) | — | (11,135) | — | (11,135) |
| Other comprehensive income (loss) | — | — | — | — | — | — | — | 13,271 | 13,271 | (3,934) | 9,337 |
| Issuance of restricted stock | 285,764 | 5,189 | — | — | (5,189) | — | — | — | — | — | — |
| Shares acquired and cancelled | (68,278) | (1,792) | — | — | — | — | — | — | (1,792) | — | (1,792) |
| Options exercised | 37,500 | 343 | — | — | (119) | — | — | — | 224 | — | 224 |
| Stock-based compensation | — | — | — | — | 6,563 | — | — | — | 6,563 | — | 6,563 |
| Changes in redemption value of redeemable noncontrolling interests | — | — | — | — | (21,596) | — | — | — | (21,596) | — | (21,596) |
| Changes in noncontrolling interests and redeemable noncontrolling interests from step-up transactions | — | — | — | — | (40,446) | — | — | — | (40,446) | (8,708) | (49,154) |
| Dividends paid and to be paid | — | — | — | — | (31,930) | — | — | — | (31,930) | — | (31,930) |
| Transfer to charges in excess of capital | — | — | — | — | 92,717 | (92,717) | — | — | — | — | — |
| Balance at September 30, 2015 | 49,935,095 | $269,557 | 3,755 | $1 | $— | $(302,385) | $(500,768) | $5,519 | $(528,076) | $80,013 | $(448,063) |

See notes to the unaudited condensed consolidated financial statements.

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

1. Basis of Presentation

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

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

These statements should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 31, 2014.

2. Significant Accounting Policies

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

Principles of Consolidation. The accompanying condensed consolidated financial statements include the accounts of MDC Partners Inc. and its domestic and international controlled subsidiaries that are not considered variable interest entities, and variable interest entities for which the Company is the primary beneficiary. Intercompany balances and transactions have been eliminated in consolidation.

Reclassifications. Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

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

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

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

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

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

Concentration of Credit Risk. The Company provides marketing communications services to clients who operate in most industry sectors. Credit is granted to qualified clients in the ordinary course of business. Due to the diversified nature of the Company’s client base, the Company does not believe that it is exposed to a concentration of credit risk. No client accounted for

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more than 10% of the Company's consolidated accounts receivable at September 30, 2015 and December 31, 2014. No clients accounted for 10% of the Company's revenue for the three and nine months ended September 30, 2015 or for the three and nine months ended September 30, 2014.

Cash and Cash Equivalents. The Company's cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. The Company has a concentration of credit risk in that there are cash deposits in excess of federally insured amounts.

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

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

Expenditures Billable to Clients. Expenditures billable to clients consist principally of outside vendor costs incurred on behalf of clients when providing advertising, marketing and corporate communications services that have not yet been invoiced to clients. Such amounts are invoiced to clients at various times over the course of the production process.

Fixed Assets. Fixed assets are stated at cost, net of accumulated depreciation. Computers, furniture and fixtures are depreciated on a straight-line basis over periods of 3 to 7 years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the term of the related lease or the estimated useful life of the asset. Repairs and maintenance costs are expensed as incurred.

Equity Method Investments. The equity method is used to account for investments in entities in which the Company has an ownership interest of less than 50% and has significant influence, or joint control by contractual arrangement, (i) over the operating and financial policies of the affiliate or (ii) has an ownership interest greater than 50%; however, the substantive participating rights of the noncontrolling interest shareholders preclude the Company from exercising unilateral control over the operating and financial policies of the affiliate. The Company's investments accounted for using the equity method include a 30% undivided interest in a real estate joint venture and various interests in investment funds. The Company's management periodically evaluates these investments to determine if there has been a decline in value that is other than temporary. These investments are included in investments in non-consolidated affiliates.

Cost Method Investments. From time to time, the Company makes non-material cost based investments in start-up advertising technology companies and innovative consumer product companies where the Company does not exercise significant influence over the operating and financial policies of the investee. The total net cost basis of these investments, which is included in Other Assets on the balance sheet, at September 30, 2015 and December 31, 2014 was $12,833 and $10,196, respectively. These investments are periodically evaluated to determine whether a significant event or change in circumstances has occurred that may impact the fair value of each investment other than temporary declines below book value. A variety of factors are considered when determining if a decline is other than temporary, including, among others, the financial condition and prospects of the investee, as well as the Company's investment intent. In addition, the Company's partner agencies may receive minority equity interests from start-up companies in lieu of fees.

