

MDC PARTNERS INC
Form 10-Q
November 06, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2014

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

10151

New York, New York

(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 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 No

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

Large accelerated filer

Accelerated filer

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

The numbers of shares outstanding as of October 28, 2014 were: 50,439,696 Class A subordinate voting shares and 3,755 Class B multiple voting shares.

Website Access to Company Reports

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

website is not incorporated into, and does not form a part of, this quarterly report on Form 10-Q.

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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,	
	2014	2013	2014	2013
Revenue:				
Services	\$326,890	\$288,670	\$937,178	\$841,805
Operating Expenses:				
Cost of services sold	216,505	189,204	608,380	556,739
Office and general expenses	77,811	88,828	234,543	217,033
Depreciation and amortization	12,480	9,462	34,505	28,429
	306,796	287,494	877,428	802,201
Operating profit	20,094	1,176	59,750	39,604
Other Income (Expense):				
Other, net	(9,659)	) 1,736	(8,894)	) 1,545
Interest expense and finance charges	(14,019)	) (10,589)	) (40,655)	) (33,392)
Loss on redemption of notes	—	—	—	(55,588)
Interest income	43	37	153	202
	(23,635)	) (8,816)	) (49,396)	) (87,233)
Income (loss) from continuing operations before income taxes and equity in non-consolidated affiliates	(3,541)	) (7,640)	) 10,354	(47,629)
Income tax expense (benefit)	(263)	) 4,334	2,781	(8,189)
Income (loss) from continuing operations before equity in non-consolidated affiliates	(3,278)	) (11,974)	) 7,573	(39,440)
Equity in earnings of non-consolidated affiliates	81	73	223	196
Income (loss) from continuing operations	(3,197)	) (11,901)	) 7,796	(39,244)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(40)	) (7,388)	) (298)	) (10,891)
Net income (loss)	(3,237)	) (19,289)	) 7,498	(50,135)
Net income attributable to the noncontrolling interests	(1,685)	) (1,911)	) (4,796)	) (4,407)
Net income (loss) attributable to MDC Partners Inc.	\$ (4,922)	) \$ (21,200)	) \$ 2,702	) \$ (54,542)
Income (loss) Per Common Share				
Basic:				
Income (loss) from continuing operations attributable to MDC Partners Inc. common shareholders	\$ (0.10)	) \$ (0.29)	) \$ 0.06	) \$ (0.93)
Discontinued operations attributable to MDC Partners Inc. common shareholders	—	(0.16)	(0.01)	(0.23)
Net income (loss) attributable to MDC Partners Inc. common shareholders	\$ (0.10)) \$ (0.45)) \$ 0.05) \$ (1.16)

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Diluted:

Income (loss) from continuing operations attributable to MDC Partners Inc. common shareholders	\$ (0.10)	\$ (0.29)	\$ 0.06	\$ (0.93)
Discontinued operations attributable to MDC Partners Inc. common shareholders	—	(0.16)	(0.01)	(0.23)
Net income (loss) attributable to MDC Partners Inc. common shareholders	\$ (0.10)	\$ (0.45)	\$ 0.05	\$ (1.16)

Weighted Average Number of Common Shares

Outstanding:

Basic	49,630,532	47,205,699	49,506,427	47,052,944
Diluted	49,630,532	47,205,699	50,134,263	47,052,944

Stock based compensation expense is included in the following line items above:

Cost of services sold	\$ 1,516	\$ 1,656	\$ 6,270	\$ 4,952
Office and general expenses	1,921	25,779	5,963	31,738
Total	\$ 3,437	\$ 27,435	\$ 12,233	\$ 36,690

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		Nine Months Ended September		
	30,		30,		
	2014	2013	2014	2013	
Comprehensive Income (Loss)					
Net income (loss)	\$ (3,237	) \$ (19,289	) \$ 7,498	\$ (50,135)
Other comprehensive income (loss):					
Foreign currency translation adjustment	1,597	757	2,356	(857)
Other comprehensive income (loss)	1,597	757	2,356	(857)
Comprehensive income (loss) attributable to noncontrolling interest	202	(1,930	) (4,014	) (4,401)
Comprehensive income (loss) attributable to MDC Partners Inc.	\$ (1,438	) \$ (20,462	) \$ 5,840	\$ (55,393)

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, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$48,885	\$102,007
Accounts receivable, less allowance for doubtful accounts of \$1,911 and \$2,011	386,630	309,796
Expenditures billable to clients	102,053	63,246
Other current assets	31,054	25,458
Total Current Assets	568,622	500,507
Fixed assets, at cost, less accumulated depreciation of \$121,917 and \$118,119	61,124	52,071
Investment in non-consolidated affiliates	472	275
Goodwill	928,209	744,333
Other intangibles assets, net	65,575	56,262
Deferred tax asset	21,311	21,131
Other assets	62,015	50,648
 Total Assets	 \$1,707,328	 \$1,425,227
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND SHAREHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	\$268,819	\$246,694
Accruals and other liabilities	265,923	240,580
Advance billings	207,164	149,540
Current portion of long-term debt	650	467
Current portion of deferred acquisition consideration	82,535	53,041
Total Current Liabilities	825,091	690,322
Long-term debt, less current portion	743,148	664,661
Long-term portion of deferred acquisition consideration	127,381	100,872
Other liabilities	31,956	34,430
Deferred tax liabilities	66,471	63,020
 Total Liabilities	 1,794,047	 1,553,305
 Redeemable Noncontrolling Interests (Note 2)	 185,925	 148,534
Commitments, contingencies and guarantees (Note 11)		
Shareholders' Deficit:		
Preferred shares, unlimited authorized, none issued	—	—
Class A Shares, no par value, unlimited authorized, 49,643,813 and 49,092,427 shares issued and outstanding in 2014 and 2013	265,847	262,655
Class B Shares, no par value, unlimited authorized, 3,755 shares issued and outstanding in 2014 and 2013, each convertible into one Class A share	1	1
Shares to be issued, 42,000 shares	—	424
Charges in excess of capital	(188,808	) (126,352)
Accumulated deficit	(462,874) (465,576)
Stock subscription receivable	(55) (55)

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Accumulated other comprehensive income (loss)	2,341	(797)	
MDC Partners Inc. Shareholders' Deficit	(383,548)	(329,700)
Noncontrolling Interests	110,904	53,088		
Total Shareholders' Deficit	(272,644)	(276,612)
Total Liabilities, Redeemable Noncontrolling Interests and Shareholders' Deficit	\$1,707,328	\$1,425,227		

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,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	\$7,498	\$(50,135)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(298)	(10,891)
Income (loss) from continuing operations	7,796	(39,244)
Adjustments to reconcile net income (loss) from continuing operations to cash provided by operating activities:		
Stock-based compensation	12,233	36,690
Depreciation	14,003	14,014
Amortization of intangibles	20,502	14,415
Amortization of deferred finance charges and debt discount	1,704	7,045
Loss on redemption of notes	—	50,385
Adjustment to deferred acquisition consideration	16,129	5,577
Deferred income taxes (benefits)	3,237	(8,736)
Earnings of non-consolidated affiliates	(223)	(196)
Distributions in excess of carrying value	—	(3,058)
Other non-current assets and liabilities	(11,110)	(8,899)
Foreign exchange	7,974	1,258
Changes in working capital:		
Accounts receivable	(57,478)	(5,166)
Expenditures billable to clients	(38,944)	(11,033)
Prepaid expenses and other current assets	(5,492)	(2,309)
Accounts payable, accruals and other liabilities	20,348	39,091
Advance billings	51,426	22,978
Cash flows provided by continuing operating activities	42,105	112,812
Discontinued operations	(298)	(7,461)
Net cash provided by operating activities	41,807	105,351
Cash flows from investing activities:		
Capital expenditures	(20,634)	(13,976)
Acquisitions, net of cash acquired	(57,728)	(510)
Proceeds from sale of assets	77	209
Other investments	(3,740)	(2,198)
Profit distributions from affiliates	2,802	3,244
Cash flows used in continuing investing activities	(79,223)	(13,231)
Discontinued operations	—	(11)
Net cash used in investing activities	(79,223)	(13,242)
Cash flows from financing activities:		
Proceeds from issuance of 6.75% Notes	78,937	550,000
Repayment of 11% notes	—	(425,000)
Acquisition related payments	(71,255)	(111,396)
Repayment of long-term debt	(380)	(1,428)
Purchase of shares	(4,791)	(5,011)
Premium paid on redemption of notes	—	(50,385)
Deferred financing costs	(2,376)	(15,971)

