

MDC PARTNERS INC
Form 10-Q
November 01, 2017
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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, 2017

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," "smaller reporting company," and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 27, 2017 were: 58,357,062 Class A subordinate voting shares, 3,755 Class B multiple voting shares, and 95,000 Series 4 Convertible Preference Shares.

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MDC PARTNERS INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MDC PARTNERS INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(thousands of United States dollars, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenue:				
Services	\$375,800	\$349,254	\$1,111,032	\$995,343
Operating expenses:				
Cost of services sold	249,418	235,659	754,803	675,940
Office and general expenses	77,910	83,303	251,313	233,840
Depreciation and amortization	11,252	11,412	32,916	34,068
Goodwill impairment	—	29,631	—	29,631
	338,580	360,005	1,039,032	973,479
Operating profit (loss)	37,220	(10,751)	72,000	21,864
Other income (expense):				
Other, net	8,649	(6,008)	17,812	9,530
Interest expense and finance charges	(16,403)	(16,540)	(48,859)	(49,289)
Loss on redemption of notes	—	—	—	(33,298)
Interest income	145	218	550	599
	(7,609)	(22,330)	(30,497)	(72,458)
Income (loss) before income taxes and equity in earnings of non-consolidated affiliates	29,611	(33,081)	41,503	(50,594)
Income tax expense (benefit)	9,049	(1,930)	17,659	1,180
Income (loss) before equity in earnings of non-consolidated affiliates	20,562	(31,151)	23,844	(51,774)
Equity in earnings of non-consolidated affiliates	1,422	70	1,924	9
Net income (loss)	21,984	(31,081)	25,768	(51,765)
Net income attributable to noncontrolling interests	(3,491)	(1,059)	(6,588)	(3,172)
Net income (loss) attributable to MDC Partners Inc.	18,493	(32,140)	19,180	(54,937)
Accretion on convertible preference shares	(1,948)	—	(4,365)	—
Net income (loss) attributable to MDC Partners Inc. common shareholders	\$16,545	\$(32,140)	\$14,815	\$(54,937)
Income (loss) per common share:				
Basic				
Net income (loss) attributable to MDC Partners Inc. common shareholders	\$0.25	\$(0.62)	\$0.24	\$(1.08)
Diluted				
Net income (loss) attributable to MDC Partners Inc. common shareholders	\$0.24	\$(0.62)	\$0.24	\$(1.08)
Weighted average number of common shares outstanding:				
Basic	57,566,707	52,244,819	53,915,536	50,861,890
Diluted	57,943,080	52,244,819	54,228,208	50,861,890

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

Cost of services sold	\$5,310	\$3,026	\$12,558	\$10,393
Office and general expenses	1,070	2,202	4,312	5,050
Total	\$6,380	\$5,228	\$16,870	\$15,443

See notes to the unaudited condensed consolidated financial statements.

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MDC PARTNERS INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(thousands of United States dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Comprehensive income (loss)				
Net income (loss)	\$21,984	\$(31,081)	\$25,768	\$(51,765)
Other comprehensive (loss) income, net of applicable tax:				
Foreign currency translation adjustment	(1,912)	2,331	(1,294)	(8,354)
Other comprehensive income (loss)	(1,912)	2,331	(1,294)	(8,354)
Comprehensive income (loss) for the period	20,072	(28,750)	24,474	(60,119)
Comprehensive income attributable to the noncontrolling interests	(4,695)	(569)	(9,063)	(4,481)
Comprehensive income (loss) attributable to MDC Partners Inc.	\$15,377	\$(29,319)	\$15,411	\$(64,600)