Business Combinations. Business combinations are accounted for using the acquisition method and accordingly, the assets acquired (including identified intangible assets), the liabilities assumed and any noncontrolling interest in the acquired business are recorded at their acquisition date fair values. The Company's acquisition model typically provides for an initial payment at closing and for future additional contingent purchase price obligations. Contingent purchase price obligations are recorded as deferred acquisition consideration on the balance sheet at the acquisition date fair value and are remeasured at each reporting period. Changes in such estimated values are recorded in the results of operations. For further information see Note 4 and Note 8. For the three months ended September 30, 2015 and 2014, $4,927 and $2,623 of expense was recognized in operations related to changes in estimated value, respectively. For the nine months ended September 30, 2015 and 2014, $5,566 of income and $14,716 of expense, respectively, related to changes in estimated value was recorded in results of operations. The Company expenses acquisition related costs. For the three and nine months ended September 30, 2015 and 2014, $728 and $1,658 and $2,444 and $3,713, respectively, of acquisition related costs were charged to operations.

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

Redeemable Noncontrolling Interests. Many of the Company's acquisitions include contractual arrangements where the noncontrolling shareholders have an option to purchase, or may require the Company to purchase, such noncontrolling shareholders' incremental ownership interests under certain circumstances and the Company has similar call options under the same contractual terms. The amount of consideration under these contractual arrangements is not a fixed amount, but rather is dependent upon various valuation formulas as described in Note 11. In the event that an incremental purchase may be required of the Company, the amounts are recorded as Redeemable Noncontrolling Interests in mezzanine equity on the balance sheet at their acquisition date fair value and adjusted for changes to their estimated redemption value through additional paid-in capital (but not less than their initial redemption value), except for foreign currency translation adjustments. These adjustments will not impact the calculation of earnings (loss) per share.

If the estimated redemption value is in excess of the fair value of the noncontrolling interests, the Company records a charge to income attributable to noncontrolling interests. For the three and nine months ended September 30, 2015 and 2014, there were no charges to income attributable to noncontrolling interests. Changes in the estimated redemption amounts of the redeemable noncontrolling interests are adjusted at each reporting period with a corresponding adjustment to equity. These adjustments will not impact the calculation of earnings (loss) per share.

The following table presents changes in Redeemable Noncontrolling Interests:

| | Nine Months Ended September 30, 2015 | Year Ended December 31, 2014 |
|---|---|---|
| Beginning Balance | $194,951 | $148,534 |
| Redemptions | (152,166) | (4,820) |
| Granted (1) | 7,703 | 13,327 |
| Changes in redemption value | 21,596 | 38,850 |
| Currency Translation Adjustments | (758) | (940) |
| Ending Balance | $71,326 | $194,951 |

(1) Grants in 2015 consisted of transfers from noncontrolling interests related to step-up transactions and new acquisitions.

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

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

Doner is a full service integrated creative agency that is included as part of the Company's portfolio in the Strategic Marketing Services Segment. The Company’s Credit Agreement (see Note 7) is guaranteed and secured by all of Doner’s assets.

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Total assets and total liabilities of Doner included in the Company’s consolidated balance sheet at September 30, 2015 were $116,998 and $83,131, respectively, and at December 31, 2014 were $223,305 and $192,340, respectively.

Guarantees. Guarantees issued or modified by the Company to third parties after January 1, 2003 are generally recognized at the inception or modification of the guarantee as a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The initial measurement of that liability is the fair value of the guarantee. The recognition of a liability is required even if it is not probable that payments will be required under a guarantee. The Company’s liability associated with guarantees is not significant. (See Note 11).

Revenue Recognition. The Company’s revenue recognition policies are established in accordance with the Revenue Recognition topics of the FASB Codification, and accordingly, revenue is recognized when all of the following criteria are satisfied: (i) persuasive evidence of an arrangement exists; (ii) the selling price is fixed or determinable; (iii) services have been performed or upon delivery of the products when ownership and risk of loss has transferred to the client; and (iv) collection of the resulting receivable is reasonably assured.

The Company follows the Multiple-Element Arrangement topic of the FASB Codification, which addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities and how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting.

The Company follows the Principal Agent Consideration topic of the FASB Codification which addresses (i) whether revenue should be recorded at the gross amount billed because it has earned revenue from the sale of goods or services, or recorded at the net amount retained because it has earned a fee or commission, and (ii) that reimbursements received for out-of-pocket expenses incurred should be characterized in the income statement as revenue. Accordingly, the Company has included such reimbursed expenses in revenue.