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Distributions to noncontrolling partners	(6,014) (4,822)
Cash overdrafts	18,364	(10,956)
Payment of dividends	(28,054	) (14,496)
Other	57	561	
Net cash used in financing activities	(15,512	) (88,904)
Effect of exchange rate changes on cash and cash equivalents	(194	) (223)
Increase (decrease) in cash and cash equivalents	(53,122	) 2,982	
Cash and cash equivalents at beginning of period	102,007	60,330	
Cash and cash equivalents at end of period	\$48,885	\$63,312	
Supplemental disclosures:			
Cash income taxes paid	\$359	\$555	
Cash interest paid	\$23,247	\$18,781	
Non-cash transactions:			
Capital Leases	\$766	\$203	
Dividends payable	\$1,349	\$1,214	
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 STATEMENTS OF SHAREHOLDERS' DEFICIT
 (thousands of United States dollars)

	Common Stock		Share Capital to Be Issued		Charges in		Accumulated Deficit	Stock Subscriptions Receivable	Accumulated Other Comprehensive Income (Loss)	MDC Partners Inc. Shareholders' Deficit	
	Class A Shares	Amount	Class B Shares	Amount	Additional Paid in Capital	Accumulated Deficit					
Balance at December 31, 2013	49,092,427	\$262,655	3,755	\$142,000	\$424	\$—	\$(126,352)	\$(465,576)	\$(55)	\$(797)	\$(329,700)
Net income attributable to MDC Partners	—	—	—	—	—	—	2,702	—	—	2,702	—
Other Comprehensive income (loss)	—	—	—	—	—	—	—	—	3,138	3,138	—
Issuance of restricted stock	697,186	7,068	—	—	—	(7,068)	—	—	—	—	—
Shares acquired and cancelled	(187,800)	(4,791)	—	—	—	—	—	—	—	(4,791)	—
Stock-based compensation	—	—	—	—	—	6,553	—	—	—	6,553	—
Changes in redemption value of redeemable noncontrolling interests	—	—	—	—	—	(27,768)	—	—	—	(27,768)	—
Changes in noncontrolling interests and redeemable noncontrolling interest from step-up transactions	—	—	—	—	—	(6,129)	—	—	—	(6,129)	—
Increase in noncontrolling interests from business acquisitions	—	—	—	—	—	—	—	—	—	—	—
Dividends paid and to be paid	—	—	—	—	—	(27,607)	—	—	—	(27,607)	—
Other	42,000	915	—	(42,000)	(424)	(487)	—	—	—	54	—
Transfer to charges in	—	—	—	—	—	62,456	(62,456)	—	—	—	—

excess of capital

Balance at

September 30, 49,643,813 \$265,847 3,755 \$1 — \$— \$—\$(188,808) \$(462,874) \$(55) \$2,341 \$(383,548)
2014

See notes to the unaudited condensed consolidated financial statements.

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MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(thousands of United States dollars, unless otherwise stated)

1. Basis of Presentation

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

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

These statements should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 31, 2013.

All periods have been restated to reflect the discontinued operations. See Note 6.

2. Significant Accounting Policies

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

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

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

Fair Value. The Company applies the fair value measurement guidance of 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 our 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, quoted market prices are used to determine the fair value of our financial instruments and classify such items in Level 1. In some cases, quoted market prices are used for similar instruments in active markets and classify 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; the Company did not have a client that accounted for more than 10% of the Company's consolidated accounts receivable at September 30, 2014

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or December 31, 2013. Furthermore, the Company did not have a client that accounted for more than 10% of the Company's revenue for the three and nine months ended September 30, 2014 or for the three and nine months ended September 30, 2013.

Cash and Cash Equivalents. The Company's cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. The Company has a concentration risk in that there are cash deposits in excess of federally insured amounts. Included in cash and cash equivalents at September 30, 2014 and December 31, 2013, is approximately \$6,464 and \$44, respectively, of cash restricted as to withdrawal pursuant to various agreements with third parties.

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, as of September 30, 2014 and December 31, 2013 was \$15,048 and \$12,452, respectively. These investments are periodically evaluated to determine if there have been any other than temporary declines below book value. A variety of factors are considered when determining if a decline in fair value below book value 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. During the nine month period ended September 30, 2014, the Company liquidated one such equity interest position in exchange for an aggregate purchase price equal to \$7,700. The purchaser of this equity investment was a current investor in such entity and an executive officer of one of our subsidiary partner agencies.

Business Combinations. Valuation of acquired companies is based on a number of factors, including specialized know-how, reputation, competitive position and service offerings. The Company's acquisition strategy has been focused on acquiring the expertise of an assembled workforce in order to continue to build upon the core capabilities of its various strategic business platforms to better serve the Company's clients. Consistent with the acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed after 2010 included an initial payment at the time of closing and provide for future additional contingent purchase price payments. Contingent payments for these transactions, as well as certain acquisitions completed in prior years, are derived using the performance of the acquired entity and are based on predetermined formulas. Contingent purchase price obligations for acquisitions completed prior to January 1, 2009 are accrued when the contingency is resolved and payment is certain. Contingent purchase price obligations related to acquisitions completed subsequent to December 31, 2008 are recorded as liabilities at estimated value and are remeasured at each reporting period and changes in estimated value are recorded in results of operations. For the three months ended September 30, 2014 and 2013, \$2,623 and \$717 of expense was recognized in operations related to changes in estimated value, respectively. For the nine months ended September 30, 2014 and 2013, \$14,716 and \$5,400 of expense was recognized in operations related to changes in estimated value, respectively. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests is 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 the three months ended September 30, 2014 and 2013, \$1,658 and \$427 of acquisition related costs have been charged to operations, respectively. For the nine months ended September 30, 2014 and 2013, \$3,713 and \$1,438 of acquisition related costs have been charged to operations, respectively.

For each acquisition, the Company undertakes a detailed review to identify other intangible assets and a valuation is performed for all such identified assets. The Company uses several market participant measurements to determine estimated value. This approach includes consideration of similar and recent transactions, as well as utilizing

discounted expected cash flow methodologies. Like most service businesses, a substantial portion of the intangible asset value that the Company acquires is the specialized know-how of the workforce, which is treated as part of goodwill and is not required to be valued separately. The majority of the value of the identifiable intangible assets that the Company acquires is derived from customer relationships, including the related customer contracts, as well as trade names. In executing the acquisition strategy, one of the primary drivers in identifying and executing a specific transaction is the existence of, or the ability to, expand the Company's existing client relationships. The expected benefits of the acquisitions are typically shared across multiple agencies and regions.

Redeemable Noncontrolling Interest. The minority interest shareholders of certain subsidiaries have the right to require the Company to acquire their ownership interest under certain circumstances pursuant to a contractual arrangement and the Company has similar call options under the same contractual terms. The amount of consideration under the put and call rights is not a fixed amount, but rather is dependent upon various valuation formulas and on future events, such as the average earnings of the relevant subsidiary through the date of exercise, the growth rate of the earnings of the relevant subsidiary through the date of exercise, etc. as described in Note 11.

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The Company has recorded the value of put options held by noncontrolling interests as mezzanine equity at their current estimated redemption amounts. The Company accrues changes in the redemption amounts over the period from the date of issuance to the earliest redemption date of the put options. The Company accounts for the put options with a charge to noncontrolling interests to reflect the excess, if any, of the estimated exercise price over the estimated fair value of the noncontrolling interest shares at the date of the option being exercised. For the three and nine months ended September 30, 2014 and 2013, there have been no charges to noncontrolling interests. Changes in the estimated redemption amounts of the put options are adjusted at each reporting period with a corresponding adjustment to equity. These adjustments will not impact the calculation of earnings per share.

The following table presents changes in Redeemable Noncontrolling Interests.

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Beginning Balance	\$ 148,534	\$ 117,953
Redemptions	(3,592	) (4,270
Granted	13,720	—
Changes in redemption value	27,768	35,689
Currency Translation Adjustments	(505	) (838
Ending Balance	\$ 185,925	\$ 148,534

Variable Interest Entity. Effective March 28, 2012, the Company invested in Doner Partners LLC (“Doner”), and has determined that this entity is a variable interest entity (“VIE”) and is consolidated for all periods subsequent to the date of investment. The Company acquired a 30% voting interest and convertible preferred interests that allow the Company to increase ordinary voting ownership to 70% at MDC’s option. Doner is a full service integrated creative agency that is included as part of our portfolio in the Strategic Marketing Services Segment. The Company’s Credit Agreement is guaranteed and secured by all of Doner’s assets.

The Company has determined that it is the primary beneficiary because MDC receives a disproportionate share of profits and losses as compared to the Company’s ownership percentage. Total assets and total liabilities of Doner included in the Company’s consolidated balance sheet at September 30, 2014 were \$231,216 and \$173,768, respectively and at December 31, 2013 were \$224,964 and \$179,500, respectively.

Revenue Recognition. The Company’s revenue recognition policies are as required by the Revenue Recognition topics of the FASB Accounting Standards Codification, and accordingly, revenue is generally recognized as services are provided or upon delivery of the products when ownership and risk of loss has transferred to the customer, the selling price is fixed or determinable and collection of the resulting receivable is reasonably assured. The Company follows the Revenue Arrangements with Multiple Deliverables topic of the FASB Accounting Standards Codification issued. This topic addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities and how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. The Company recognizes revenue based on the relative selling price of each multiple deliverable when delivered. The Company also follows the topic of the FASB Accounting Standards Codification Reporting Revenue Gross as a Principal versus Net as an Agent. This issue summarizes the EITF’s views on when revenue should be recorded at the gross amount billed because it has earned revenue from the sale of goods or services, or the net amount retained because it has earned a fee or commission. The Company also follows Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred, for reimbursements received for out-of-pocket expenses. This issue summarizes the EITF’s views that reimbursements received for out-of-pocket expenses incurred should be characterized in the income statement as revenue. Accordingly, the Company has included such reimbursed expenses in revenue.

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

Non-refundable retainer fees are generally recognized on a straight line basis over the term of the specific customer arrangement. Commission revenue is earned and recognized upon the placement of advertisements in various media when the Company has no further performance obligations. Fixed fees for services are recognized upon completion of the earnings

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process and acceptance by the client. Per diem fees are recognized upon the performance of the Company's services. In addition, for certain service transactions, which require delivery of a number of service acts, the Company uses the Proportional Performance model, which generally results in revenue being recognized based on the straight-line method.

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

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

Interest Expense. Interest expense primarily consists of the cost of borrowing on the revolving credit agreement and Senior Notes. The Company amortizes deferred financing costs using the effective interest method over the life of the Senior Notes and straight line over the life of the revolving credit agreement.

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 for its US net operating losses. During the three and nine months ended September 30, 2014 and 2013, the effective tax rate was generally lower than the statutory rate due to losses in non-US based entities where a valuation allowance was not deemed necessary and utilization of previously fully reserved net operating losses.

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, which is the award's vesting period. When awards are exercised, share capital is credited by the sum of the consideration paid together with the related portion previously credited to additional paid-in capital when compensation costs were charged against income or acquisition consideration.

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

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

Stock-based awards that are settled in cash or equity at the option of the Company are recorded at fair value on the date of grant and recorded as additional paid-in capital. The fair value measurement of the compensation cost for these awards is based on using both the Black-Scholes option pricing-model and a lattice based model (Monte Carlo) and is recorded in operating income over the service period that is the vesting period of the award. The lattice based model is used for awards which are subject to achieving stock performance targets.

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

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

The Company treats benefits paid by shareholders 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 acquisitions include an element of compensation related payments. The Company accounts for those payments as stock-based compensation.

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During the nine months ended September 30, 2014, the Company issued 319,283 restricted stock units (“RSUs”) to its employees and directors. The RSUs have an aggregate grant date fair value of \$7,483 and generally vest on the third anniversary date with certain awards subjected to accelerated vesting based on the financial performance of the Company.

A total of 795,883 Class A shares of restricted stock, granted to employees as equity incentive awards but not yet vested, have been excluded in the Company’s calculation of Class A shares outstanding as of September 30, 2014.

3. Income (Loss) Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Numerator				
Numerator for basic income (loss) per common share - loss from continuing operations	\$(3,197)	\$(11,901)	\$7,796	\$(39,244)
Net income attributable to the noncontrolling interests	(1,685)	(1,911)	(4,796)	(4,407)
Net income (loss) attributable to MDC Partners Inc. common shareholders	(4,882)	(13,812)	3,000	(43,651)
Effect of dilutive securities	—	—	—	—
Numerator for diluted income (loss) per common share - loss attributable to MDC Partners Inc. common shareholders from continuing operations	\$(4,882)	\$(13,812)	\$3,000	\$(43,651)
Denominator				
Denominator for basic income (loss) per common share - weighted average common shares	49,630,532	47,205,699	49,506,427	47,052,944
Effect of dilutive securities	—	—	627,836	—
Denominator for diluted income (loss) per common share - adjusted weighted shares and assumed conversions	49,630,532	47,205,699	50,134,263	47,052,944
Basic income (loss) per common share from continuing operations	\$(0.10)	\$(0.29)	\$0.06	\$(0.93)
Diluted income (loss) per common share from continuing operations	\$(0.10)	\$(0.29)	\$0.06	\$(0.93)

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 and restricted stock units, were outstanding and were included 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 share.

During the three and nine months ended September 30, 2013, options and other rights to purchase 3,698,058 shares of common stock, which includes 3,623,058 shares of non-vested restricted stock, were outstanding and were included in the computation of diluted income per common share.

4. Acquisitions

Pro forma financial information has not been presented for 2014 since there were no material acquisitions. During 2014, the Company completed a number of non-material acquisitions 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

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months ended September 30, 2014 was revenue of \$18,069 and \$34,049 and net income of \$1,791 and \$5,810, respectively, related to 2014 acquisitions.

2014 Acquisitions

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

The aggregate purchase price of these acquisitions has an estimated present value at acquisition date of \$162,975 and consisted of total closing cash payments of \$67,238, and additional deferred acquisition payments that will be based on the financial results of the underlying businesses from 2013 to 2018 with final payments due in 2019. These additional deferred payments have an estimated present value at acquisition date of \$95,737. An allocation of excess purchase price consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of \$33,956, consisting primarily of customer lists, a technology asset and covenants not to compete, and goodwill of \$188,988, including 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 \$63,158 as the present value of noncontrolling interest and \$13,720 as the present value of redeemable noncontrolling interest. Intangibles and goodwill of \$107,793 are tax deductible. In addition the Company recorded other income of \$908 representing a gain on the previously held 18% interest in Trapeze (see Note 13).

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.

2013 Acquisitions

During the fourth quarter of 2013, the Company acquired a 70% interest in Local Biz Now LLC ("LBN"). The acquisition of LBN allows MDC to participate in the online local search market. LBN is in the Company's Performance Marketing Services segment. During 2013, the Company also entered into various non-material transactions with certain majority owned entities.