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

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

Fees billed to clients in excess of fees recognized as revenue are classified as Advanced Billings on the Company's balance sheet.

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

Cost of Services Sold. Cost of services sold do not include depreciation charges for fixed assets.

Interest Expense. Interest expense primarily consists of the cost of borrowing on the Company's 6.75% Senior Notes due 2020 (the “6.75% Notes”) and the Company's $325 million senior secured revolving credit agreement due 2019 (the “Credit Agreement"). The Company uses the effective interest method to amortize the deferred financing costs and original issue premium on the 6.75% Notes. The Company also uses the straight-line method to amortize the deferred financing costs on the Credit Agreement. For the three and nine months ended September 30, 2015 and 2014, interest expense included $770 and $1,700, respectively, and $553 and $1,415, respectively, relating to present value adjustments for fixed deferred acquisition consideration payments.

Income Taxes. The Company’s US 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. The Company currently has a fully reserved valuation allowance on its deferred

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tax assets related to US net operating losses. During the nine months ended September 30, 2015 and 2014, the Company's effective tax rate was substantially lower than the statutory rate due primarily to (i) the utilization of previously fully reserved net operating losses, and (ii) noncontrolling interest charges and losses in certain tax jurisdictions where a valuation allowance was deemed necessary, offset by non-deductible stock-based compensation.

Stock-Based Compensation. Under the fair value method, compensation cost is measured at fair value at the date of grant and is expensed over the service period, in this case the award’s vesting period. When awards are exercised, share capital is credited by the sum of the consideration paid, together with the related portion previously credited to additional paid-in capital when compensation costs were charged against income or acquisition consideration.

The Company uses its historical volatility derived over the expected term of the award to determine the volatility factor used in determining the fair value of the award.

Stock-based awards that are settled in cash, or may be settled in cash at the option of employees, are recorded as liabilities. The measurement of the liability and compensation cost for these awards is based on the fair value of the award, and is recorded in operating income over the service period, in this case the award's vesting period. Changes in the Company’s payment obligation prior to the settlement date of a stock-based award are recorded as compensation cost in operating income in the period of the change. The final payment amount for such awards is established on the date of the exercise of the award by the employee.

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

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

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

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

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

During the nine months ended September 30, 2015, the Company issued 181,155 restricted stock units (“RSUs”) to its employees and directors. The RSUs have an aggregate grant date fair value of $3,780 and generally vest on the third anniversary of the date of grant.

A total of 805,217 Class A shares of restricted stock, granted to employees as equity incentive awards but not yet vested, has been excluded in the Company’s calculation of Class A shares outstanding as of September 30, 2015.

Income (loss) per Common Share. Basic income (loss) per share is based upon the weighted average number of common shares outstanding during each period, including the “Share capital to be issued” as reflected in Shareholders’ Equity on the balance sheet. Diluted income (loss) per share is based on the above, plus, if dilutive, common share equivalents, which include outstanding options, stock appreciation rights, and restricted stock units.

Foreign Currency Translation. The Company's financial statements were prepared in accordance with the requirements of the Foreign Currency Translation topic of the FASB Codification. The functional currency of the Company is the Canadian Dollar and it has decided to use US Dollars as its reporting currency for consolidated reporting purposes. Generally, the Company's subsidiaries use their local currency as their functional currency. Accordingly, the currency impacts of the translation of the balance sheets of the Company's non-US Dollar based subsidiaries to US Dollar statements are included as cumulative translation adjustments in accumulated other comprehensive income. Translation of intercompany debt, which is not intended to be repaid, is included in cumulative translation adjustments. Cumulative translation adjustments are not included in net earnings unless they are actually realized through a sale or upon complete or substantially complete liquidation of the Company's net investment in the foreign operation. Translation of current intercompany balances are included in net earnings. The balance sheets of non-US

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Dollar based subsidiaries are translated at the period end rate. The income statements of non-US Dollar based subsidiaries are translated at average exchange rates for the period.