The aggregate purchase price has an estimated present value at acquisition date of \$38,202 and consisted of total closing cash payments of \$12,000, and additional contingent deferred acquisition consideration that are based on the financial results of the underlying businesses from 2013 to 2017 with final payments due in 2018 that have an estimated present value at acquisition date of \$26,202. An allocation of excess purchase price consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of \$10,835 consisting primarily of customer lists, a technology asset, and covenants not to compete, and goodwill of \$35,956 including 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 \$11,090 as the present value of noncontrolling interest. The intangibles and goodwill of \$46,791 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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Noncontrolling Interests

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income (loss) attributable to MDC Partners Inc.	\$ (4,922)	\$ (21,200)	\$ 2,702	\$ (54,542)
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	109	1,531	(6,129)	11,347
Net transfers to (from) noncontrolling interest	\$ 109	\$ 1,531	\$ (6,129)	\$ 11,347
Change from net loss attributable to MDC Partners Inc. and transfers to non controlling interest	\$ (4,813)	\$ (19,669)	\$ (3,427)	\$ (43,195)

5. Accruals and Other Liabilities

At September 30, 2014 and December 31, 2013, accruals and other liabilities included accrued media of \$152,371 and \$144,161, respectively; trust liabilities of \$6,422 and nil, respectively; and included amounts due to noncontrolling interest holders, for their share of profits, which will be distributed within the next twelve months of \$4,103 and \$5,210, respectively.

Changes in noncontrolling interest amounts included in accrued and other liabilities for the year ended December 31, 2013 and nine months ended September 30, 2014 were as follows:

	Noncontrolling Interests
Balance, December 31, 2012	\$3,624
Income attributable to noncontrolling interests	6,461
Distributions made	(5,525)
Cumulative translation adjustments	650
Balance, December 31, 2013	\$5,210
Income attributable to noncontrolling interests	4,796
Distributions made	(6,014)
Other (1)	111
Balance, September 30, 2014	\$4,103

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

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6. Discontinued Operations

In 2013, the Company discontinued a subsidiary and an operating division.

Included in discontinued operations in the Company's consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 was the following:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenue	\$—	\$531	\$—	\$3,245
Operating loss	\$(40)	\$(922)	\$(298)	\$(2,799)
Other expense	\$—	\$(20)	\$—	\$(117)
Noncontrolling interest expense (recovery)	—	1	—	(55)
Loss on disposal	—	(6,447)	—	(7,920)
Net loss from discontinued operations attributable to MDC Partners Inc., net of taxes	\$(40)	\$(7,388)	\$(298)	\$(10,891)

7. Debt

Debt consists of:

	September 30, 2014	December 31, 2013
Revolving credit agreement	\$—	\$—
6.75% Senior Notes due 2020	735,000	660,000
Original issue premium	7,296	4,056
Notes payable and other bank loans	80	120
	742,376	664,176
Obligations under capital leases	1,422	952
	743,798	665,128
Less current portion:	650	467
	\$743,148	\$664,661

MDC Financing Agreement and Senior Notes

Issuance of 6.75% Senior Notes

On March 20, 2013, MDC Partners Inc. ("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, MDC's senior secured revolving credit agreement (the "Credit Agreement"), as guarantors (the "Guarantors") and The Bank of New York Mellon, as trustee, relating to the issuance by MDC of its 6.75% Senior Notes due 2020 (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 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 \$537,600. The Company used the net proceeds to redeem all of the existing 11% Notes, together with accrued

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interest, related premiums, fees and expenses and recorded a charge for loss on redemption of 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 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 \$111,925, which included an original issue premium of \$4,125, and underwriter fees of \$2,200. The Company used the net proceeds of the offering for general corporate purposes.

On April 2, 2014, the Company issued an additional \$75,000 aggregate principal amount of 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 private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of \$77,452, which included an original issue premium of \$3,938, and underwriter fees of \$1,500 and prepayment of interest of \$14. 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 provision. The Indenture contains no restrictions with respect to the amount of funds that may be loaned and/or advanced by and among Loan Parties, including Parent.

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

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Agreement. Capitalized terms used in this section and not otherwise defined have the meanings set forth in the Credit Agreement.

As of September 30, 2014, advances under the Credit Agreement bore interest as follows: (a)(i) LIBOR Rate Loans bore interest at the LIBOR Rate and (ii) Base Rate Loans bore interest at the Base Rate, plus (b) an applicable margin. As of September 30, 2014 the initial applicable margin for borrowing is 1.25% in the case of Base Rate Loans and 2.00% 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.

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 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.

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 Credit Agreement contains no restrictions with respect to the amount of funds that may be loaned and/or advanced by and among Loan Parties, including Parent.

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, 2014, there were no borrowings under the Credit Agreement.

At September 30, 2014, the Company had issued \$4,827 of undrawn outstanding Letters of Credit.

At September 30, 2014 and December 31, 2013, accounts payable included \$52,676 and \$34,312 of outstanding checks, respectively.

8. Fair Value Measurements

Effective January 1, 2008, the Company adopted guidance regarding accounting for Fair Value Measurements, for financial assets and liabilities. This guidance defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The statement indicates, among other things, that a fair value measurement assumes a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

In order to increase consistency and comparability in fair value measurements, 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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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.

The following tables present certain information for our financial liabilities that is disclosed at fair value on a recurring basis at September 30, 2014 and December 31, 2013:

	Level 1 September 30, 2014		Level 1 December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
6.75% Notes due 2020	\$742,296	\$768,075	\$664,056	\$690,525

Our 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, 2014	December 31, 2013
Beginning Balance of contingent payments	\$151,848	\$194,795
Payments	(61,138	) (106,460
Grants (1)	71,575	31,608
Redemption value adjustments (2)	17,882	38,712
Transfers to fixed payments	(5,146	) (6,318
Foreign translation adjustment	(1,003	) (489
Ending Balance of contingent payments	\$174,018	\$151,848

(1) Grants are the initial estimated deferred acquisition payments of new acquisitions 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 \$35,898 and \$2,065 for total deferred acquisition consideration of \$209,916 and \$153,913, which reconciles to the consolidated financial statements at September 30, 2014 and December 31, 2013, respectively.

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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. The Company records the initial liability of 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 the earnings of the relevant subsidiary during the contractual period, and, in some cases, the currency exchange rate 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.

At September 30, 2014 and December 31, 2013, 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.

9. Other Income (Expense)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Other income (expense)	\$1,387	\$(2)	\$1,767	\$(304)
Distribution in excess of carrying value	—	—	—	3,058
Foreign currency income (loss)	(11,046)) 1,738	(10,661)) (1,209)
	\$(9,659)) \$1,736	\$(8,894)) \$1,545

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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 database marketing and data analytics 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 two 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 two segments plus corporate. The segments are as follows:

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 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 our 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. Each of the entities within the Performance Marketing Services Group 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, the services provided to the customer and they exhibit similar long term financial performance and have been aggregated together.

The significant accounting policies of these segments are the same as those described in the summary of significant accounting policies included in the notes to the consolidated financial statements. The Company continues to evaluate its Corporate Group and the services provided by the Corporate Group 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, 2014
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$228,297	\$98,593	\$—	\$326,890
Cost of services sold	148,157	68,348	—	216,505
Office and general expenses	47,455	19,419	10,937	77,811
Depreciation and amortization	6,790	5,269	421	12,480
Operating Profit (Loss)	25,895	5,557	(11,358)	) 20,094
Other Income (Expense):				
Other expense, net				(9,659)
Interest expense and finance charges, net				(13,976)
Loss from continuing operations before income taxes and equity in non-consolidated affiliates				(3,541)
Income tax benefit				(263)
Loss from continuing operations before equity in non-consolidated affiliates				(3,278)
Equity in earnings of non-consolidated affiliates				81
Loss from continuing operations				(3,197)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(40)
Net Loss				(3,237)
Net income attributable to the noncontrolling interests	(1,669)	) (16)	) —	(1,685)
Net loss attributable to MDC Partners Inc.				\$(4,922)
Stock based compensation	\$1,816	\$477	\$1,144	\$3,437
Supplemental Segment Information:				
Capital expenditures	\$12,111	\$1,250	\$428	\$13,789

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Three Months Ended September 30, 2013

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$203,440	\$85,230	\$—	\$288,670
Cost of services sold	128,300	60,904	—	189,204
Office and general expenses	40,995	14,759	33,074	88,828
Depreciation and amortization	5,807	3,358	297	9,462
Operating Profit (loss)	28,338	6,209	(33,371)	) 1,176
Other Income (Expense):				
Other income, net				1,736
Interest expense, net				(10,552)
Loss from continuing operations before income taxes and equity in non-consolidated affiliates				(7,640)
Income tax expense				4,334
Loss from continuing operations before equity in non-consolidated affiliates				(11,974)
Equity in earnings of non-consolidated affiliates				73
Loss from continuing operations				(11,901)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(7,388)
Net Loss				(19,289)
Net income attributable to the non-controlling interests	(1,471)	) (440)	) —	(1,911)
Net loss attributable to MDC Partners Inc.				\$(21,200)
Stock based compensation	\$1,835	\$646	\$24,954	\$27,435
Supplemental Segment Information:				
Capital expenditures	\$2,617	\$844	\$908	\$4,369

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Nine Months Ended September 30, 2014

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$655,262	\$281,916	\$—	\$937,178
Cost of services sold	419,371	189,009	—	608,380
Office and general expenses	134,022	67,496	33,025	234,543
Depreciation and amortization	16,874	16,275	1,356	34,505
Operating Profit (loss)	84,995	9,136	(34,381	) 59,750
Other Income (Expense):				
Other expense, net				(8,894)
Interest expense, net				(40,502)
Income from continuing operations before income taxes and equity in non-consolidated affiliates				10,354
Income tax expense				2,781
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				7,573
Equity in earnings of non-consolidated affiliates				223
Income from continuing operations				7,796
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(298)
Net income				7,498
Net income attributable to the non-controlling interests	(4,854	) 58	—	(4,796)
Net income attributable to MDC Partners Inc.				\$2,702
Stock based compensation	\$6,067	\$2,684	\$3,482	\$12,233
Supplemental Segment Information:				
Capital expenditures	\$16,105	\$3,295	\$1,234	\$20,634
Goodwill and intangibles	\$572,454	\$421,330	\$—	\$993,784
Total Assets	\$960,194	\$567,329	\$179,805	\$1,707,328

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Nine Months Ended September 30, 2013

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$587,540	\$254,265	\$—	\$841,805
Cost of services sold	375,681	181,058	—	556,739
Office and general expenses	115,759	53,358	47,916	217,033
Depreciation and amortization	17,334	10,106	989	28,429
Operating Profit (Loss)	78,766	9,743	(48,905	) 39,604
Other Income (Expense):				
Other income, net				1,545
Interest expense, net				(88,778
)
Loss from continuing operations before income taxes, equity in affiliates				(47,629
)
Income tax benefit				(8,189
)
Loss from continuing operations before equity in affiliates				(39,440
)
Equity in earnings of non-consolidated affiliates				196
Loss from continuing operations				(39,244
)
Loss from discontinuing operations attributable to MDC Partners Inc., net of taxes				(10,891
)
Net loss				(50,135
)
Net income attributable to the noncontrolling interests	(3,578	) (829	) —	(4,407
)
Net loss attributable to MDC Partners Inc.				\$(54,542
)
Stock based compensation	\$4,815	\$2,505	\$29,370	\$36,690
Supplemental Segment Information:				
Capital expenditures	\$8,223	\$4,225	\$1,528	\$13,976
Goodwill and intangibles	\$520,408	\$241,737	\$—	\$762,145
Total Assets	\$845,342	\$376,577	\$143,768	\$1,365,687

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A summary of the Company's revenue by geographic area, based on the location in which the services originated, is set forth in the following table:

	United States	Canada	Other	Total
Revenue				
Three Months Ended September 30,				
2014	\$263,796	\$38,052	\$25,042	\$326,890
2013	\$237,260	\$33,892	\$17,518	\$288,670
Nine Months Ended September 30,				
2014	\$765,699	\$107,993	\$63,486	\$937,178
2013	\$694,670	\$99,897	\$47,238	\$841,805

11. Commitments, Contingencies and Guarantees

Deferred Acquisition Consideration. In addition to the consideration paid by the Company in respect of certain of its acquisitions at closing, additional consideration may be payable, or may be potentially payable based on the achievement of certain threshold levels of earnings. See Note 2 and Note 4.

Put Options. Owners of interests in certain subsidiaries have the right in certain circumstances to require the Company to acquire 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 remainder of 2014 to 2019. 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 rights are exercised is dependent on 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 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 September 30, 2014, perform over the relevant future periods at their trailing twelve-months earnings levels, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate amount of approximately \$22,348 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 \$1,538 by the issuance of share capital. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately \$168,027 only upon termination of such owner's employment with the applicable subsidiary or death. Included in redeemable noncontrolling interests at September 30, 2014 is \$185,925 of these put options because they are not within the control of the Company. The ultimate amount payable 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.

Natural Disasters. Certain of the Company's operations are located in regions of the United States and Caribbean which typically are subject to hurricanes. During the nine months ended September 30, 2014 and 2013, these operations did not incur any costs related to damages resulting from hurricanes.

Guarantees. The Company has provided customary representations and warranties whose terms range in duration and may not be explicitly defined. The Company has also retained certain liabilities for events occurring prior to sale,

relating to tax, environmental, litigation and other matters. Generally, the Company has indemnified the purchasers 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 a number of years.

Historically, the Company has not made any significant indemnification payments under such agreements and no amount 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.

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Legal Proceedings. The Company's operating entities are involved in legal proceedings of various types. While any litigation contains an element of uncertainty, the Company 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 the Company.

Commitments. The Company has commitments to fund \$13,018 of investments. At September 30, 2014, the Company had issued \$4,827 of undrawn outstanding letters of credit.

12. New Accounting Pronouncements

In May 2014, the FASB issued Standards Update 2014-09, Revenue with Contracts from Customers. This update supersedes Topic 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, an entity must apply a five-step approach. ASU 2014-09 provides for one of two methods of transition: retrospective application to each prior period presented; or, recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. This guidance is effective for the Company beginning January 1, 2017. The Company is currently assessing the impact and transition method to choose.

In April 2014, the FASB issued Standards Update No 2014-08, Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity. This update changes the requirements for reporting discontinued operations and requires additional disclosures. This guidance is effective for the Company beginning January 1, 2015. The implementation of the amended accounting guidance is not expected to have a material impact on our consolidated financial position or results of operations.

13. Related Party

On July 31, 2014, Union Advertising Canada LP, acquired 100% of the issued and outstanding stock of Trapeze Media Limited. Trapeze Media is a Toronto-based digital advertising company. 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 \$5,281 (or \$4,373 excluding the Company's current equity interest). MDC recorded other income of \$908 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated, references to the “Company” mean MDC Partners Inc. and its subsidiaries, and 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).

The Company reports its financial results in accordance with generally accepted accounting principles (“GAAP”) of the United States of America (“US GAAP”). However, the Company has included certain non-US 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 US 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 US GAAP.

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The following discussion focuses on the operating performance of the Company for the three and nine months ended September 30, 2014 and 2013 and the financial condition of the Company as of September 30, 2014. This analysis should be read in conjunction with the interim condensed consolidated financial statements presented in this interim report and the annual audited consolidated financial statements and Management's Discussion and Analysis presented in the Annual Report for the year ended December 31, 2013 as reported on Form 10-K. All amounts are in U.S. dollars unless otherwise stated.

Executive Summary

The Company's objective is to create shareholder value by building market-leading subsidiaries and affiliates that deliver innovative, value-added marketing communications and strategic consulting services 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, which results in earnings before interest, income taxes and depreciation and amortization ("EBITDA") 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 reportable 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 are two reportable operating segments: Strategic Marketing Services and Performance Marketing Services. In addition, MDC has a "Corporate Group" which provides certain administrative, accounting, financial, human resources and legal functions. Through our operating "partners", MDC provides advertising, consulting, customer relationship management, and specialized communication 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 Unaudited Condensed Consolidated Financial Statements.

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 operating expenses is depreciation and amortization.

Because we are a service business, we monitor these costs on a percentage of revenue basis. Cost of services sold tends 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 also monitor the resulting EBITDA generated to assist in determining where investment needs to be made.