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

3. Income Per Common Share

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Numerator | | | | |
| Numerator for basic income (loss) per common share - income (loss) from continuing operations | $(5,166) | $(1,868) | $2,489 | $10,474 |
| Net income attributable to the noncontrolling interests | (2,122) | (1,685) | (7,343) | (4,796) |
| Net income (loss) from continuing operations attributable to MDC Partners Inc. common shareholders | (7,288) | (3,553) | (4,854) | 5,678 |
| Effect of dilutive securities | — | — | — | — |
| Numerator for diluted income (loss) per common share - income (loss) attributable to MDC Partners Inc. common shareholders from continuing operations | $(7,288) | $(3,553) | $(4,854) | $5,678 |
| Denominator | | | | |
| Denominator for basic income (loss) per common share - weighted average common shares | 49,915,807 | 49,630,532 | 49,843,980 | 49,506,427 |
| Effect of dilutive securities | — | — | — | 627,836 |
| Denominator for diluted income (loss) per common share - adjusted weighted shares and assumed conversions | 49,915,807 | 49,630,532 | 49,843,980 | 50,134,263 |
| Basic income (loss) per common share from continuing operations | $(0.15) | $(0.07) | $(0.10) | $0.11 |
| Diluted income (loss) per common share from continuing operations | $(0.15) | $(0.07) | $(0.10) | $0.11 |

During the three and nine months ended September 30, 2015, options and other rights to purchase 942,574 shares of common stock, which includes 867,574 shares of non-vested restricted stock and restricted stock units, were outstanding and were excluded in the computation of diluted income per common share.

During the three months ended September 30, 2014, options and other rights to purchase 1,111,055 shares of common stock, which includes 998,555 shares of non-vested restricted stock, were outstanding and were excluded in the computation of diluted income per common share.

During the nine months ended September 30, 2014, options and other rights to purchase 1,111,055 shares of common stock, which includes 998,555 shares of non-vested restricted stock, were outstanding and were included in the computation of diluted income per common share.

4. Acquisitions

Valuations of acquired companies are based on a number of factors, including specialized know-how, reputation, competitive position and service offerings. The Company's acquisition strategy has been focused on acquiring the expertise of an assembled workforce in order to continue to build upon the core capabilities of its various strategic business platforms to better serve the Company's clients. MDC’s strategy includes acquiring ownership stakes in well-managed businesses with strong reputations in the industry. The Company’s model of “Perpetual Partnership” often involves acquiring a majority interest rather than a 100% interest and leaving management owners with a significant financial interest in the performance of the acquired entity

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for a minimum period of time, typically not less than five years. The Company's acquisition model in this scenario typically provides for (i) an initial payment at the time of closing, (ii) additional contingent purchase price obligations based on the future performance of the acquired entity, and (iii) an option by the Company to purchase (and in some instances a requirement to so purchase) the remaining interest of the acquired entity under a predetermined formula.

Contingent purchase price obligations.  The Company's contingent purchase price obligations are generally payable within a five year period following the acquisition date, and are based on (i) the achievement of specific thresholds of future earnings, and (ii) in certain cases, the growth rate of those earnings. Contingent purchase price obligations are recorded as deferred acquisition consideration on the balance sheet at the acquisition date fair value and adjusted at each reporting period through operating income or net interest expense, depending on the nature of the arrangement. See Note 8 for additional information on deferred acquisition consideration.

Options to purchase. When acquiring less than 100% ownership, the Company may enter into agreements that give the Company an option to purchase, or require the Company to purchase, the incremental ownership interests under certain circumstances. Where the option to purchase the incremental ownership is within the Company's control, the amounts are recorded as noncontrolling interests in the equity section of the Company's balance sheet. Where the incremental purchase may be required of the Company, the amounts are recorded as redeemable noncontrolling interests in mezzanine equity at their acquisition date estimated redemption value and adjusted at each reporting period for changes to their estimated redemption value through additional paid-in capital (but not less than their initial redemption value), except for foreign currency translation adjustments. On occasion, the Company may initiate a renegotiation to acquire an incremental ownership interest and the amount of consideration paid may differ materially from the balance sheet amounts. See Note 11 for additional information on redeemable noncontrolling interests.

Employment conditions.  From time to time, specifically when the projected success of an acquisition is deemed to be dependent on retention of specific personnel, such acquisition may include deferred payments that are contingent upon employment terms as well as financial performance. The Company accounts for those payments through operating income as stock-based compensation over the required retention period. For the three and nine months ended September 30, 2015 and 2014, stock-based compensation included $1,548 and $6,462, respectively, and $1,395 and $5,680, respectively, of expense relating to those payments.

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

Pro forma financial information has not been presented for 2015 as there were no material acquisitions. During 2015, the Company completed an acquisition and a number of step-up transactions to increase its equity ownership percentage in majority owned entities. Included in the Company's consolidated statement of operations for the three and nine months ended September 30, 2015 was revenue of $4,615 and $7,797, respectively, and net income of $1,073 and $1,646, related to the 2015 acquisition.

2015 Acquisitions

Effective May 1, 2015, the Company acquired a majority of the equity interests of Y Media Labs LLC ("Y Media"), such that following the transaction, the Company's effective ownership was 60%. Y Media is in the Company's Performance Marketing Services segment. The aggregate purchase price of this acquisition has an estimated present value at acquisition date of $45,096 and consisted of total closing cash payments of $20,000 and additional deferred acquisition payments that will be based on the future financial results of Y Media. These additional deferred payments have an estimated present value at acquisition date of $25,096. An allocation of excess purchase price consideration of this acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of $11,542, consisting primarily of customer lists, a trade name and covenants not to complete, and goodwill of $38,618, representing the value of the assembled workforce. The identified assets have a weighted average useful life of approximately 5.1 years and will be amortized in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded $1,999 as the present value of redeemable noncontrolling interests. None of the intangibles and goodwill are tax deductible.

The actual adjustments that the Company will ultimately make in finalizing the allocation of purchase price to fair value of the net assets acquired will depend on a number of factors.

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In 2015, the Company acquired incremental ownership interests of Sloane & Company LLC (“Sloane”), Anomaly Partners LLC (“Anomaly”), Allison & Partners LLC (“Allison”), Relevent Partners LLC (“Relevent”), Kenna Communications LP (“Kenna”) and 72andSunny Partners LLC (“72andSunny”). Sloane, Anomaly, Allison and 72andSunny are included within the Company’s Strategic Marketing Services segment. Relevent and Kenna are both included within the Company’s Performance Marketing Services segment. In addition, the Company also entered into various non-material transactions in connection with other majority owned entities.

The aggregate purchase price for these 2015 acquisitions of incremental ownership interests has an estimated present value at transaction date of $195,669 and consisted of total closing cash payments of $37,437 and additional deferred acquisition payments that are both fixed and based on the future financial results of the underlying businesses. These additional deferred payments have an estimated present value at acquisition date of $158,232. The Company reduced redeemable noncontrolling interests by $146,459 and noncontrolling interests by $8,708. The difference between the purchase price and the noncontrolling interests of $40,446 was recorded in additional paid-in capital.

2014 Acquisitions

During 2014, the Company entered into several acquisitions and various non-material transactions with certain majority owned entities. Effective January 1, 2014, the Company acquired 60% of the equity interests of Luntz Global Partners LLC (“LG”). Effective February 14, 2014, the Company acquired 65% of the equity interests of Kingsdale Partners LP (“Kingsdale”). LG and Kingsdale are both in the Company’s Performance Marketing Services segment. On June 3, 2014, the Company acquired a 100% equity interest in The House Worldwide Ltd (“THW”). On July 31, 2014, Union Advertising Canada LP acquired 100% of the issued and outstanding stock of Trapeze Media Limited (“Trapeze”). Effective August 1, 2014, the Company acquired 65% of the equity interests of Hunter PR LLC (“Hunter PR”). Effective August 18, 2014, the Company acquired a 75% interest in Albion Brand Communication Limited (“Albion”). In addition, in June 2014 and August 2014, the Company (through a subsidiary) entered into other non-material acquisitions. THW, Trapeze, Hunter PR, and Albion are all included within the Company's Strategic Marketing Services segment.

The aggregate purchase price of these 2014 acquisitions has an estimated present value at acquisition date of $151,202 and consisted of total closing cash payments of $67,236, and additional deferred acquisition payments that will be based on the future financial results of the underlying businesses. These additional deferred payments have an estimated present value at acquisition date of $83,966. An allocation of excess purchase price consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $64,733, consisting primarily of customer lists, a technology asset and covenants not to compete, and goodwill of $146,806, representing the value of the assembled workforce. The identified assets will be amortized over a five to six year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded $50,552 as the present value of noncontrolling interests and $13,327 as the present value of redeemable noncontrolling interests. Intangibles and goodwill of $149,232 are tax deductible. In addition, the Company recorded other income of $908 representing a gain on the previously held 18% interest in Trapeze.

The actual adjustments that the Company will ultimately make in finalizing the allocation of purchase price to fair value of the net assets acquired will depend on a number of factors.