We measure capital expenses as either maintenance or investment related. Maintenance capital expenses are primarily composed of general upkeep of our office facilities and equipment that are required to continue to operate our businesses. Investment capital expenses include expansion costs, the build out of new capabilities, technology or call centers, or other growth initiatives not related to the day to day upkeep of the existing operations. Growth capital expenses 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 any number of reasons, such as a 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

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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 2009 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 6 "Discontinued Operations" in the Notes to the Unaudited Condensed Consolidated Financial Statements.

Foreign Exchange Fluctuations. Our financial results and competitive position are affected by fluctuations in the exchange rate between the US dollar and non-US dollars, primarily the Canadian dollar. See also "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.

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

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$228,297	\$98,593	\$—	\$326,890
Cost of services sold	148,157	68,348	—	216,505
Office and general expenses	47,455	19,419	10,937	77,811
Depreciation and amortization	6,790	5,269	421	12,480
Operating Profit (Loss)	25,895	5,557	(11,358)	) 20,094
Other Income (Expense):				
Other expense, net				(9,659)
Interest expense and finance charges, net				(13,976)
Loss from continuing operations before income taxes and equity in non-consolidated affiliates				(3,541)
Income tax benefit				(263)
Loss from continuing operations before equity in non-consolidated affiliates				(3,278)
Equity in earnings of non-consolidated affiliates				81
Loss from continuing operations				(3,197)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(40)
Net Loss				(3,237)
Net income attributable to the noncontrolling interests	(1,669)	) (16)	) —	(1,685)
Net loss attributable to MDC Partners Inc.				\$(4,922)
Stock based compensation	\$1,816	\$477	\$1,144	\$3,437

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Three Months Ended September 30, 2013

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$203,440	\$85,230	\$—	\$288,670
Cost of services sold	128,300	60,904	—	189,204
Office and general expenses	40,995	14,759	33,074	88,828
Depreciation and amortization	5,807	3,358	297	9,462
Operating Profit (loss)	28,338	6,209	(33,371)	1,176
Other Income (Expense):				
Other income, net				1,736
Interest expense, net				(10,552)
Loss from continuing operations before income taxes and equity in non-consolidated affiliates				(7,640)
Income tax expense				4,334
Loss from continuing operations before equity in non-consolidated affiliates				(11,974)
Equity in earnings of non-consolidated affiliates				73
Loss from continuing operations				(11,901)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(7,388)
Net Loss				(19,289)
Net income attributable to the non-controlling interests	(1,471)	(440)	—	(1,911)
Net loss attributable to MDC Partners Inc.				\$(21,200)
Stock based compensation	\$1,835	\$646	\$24,954	\$27,435

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Nine Months Ended September 30, 2014

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total	
Revenue	\$655,262	\$281,916	\$—	\$937,178	
Cost of services sold	419,371	189,009	—	608,380	
Office and general expenses	134,022	67,496	33,025	234,543	
Depreciation and amortization	16,874	16,275	1,356	34,505	
Operating Profit (loss)	84,995	9,136	(34,381)	59,750	
Other Income (Expense):					
Other expense, net				(8,894)
Interest expense, net				(40,502)
Income from continuing operations before income taxes and equity in non-consolidated affiliates				10,354	
Income tax expense				2,781	
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				7,573	
Equity in earnings of non-consolidated affiliates				223	
Income from continuing operations				7,796	
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(298)
Net income				7,498	
Net income attributable to the non-controlling interests	(4,854)	58	—	(4,796)
Net income attributable to MDC Partners Inc.				\$2,702	
Stock based compensation	\$6,067	\$2,684	\$3,482	\$12,233	

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Nine Months Ended September 30, 2013

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$587,540	\$254,265	\$—	\$841,805
Cost of services sold	375,681	181,058	—	556,739
Office and general expenses	115,759	53,358	47,916	217,033
Depreciation and amortization	17,334	10,106	989	28,429
Operating Profit (Loss)	78,766	9,743	(48,905)	39,604
Other Income (Expense):				
Other income, net				1,545
Interest expense, net				(88,778)
Loss from continuing operations before income taxes, equity in affiliates				(47,629)
Income tax benefit				(8,189)
Loss from continuing operations before equity in affiliates				(39,440)
Equity in earnings of non-consolidated affiliates				196
Loss from continuing operations				(39,244)
Loss from discontinuing operations attributable to MDC Partners Inc., net of taxes				(10,891)
Net loss				(50,135)
Net income attributable to the noncontrolling interests	(3,578)	(829)	—	(4,407)
Net loss attributable to MDC Partners Inc.				\$(54,542)
Stock based compensation	\$4,815	\$2,505	\$29,370	\$36,690

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Three Months Ended September 30, 2014, Compared to Three Months Ended September 30, 2013

Revenue was \$326.9 million for the quarter ended September 30, 2014, representing an increase of \$38.2 million, or 13.2%, compared to revenue of \$288.7 million for the quarter ended September 30, 2013. This revenue increase was driven by organic growth of \$23.5 million and acquisition growth of \$16.3 million. A strengthening of the US Dollar, primarily versus the Canadian dollar during the quarter ended September 30, 2014, resulted in decreased revenues of \$1.6 million.

The operating profit for the quarter ended September 30, 2014 was \$20.1 million, compared to operating profit of \$1.2 million for the quarter ended September 30, 2013. The increase in operating profit was primarily the result of a decrease in corporate expenses of \$22.0 million, offset by decreases in operating profit of \$2.4 million in the Strategic Marketing Services segment and \$0.7 million within the Performance Marketing Services segment.

Loss from continuing operations for the third quarter of 2014 was \$3.2 million, compared to a loss of \$11.9 million for the third quarter ended September 30, 2013. This decrease in loss of \$8.7 million was primarily the result of an increase in operating profit of \$18.9 million and a decrease in income tax expense of \$4.6 million, offset by increases in other expense, net of \$11.4 million, and interest expense, net of \$3.4 million.

Marketing Communications Group

Revenues in the third quarter of 2014 attributable to the Marketing Communications Group, which consists of two reportable segments — Strategic Marketing Services and Performance Marketing Services, were \$326.9 million compared to \$288.7 million in the third quarter of 2013, representing a year-over-year increase of 13.2%.

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

	Revenue		
	\$ 000's	%	
Quarter ended September 30, 2013	\$288,670		
Organic	23,542	8.2	%
Acquisitions	16,303	5.6	%
Foreign exchange impact	(1,625)	(0.6))%
Quarter ended September 30, 2014	\$326,890	13.2	%

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

	2014	2013	
US	81	% 82	%
Canada	11	% 11	%
Other	8	% 7	%

The operating profit of the Marketing Communications Group decreased from \$34.5 million in the third quarter of 2013, to \$31.5 million in the third quarter of 2014. Operating margins decreased by 2.4% and were 9.6% for 2014, compared to 12.0% for 2013. The decrease in operating profit and in operating margin was primarily due to increased direct costs (excluding staff labor), office and general expense and depreciation and amortization. Direct costs increased as a percentage of revenues from 13.6% in 2013, to 16.4% in 2014, as there were increased pass-through costs incurred on the clients' behalf during the third quarter of 2014 where the Company was acting as principal versus agent for certain client contracts. This was offset by increases in revenue and decreases in total staff costs. Total staff

costs decreased as a percentage of revenue from 58.7% in 2013 to 56.6% in 2014. Total staff costs decreased as the Company continues to benefit from prior investments in staff which have resulted in increased revenues. Office and general expenses increased as a percentage of revenue from 19.3% in 2013, to 20.5% in 2014. This increase was primarily due to an increase of \$1.9 million in expense relating to estimated deferred acquisition consideration. Depreciation and amortization increased from 3.2% in 2013 to 3.7% in 2014, due primarily to amortization expense relating to acquisitions completed in the fourth quarter of 2013 and throughout 2014.

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Strategic Marketing Services

Revenues attributable to Strategic Marketing Services in the third quarter of 2014 were \$228.3 million, compared to \$203.4 million in the third quarter of 2013. The year-over-year increase of \$24.9 million or 12.2% was attributable primarily to organic growth of 8.8% as a result of net new business wins and acquisition growth of 3.7%. A strengthening of the US dollar versus the Canadian dollar in 2014 compared to 2013 resulted in a slight decrease in revenues from the segment's Canadian-based operations.