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Noncontrolling Interests

Changes in the Company’s ownership interests in our less than 100% owned subsidiaries during the three and nine months ended September 30, 2015 and 2014 were as follows:

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income (loss) attributable to MDC Partners Inc. | $(8,604) | $(4,922) | $(11,135) | $2,702 |
| Transfers to (from) the noncontrolling interest: | | | | |
| Increase (decrease) in MDC Partners Inc. paid-in capital for purchase of equity interests in excess of Redeemable Noncontrolling Interests and Noncontrolling Interests | (7,247) | 109 | (40,446) | (6,129) |
| Net transfers to (from) noncontrolling interests | $(7,247) | $109 | $(40,446) | $(6,129) |
| Change from net income (loss) attributable to MDC Partners Inc. and transfers to noncontrolling interests | $(15,851) | $(4,813) | $(51,581) | $(3,427) |

5. Accruals and Other Liabilities

At September 30, 2015 and December 31, 2014, accruals and other liabilities included accrued media of $192,473 and $168,508, respectively; and included amounts due to noncontrolling interest holders, for their share of profits, which will be distributed within the next twelve months of $3,853 and $6,014, respectively.

Changes in noncontrolling interest amounts included in accrued and other liabilities for the year ended December 31, 2014 and nine months ended September 30, 2015 were as follows:

| | Noncontrolling Interests |
|---|---|
| Balance, December 31, 2013 | $5,210 |
| Income attributable to noncontrolling interests | 6,890 |
| Distributions made | (6,523) |
| Other (1) | 437 |
| Balance, December 31, 2014 | $6,014 |
| Income attributable to noncontrolling interests | 7,343 |
| Distributions made | (9,462) |
| Other (1) | (42) |
| Balance, September 30, 2015 | $3,853 |

(1) Other primarily relates to step-up transactions, discontinued operations and cumulative translation adjustments.

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6. Discontinued Operations

In the fourth quarter of 2014, the Company classified Accent Marketing Services, L.L.C. ("Accent"), which was previously reported in the Performance Marketing Services segment, as discontinued operations. Effective May 31, 2015, the Company completed the sale of Accent for an aggregate selling price of $17,102, net of transaction expenses.

Included in discontinued operations in the Company's consolidated statements of operations for the three and nine months ended September 30, 2015 and 2014 was the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue | $— | $17,499 | $27,025 | $53,577 |
| Operating loss | $— | $(1,289) | $(322) | $(2,586) |
| Other expense | $— | $(80) | $(752) | $(390) |
| Loss on disposal | (1,316) | — | (5,207) | — |
| Net loss from discontinued operations attributable to MDC Partners Inc., net of taxes | $(1,316) | $(1,369) | $(6,281) | $(2,976) |

At September 30, 2015, the Company had no assets held for sale. At December 31, 2014, other current assets and other long term assets included assets held for sale of $5,591 and $16,409, respectively.

7. Debt

The Company's indebtedness was comprised of:

| | September 30, 2015 | December 31, 2014 |
|---|---|---|
| Revolving credit agreement | $85,276 | $— |
| 6.75% Senior Notes due 2020 | 735,000 | 735,000 |
| Original issue premium | 6,133 | 7,017 |
| | 826,409 | 742,017 |
| Obligations under capital leases | 777 | 1,110 |
| | 827,186 | 743,127 |
| Less current portion: | 508 | 534 |
| | $826,678 | $742,593 |

MDC Financing Agreement and Senior Notes

Issuance of 6.75% Senior Notes

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 its $550,000 aggregate principal amount of the 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

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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 $537,600. The Company used the net proceeds to redeem all of its existing 11% notes, together with accrued interest, related premiums, fees and expenses and recorded a charge for loss on redemption of such notes of $55,588, 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 $110,000 aggregate principal amount of the 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 "'33 Act"). The Company received net proceeds before expenses of $111,925, which included an original issue premium of $4,125, and underwriter fees of $2,200. The Company used the net proceeds from the offering for general corporate purposes.

On April 2, 2014, the Company issued an additional $75,000 aggregate principal amount of the 6.75% Notes. The additional 6.75% 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 6.75% Notes were sold in a private placement in reliance on exceptions from registration under the '33 Act. The Company received net proceeds before expenses of $77,452, which included an original issue premium of $3,938, and underwriter fees of $1,500. The Company used the net proceeds from the offering for general corporate purposes, including the funding of deferred acquisition consideration, working capital, acquisitions and the repayment of the amount outstanding under its 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 (i) at a redemption price of 103.375% of the principal amount thereof if redeemed during the twelve-month period beginning on April 1, 2016, (ii) 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 (iii) 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 106.75% 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 a cross-payment default and cross-acceleration provision.