The operating profit of Strategic Marketing Services decreased by \$2.4 million from \$28.3 million in the third quarter of 2013 to \$25.9 million in the third quarter of 2014. Operating margins decreased from 13.9% in the third quarter of 2013 to 11.3% in the third quarter of 2014. The decrease in operating profits and operating margins was primarily due to increased direct costs (excluding staff labor), office and general expense, and depreciation and amortization expense offset by the increase in revenue. Total staff costs were consistent at approximately 59.6% of revenue for the third quarter ended 2014 and 2013. Direct costs increased from 8.6% in 2013 to 10.7% in 2014 as there were increased pass-through costs incurred on the clients' behalf during the third quarter of 2014 where the Company was acting as principal versus agent for certain client contracts. Office and general expense increase from 20.2% in 2013 to 20.8% in 2014. This was primarily due to acquisition related expenses which increased by \$0.7 million. Depreciation and amortization increased from 2.9% in 2013 to 3.0% in 2014, due primarily to the amortization expenses related to the 2014 acquisitions.

Performance Marketing Services

The Performance Marketing Services segment generated revenues of \$98.6 million for the third quarter of 2014, an increase of \$13.4 million, or 15.7% compared to \$85.2 million in the third quarter of 2013. The year over year increase was attributed primarily to acquisition growth of 10.2% and organic growth of 6.6% as a result of net new business wins. In addition, a strengthening of the US dollar versus the Canadian dollar in 2014 compared to 2013 resulted in a decrease in revenues from the segment's Canadian-based operations.

The operating profit of Performance Marketing Services decreased by \$0.6 million, from \$6.2 million in the third quarter of 2013 to \$5.6 million in the third quarter of 2014. Operating margins decreased from 7.3% in the third quarter of 2013 to 5.6% in the third quarter of 2014. The decrease in operating profits and operating margins were primarily due to increased direct costs (excluding staff labor), office and general costs and depreciation and amortization. These increases were offset by increased revenue and decreased staff costs. Total staff costs decreased from 56.3% in 2013 to 49.7% in 2014 continuing the trend started in 2013 to reduce overall staff costs. Direct costs increased from 25.6% in 2013 to 29.4% in 2014 as there were increased pass-through costs incurred on the clients' behalf during the third quarter of 2014 where the Company was acting as principal versus agent for certain client contracts. Office and general costs increased from 17.3% in 2013 to 19.7% in 2014. The increase was due to an increase of \$2.3 million in expense relating to estimated deferred acquisition consideration. Depreciation and amortization increased from 3.9% in 2013 to 5.3% in 2014 due primarily to amortization expense relating to acquisitions completed in the fourth quarter of 2013 and throughout 2014.

Corporate

Operating costs related to the Company's Corporate operations decreased \$22.0 million to \$11.4 million in the third quarter of 2014, from \$33.4 million in the third quarter of 2013. This decrease in 2014 was primarily related to \$23.8 million of additional stock based compensation in 2013, as a result of the Company's obligation to settle a portion of its outstanding SAR's in cash. This decrease in compensation related costs was offset by an increase of \$1.3 million relating to incentive compensation. In addition, increases in advertising and promotional costs accounted for the additional change.

Other Income, Net

Other income (expense) decreased to expense of \$9.7 million in the third quarter of 2014 compared to income of \$1.7 million in the third quarter of 2013. The decrease was primarily related to an unrealized foreign exchange loss of \$11.0 million in 2014, compared to an unrealized foreign exchange gain of \$1.7 million in 2013. Specifically, these unrealized gains and losses were due primarily to the fluctuation in the US dollar during 2014 and 2013 compared to the Canadian dollar primarily on the Company's US dollar denominated intercompany balances with its Canadian subsidiaries. Additionally, in 2014 the Company had other income of \$1.4 million compared to a nominal amount in 2013.

Net Interest Expense

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Net interest expense for the third quarter of 2014 was \$14.0 million, an increase of \$3.4 million over the \$10.6 million of net interest expense incurred during the third quarter of 2013. The increase in interest expense in 2014 was due to an increase in the outstanding principal amount of the 6.75% Senior Notes.

Income Taxes

Income tax benefit was \$0.3 million in the third quarter of 2014, compared to expense of \$4.3 million for the third quarter of 2013. The Company's effective tax rate in 2014 was substantially lower than the statutory rate due to the utilization of previously fully reserved net operating losses and noncontrolling interest charges and losses in certain tax jurisdictions where a valuation allowance was deemed necessary, offset by non-deductible stock based compensation. The Company's effective tax rate for 2013 was substantially higher than the statutory rate due to additional valuation allowance required.

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.

Equity in Affiliates

Equity in affiliates represents the income attributable to equity-accounted affiliate operations. Equity in affiliates had nominal income in both 2013 and 2014.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was \$1.7 million for the third quarter of 2014, a decrease of \$0.2 million from the \$1.9 million of noncontrolling interest expense incurred during the third quarter of 2013, primarily due to the Company's increase in profitability of certain entities within the Performance Marketing Services segment.

Discontinued Operations Attributable to MDC Partners Inc.

The loss from discontinued operations was nominal for the third quarter of 2014, and \$7.4 million for the third quarter of 2013.

Net Income attributable to MDC Partners Inc.

As a result of the foregoing, the net loss attributable to MDC Partners Inc. recorded for the third quarter of 2014 was \$4.9 million, or \$0.10 per diluted share. This amount is compared to a net loss attributable to MDC Partners Inc. of \$21.2 million or \$0.45 per diluted share reported for the third quarter of 2013.

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Nine Months Ended September 30, 2014, Compared to Nine Months Ended September 30, 2013

Revenue was \$937.2 million for the nine months ended September 30, 2014, representing an increase of \$95.4 million, or 11.3%, compared to revenue of \$841.8 million for the nine months ended September 30, 2013. This revenue increase related primarily to organic growth of \$64.8 million and acquisition growth of \$36.4 million. A strengthening of the US Dollar, primarily versus the Canadian dollar during the nine months ended September 30, 2014, resulted in decreased revenues of \$5.8 million.

The operating profit for the nine months ended September 30, 2014 was \$59.8 million, compared to operating profit of \$39.6 million for the nine months ended September 30, 2013. The increase in operating profit was primarily the result of an increase in operating profit of \$6.2 million in the Strategic Marketing Services segment, a decrease in corporate expenses of \$14.5 million, offset by a decrease of operating profit of \$0.6 million within the Performance Marketing Services segment.

Income from continuing operations for the nine months of 2014 was \$7.8 million, compared to a loss of \$39.2 million for the nine months ended September 30, 2013. This increase in income of \$47.0 million was primarily the result of the 2013 premium on redemption of notes of \$55.6 million, and the increase in operating profit. These amounts were offset by a decrease in other expense, net of \$10.4 million, an increase in interest expense, net of \$7.3 million, and an increase in the income tax expense of \$11.0 million.

Marketing Communications Group

Revenues in the nine months of 2014 attributable to the Marketing Communications Group, which consists of two reportable segments — Strategic Marketing Services and Performance Marketing Services, were \$937.2 million compared to \$841.8 million in the nine months of 2013, representing a year-over-year increase of 11.3%.

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

	Revenue		
	\$ 000's	%	
Nine months ended September 30, 2013	\$841,805		
Organic	64,752	7.7	%
Acquisitions	36,439	4.3	%
Foreign exchange impact	(5,818)	(0.7))%
Nine months ended September 30, 2014	\$937,178	11.3	%

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

	2014	2013	
US	82	% 83	%
Canada	12	% 12	%
Other	6	% 5	%

The operating profit of the Marketing Communications Group increased by \$5.6 million to \$94.1 million from \$88.5 million. Operating margins decreased by 0.5% and were 10.0% for 2014, compared to 10.5% for 2013. The increase in operating profit and decrease in operating margin was primarily due to increases in revenue and decreases in total staff costs, offset by increases in direct costs (excluding staff costs), office and general expenses, and depreciation and amortization. Total staff costs decreased as a percentage of revenue from 59.9% in 2013 to 57.6% in 2014. Total staff

costs decreased as the Company continues to benefit from prior investments in staff which have resulted in increased revenues. Direct costs increased as a percentage of revenues from 13.2% in 2013, to 14.5% in 2014. Direct costs increased as there were increased pass-through costs incurred on the clients' behalf during the nine months of 2014 where the company was acting as principal versus agent for certain client contracts. Office and general expenses increased as a percentage of revenue from 20.1% in 2013, to 21.5% in 2014. This increase was primarily due to an increase of \$9.3 million in expense relating to estimated deferred acquisition

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consideration. Depreciation and amortization as a percentage of revenue increased from 3.3% in 2013 to 3.5% in 2014 due primarily to amortization expense relating to acquisitions completed in the fourth quarter of 2013 and throughout 2014.