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 are

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to be used for working capital and general corporate purposes, in each case pursuant to the terms of the Credit Agreement. Capitalized terms used in this section and not otherwise defined have the meanings set forth in the Credit Agreement.

Effective October 23, 2014, MDC and its subsidiaries entered into an amendment to its Credit Agreement. The amendment: (i) expands the commitments under the facility by $100 million, from $225 million to $325 million; (ii) extends the 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. The Credit Agreement is also subject to customary events of default.

The Company is currently in compliance with all of the terms and conditions of its Credit Agreement, and management believes, based on its current financial projections, that the Company will be in compliance with the covenants over the next twelve months. At September 30, 2015, there were $85,276 borrowings under the Credit Agreement.

At September 30, 2015, the Company had issued $5,035 of undrawn outstanding letters of credit.

At September 30, 2015 and December 31, 2014, accounts payable included $44,941 and $72,147 of outstanding checks, respectively.

8. Fair Value Measurements

Authoritative guidance for fair value establishes a framework for measuring fair value. A fair value measurement assumes a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

In order to increase consistency and comparability in fair value measurements, the guidance establishes a hierarchy for observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

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

- Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

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Financial Liabilities Measured at Fair Value on a Recurring Basis

The following tables present certain information for the financial liabilities that are disclosed at fair value on a recurring basis at September 30, 2015 and December 31, 2014:

| | Level 1 September 30, 2015 | | Level 1 December 31, 2014 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Liabilities: | | | | |
| 6.75% Notes due 2020 | $741,133 | $733,163 | $742,017 | $751,538 |

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

The following table presents changes in Deferred Acquisition Consideration:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | |
|---|---|---|
| | September 30, 2015 | December 31, 2014 |
| Beginning Balance of contingent payments | $172,227 | $151,848 |
| Payments | (77,196) | (61,441) |
| Grants (1) | 163,168 | 68,642 |
| Redemption value adjustments (2) | (2,350) | 20,816 |
| Transfers to (from) fixed payments | — | (5,146) |
| Foreign translation adjustment | (3,579) | (2,492) |
| Ending Balance of contingent payments | $252,270 | $172,227 |

(1) Grants are the initial estimated deferred acquisition payments of new acquisitions and step-up transactions completed within that fiscal period.

(2) Redemption value adjustments are fair value changes from the Company’s initial estimates of deferred acquisition payments, including the accretion of present value and stock-based compensation charges relating to acquisition payments that are tied to continued employment.

In addition to the above amounts, there are fixed payments of $39,457 and $33,141 for total deferred acquisition consideration of $291,727 and $205,368, which reconciles to the consolidated balance sheets at September 30, 2015 and December 31, 2014, respectively.

The Company includes the payments of all deferred acquisition consideration in financing activities in the Company's consolidated statement of cash flows as the Company believes these payments to be seller-related financing activities, which is the predominant source of cash flows.

Level 3 payments relate to payments made for deferred acquisition consideration. Level 3 grants relate to contingent purchase price obligations related to acquisitions and are recorded on the balance sheet at the acquisition date fair 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 the earnings of the relevant subsidiary during the contractual period and, in some cases, the currency exchange rate as of the date of payment. Level 3 redemption value adjustments relate to the remeasurement and change in these various contractual valuation formulas as well as adjustments of present value.

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At September 30, 2015 and December 31, 2014, the carrying amount of the Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximated fair value because of their short-term maturity. The Company does not disclose the fair value for equity method investments or investments held at cost as it is not practical to estimate fair value since there is no readily available market data.

Non-financial Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

On a nonrecurring basis, the Company uses fair value measures when analyzing asset impairment. Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined such indicators are present and the review indicates that the assets will not be fully recoverable, based on undiscounted estimated cash flows over the remaining amortization periods, their carrying values are reduced to estimated fair value. Measurements based on undiscounted cash flows are considered to be Level 3 inputs. During the fourth quarter of each year, the Company evaluates goodwill and indefinite-lived intangibles for impairment at the reporting unit level. For each acquisition, the Company performed a detailed review to identify intangible assets and a valuation is performed for all such identified assets. The Company used 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. The amounts allocated to assets acquired and liabilities assumed in the acquisitions were determined using Level 3 inputs. Fair value for property and equipment was based on other observable transactions for similar property and equipment. Accounts receivable represents the best estimate of balances that will ultimately be collected, which is based in part on allowance for doubtful accounts reserve criteria and an evaluation of the specific receivable balances.

9. Other Income (Expense)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Other income | $4 | $1,386 | $482 | $1,767 |
| Foreign currency loss | (15,627) | (11,027) | (29,797) | (10,415) |
| | $(15,623) | $(9,641) | $(29,315) | $(8,648) |

10. Segment Information

The Company's segment reporting is consistent with the current manner of how the Chief Operating Decision Maker ("CODM") and the Board of Directors view the business. The Company is focused on expanding its capabilities in order to position the Company for future business development efforts and revenue growth.

In order to position this strategic focus along the lines of how the CODM and management will base their business decisions, the Company reports in one reportable segment and two "other" segments. Decisions regarding allocation of resources are made and will be made based not only on the individual operating results of the subsidiaries but also on the overall performance of the reportable segments. These reportable segments are the aggregation of various reporting segments.

The Company reports in one reportable Strategic Marketing Services segment plus two "other" segments, Performance Marketing Services and Corporate. The operating segments are as follows:

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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 segment share similar economic characteristics, specifically related to the nature of their respective services, the manner in which the services are provided and the similarity of their respective customers. Due to the similarities in these businesses, they exhibit similar long term financial performance and have been aggregated together.

The Performance Marketing Services segment includes firms that provide 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, services include consumer activation, investor relations and general public insights.

The significant accounting policies of these segments are the same as those described in the summary of significant accounting policies included in these notes to the consolidated financial statements. The Company continues to evaluate its Corporate segment and the services provided by the Corporate segment to the operating segments.

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

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Three Months Ended September 30, 2015
(thousands of United States dollars)

| | Strategic Marketing Services | Performance Marketing Services | Corporate | Total |
|---|---|---|---|---|
| Revenue | $264,552 | $63,863 | $— | $328,415 |
| Cost of services sold | 168,367 | 44,558 | — | 212,925 |
| Office and general expenses | 52,933 | 10,777 | 15,076 | 78,786 |
| Depreciation and amortization | 6,445 | 5,577 | 1,064 | 13,086 |
| Operating profit (loss) | 36,807 | 2,951 | (16,140) | 23,618 |
| Other Income (Expense): | | | | |
| Other expense, net | | | | (15,623) |
| Interest expense and finance charges, net | | | | (14,524) |
| Loss from continuing operations before income taxes and equity in non-consolidated affiliates | | | | (6,529) |
| Income tax benefit | | | | (1,191) |
| Loss from continuing operations before equity in non-consolidated affiliates | | | | (5,338) |
| Equity in earnings of non-consolidated affiliates | | | | 172 |
| Loss from continuing operations | | | | (5,166) |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | | | | (1,316) |
| Net loss | | | | (6,482) |
| Net income attributable to the noncontrolling interests | (1,930) | (192) | — | (2,122) |
| Net loss attributable to MDC Partners Inc. | | | | $(8,604) |
| Stock-based compensation | $2,594 | $508 | $164 | $3,266 |
| Supplemental Segment Information: | | | | |
| Capital expenditures | $7,524 | $627 | $10 | $8,161 |

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Three Months Ended September 30, 2014
(thousands of United States dollars)

| | Strategic Marketing Services | Performance Marketing Services | Corporate | Total |
|---|---|---|---|---|
| Revenue | $238,419 | $70,972 | $— | $309,391 |
| Cost of services sold | 156,667 | 48,882 | — | 205,549 |
| Office and general expenses | 48,524 | 11,354 | 10,937 | 70,815 |
| Depreciation and amortization | 6,895 | 4,368 | 421 | 11,684 |
| Operating profit (loss) | 26,333 | 6,368 | (11,358) | 21,343 |
| Other Income (Expense): | | | | |
| Other expense, net | | | | (9,641) |
| Interest expense and finance charges, net | | | | (13,917) |
| Loss from continuing operations before income taxes and equity in non-consolidated affiliates | | | | (2,215) |
| Income tax benefit | | | | (266) |
| Loss from continuing operations before equity in non-consolidated affiliates | | | | (1,949) |
| Equity in earnings of non-consolidated affiliates | | | | 81 |
| Loss from continuing operations | | | | (1,868) |
| Loss from discontinued operations attributable to MDC Partners Inc., net of taxes | | | | |