Strategic Marketing Services

Revenues attributable to Strategic Marketing Services in the nine months of 2014 were \$655.3 million, compared to \$587.5 million in the nine months of 2013. The year-over-year increase of \$67.7 million or 11.5% was attributable primarily to organic growth as a result of net new business wins of 10.6% and acquisition growth of 1.3%. A strengthening of the US dollar versus the Canadian dollar in 2014 compared to 2013 resulted in a decrease in revenues from the segment's Canadian-based operations.

The operating profit of Strategic Marketing Services increased by \$6.2 million from \$78.8 million in the nine months of 2013 to \$85.0 million in the nine months of 2014. Operating margins decreased from 13.4% in the nine months of 2013 to 13.0% in the nine months of 2014. The increase in operating profits and decrease in operating margins was primarily due to increases in revenues and decreases in total staff costs, and depreciation and amortization, offset by an increase in direct costs (excluding staff and labor) and total office and general costs. Total staff costs decreased as a percentage of revenue from 60.6% in the nine months of 2013 to 60.2% in the months of 2014. Total staff costs decreased as the Company continues to benefit from prior investments in staff, which have resulted in increased revenues. Direct costs increased as a percentage of revenue from 8.7% in 2013 to 9.4% in 2014. Direct costs increased as there were increased pass-through costs incurred on clients' behalf during the nine months of 2014. Office and general expenses increased as a percentage of revenue from 19.7% in the nine months of 2013 to 20.5% in the nine months of 2014. The increase was due primarily to an increase of \$1.1 million in expense relating to acquisition related costs. Depreciation and amortization as a percentage of revenue decreased from 3.0% in the nine months of 2013 to 2.6% in the nine months of 2014 due to increased revenue on relatively fixed costs.

Performance Marketing Services

The Performance Marketing Services segment generated revenues of \$281.9 million for the nine months of 2014, an increase of \$27.7 million, or 10.9% compared to \$254.3 million in the nine months of 2013. The year over year increase was attributed primarily to acquisition growth of 11.3%, and organic revenue growth as a result of net new business wins of 1.0%. In addition, a strengthening of the US dollar versus the Canadian dollar in 2014 compared to 2013 resulted in a decrease in revenues from the segment's Canadian-based operations.

The operating profit and margins of Performance Marketing Services decreased by \$0.6 million from \$9.7 million in the nine months of 2013 to \$9.1 million in the nine months of 2014. Operating margins decreased from 3.8% in the nine months of 2013 to 3.2% in the nine months of 2014. These decreases in operating profits and operating margins were due to increases in direct costs (excluding staff labor), office and general costs and depreciation and amortization, offset by a decrease in total staff costs and increase in revenue. Total staff costs decreased from 58.2% in 2013 to 51.5% in 2014 continuing the trend started in 2013 to reduce overall staff costs. Direct costs increased from 23.6% in 2013 to 26.1% in 2014. Direct costs increased as there were increased pass-through costs incurred on clients' behalf during the nine months of 2014. Office and general costs increased from 21.0% in 2013 to 23.9% in 2014. The increase was due to an increase of \$8.2 million in expense relating to estimated deferred acquisition consideration. Depreciation and amortization increased from 4.0% in 2013 to 5.8% in 2014 due primarily to amortization expense relating to acquisitions completed in the fourth quarter of 2013 and throughout 2014.

Corporate

Operating costs related to the Company's Corporate operations decreased \$14.5 million to \$34.4 million in the nine months of 2014 from \$48.9 million in the nine months of 2013. This decrease was primarily related to the \$25.9 million of additional stock based compensation in 2013, primarily as a result of the Company's obligation to settle a portion of its SAR's in cash. This decrease was offset in part due to the 2013 repayment in full of a previously fully reserved loan by the Company's CEO of \$5.3 million and increases in compensation and related costs of \$4.5 million relating to incentive compensation and an increases in travel and entertainment and advertising and promotional costs.

Other Income, Net

Other income (expense) decreased to expense of \$8.9 million in the nine months of 2014 compared to income of \$1.5 million in the nine months of 2013. The decrease was primarily related to a distribution received in excess of the assets carrying value of \$3.1 million, and an unrealized foreign exchange loss of \$1.2 million in 2013 compared to an unrealized foreign exchange loss of \$10.7 million in 2014. Specifically, these unrealized losses were due primarily to the fluctuation in the US

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dollar during 2014 and 2013 compared to the Canadian dollar primarily on the Company's US dollar denominated intercompany balances with its Canadian subsidiaries. Additionally, in 2014 the Company had other income of \$1.8 million compared to a loss of \$0.3 million in 2013.

Net Interest Expense

Net interest expense for the nine months of 2014 was \$40.5 million, a decrease of \$48.3 million over the \$88.8 million of net interest expense incurred during the nine months of 2013. The decrease in interest expense in 2014 was due to the 2013 loss paid on the redemption of the Company's 11% Notes of \$55.6 million, offset by an increase in the outstanding principal amount of the 6.75% senior notes.

Income Taxes

Income tax expense was \$2.8 million in the nine months of 2014 compared to a benefit of \$8.2 million for the nine months of 2013. The Company's effective tax rate in 2013 was lower than the statutory rate due to utilization of previously fully reserved net operating losses and noncontrolling interest charges, offset by non-deductible stock based compensation. In addition, the Company's effective tax rate was lower due to losses in certain tax jurisdictions where a valuation allowance was deemed necessary. The Company's 2014 effective rate is consistent with the statutory rate.

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.

Equity in Affiliates

Equity in affiliates represents the income attributable to equity-accounted affiliate operations. Equity in affiliates had nominal income in both 2013 and 2014.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was \$4.8 million for the nine months of 2014, an increase of \$0.4 million from the \$4.4 million of noncontrolling interest expense incurred during the nine months of 2013, primarily due to the Company's increase in profitability of certain entities within the Strategic Marketing Services segment offset by decreases in profitability by certain entities within the Performance Marketing services segment.

Discontinued Operations Attributable to MDC Partners Inc.

The loss from discontinued operations was \$0.3 million for the nine months of 2014 and \$10.9 million for the nine months of 2013.

Net Income (Loss) attributable to MDC Partners Inc.

As a result of the foregoing, the net income attributable to MDC Partners Inc. recorded for the nine months of 2014 was \$2.7 million, or \$0.05 per diluted share. This amount is compared to a net loss attributable to MDC Partners Inc. of \$54.5 million or a loss of \$1.16 per diluted share reported for the nine months of 2013.

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Liquidity and Capital Resources:

Liquidity

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

	As of and for the nine months ended September 30, 2014	As of and for the nine months ended September 30, 2013	As of and for the year ended December 31, 2013
	(000's)	(000's)	(000's)
Cash and cash equivalents	\$48,885	\$63,312	\$102,007
Working capital (deficit)	\$(256,469)	) \$(211,095)	) \$(189,815)
Cash from operations	\$41,807	\$105,351	\$59,299
Cash used in investing	\$(79,223)	) \$(13,242)	) \$(30,124)
Cash from (used in) financing	\$(15,512)	) \$(88,904)	) \$10,492
Long-term debt to total equity ratio	(2.73)	) (3.08)	) (2.40)
Fixed charge coverage ratio	1.20	N/A	N/A
Fixed charge deficiency	N/A	\$44,533	\$