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, 2017	December 31, 2016
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,861	\$ 27,921
Cash held in trusts	5,182	5,341
Accounts receivable, less allowance for doubtful accounts of \$2,800 and \$1,523	438,765	388,340
Expenditures billable to clients	42,332	33,118
Other current assets	27,647	34,862
Total current assets	532,787	489,582
Fixed assets, at cost, less accumulated depreciation of \$118,241 and \$105,134	91,153	78,377
Investments in non-consolidated affiliates	5,655	4,745
Goodwill	839,361	844,759
Other intangible assets, net	74,685	85,071
Deferred tax assets	39,598	41,793
Other assets	34,592	33,051
Total assets	\$ 1,617,831	\$ 1,577,378
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 232,704	\$ 251,456
Trust liability	5,182	5,341
Accruals and other liabilities	289,471	303,581
Advance billings	165,600	133,925
Current portion of long-term debt	300	228
Current portion of deferred acquisition consideration	59,849	108,290
Total current liabilities	753,106	802,821
Long-term debt, less current portion	930,889	936,208
Long-term portion of deferred acquisition consideration	88,419	121,274
Other liabilities	54,657	56,012
Deferred tax liabilities	119,602	110,359
Total liabilities	1,946,673	2,026,674
Redeemable noncontrolling interests (Note 2)	60,092	60,180
Commitments, contingencies, and guarantees (Note 12)		
Shareholders' deficit:		
Convertible preference shares (liquidation preference \$99,365)	90,220	—
Common shares	351,075	317,784
Shares to be issued, 100,000 shares in 2016	—	2,360
Charges in excess of capital	(307,454)	(311,581)
Accumulated deficit	(562,668)	(581,848)
Accumulated other comprehensive loss	(5,593)	(1,824)
MDC Partners Inc. shareholders' deficit	(434,420)	(575,109)
Noncontrolling interests	45,486	65,633
Total shareholders' deficit	(388,934)	(509,476)

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Total liabilities, redeemable noncontrolling interests, and shareholders' deficit	\$ 1,617,831	\$ 1,577,378
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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,	
	2017	2016
Cash flows from operating activities:		
Net income (loss)	\$25,768	\$(51,765)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Stock-based compensation	16,870	15,443
Depreciation	18,000	16,853
Amortization of intangibles	14,916	17,215
Amortization of deferred finance charges	2,018	8,736
Goodwill impairment	—	29,631
Loss on redemption of notes	—	26,873
Adjustment to deferred acquisition consideration	13,354	17,363
Deferred income tax	8,125	(553)
Loss on sale of assets	1,245	377
Earnings of non-consolidated affiliates	(1,924)	(9)
Other non-current assets and liabilities	(4,388)	1,853
Foreign exchange	(15,113)	(12,806)
Changes in working capital:		
Accounts receivable	(54,723)	(47,767)
Expenditures billable to clients	(9,294)	5,551
Prepaid expenses and other current assets	6,400	(16,851)
Accounts payable, accruals and other liabilities	(31,149)	(77,355)
Advance billings	32,015	25,824
Net cash provided by (used in) operating activities	22,120	(41,387)
Cash flows used in investing activities:		
Capital expenditures	(28,305)	(19,723)
Deposits	(1,461)	—
Acquisitions, net of cash acquired	—	2,531
Proceeds from sale of assets	11,120	215
Distributions from non-consolidated affiliates	673	4,885
Other investments	(1,530)	(2,571)
Net cash used in investing activities	(19,503)	(14,663)
Cash flows (used in) provided by financing activities:		
Proceeds from issuance of 6.50% Notes	—	900,000
Repayment of 6.75% Notes	—	(735,000)
Repayments of revolving credit agreement	(1,093,508)	(1,255,608)
Proceeds from revolving credit agreement	1,087,688	1,326,105
Proceeds from issuance of convertible preference shares	95,000	—
Convertible preference shares issuance costs	(4,632)	—
Acquisition related payments	(89,126)	(129,616)
Repayment of long-term debt	(310)	(381)
Purchase of shares	(1,239)	(2,798)
Premium paid on redemption of notes	—	(26,873)
Deferred financing costs	—	(21,569)
Distributions to noncontrolling interests	(5,272)	(6,549)

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Payment of dividends	(284)	(32,580)
Net cash (used in) provided by financing activities	(11,683)	15,131
Effect of exchange rate changes on cash and cash equivalents	6	1,196
Decrease in cash and cash equivalents	(9,060)	(39,723)
Cash and cash equivalents at beginning of period	27,921	61,458
Cash and cash equivalents at end of period	\$18,861	\$21,735
Supplemental disclosures:		
Cash income taxes paid	\$6,909	\$2,798
Cash interest paid	\$32,324	\$27,979
Change in cash held in trusts	\$(159)	\$147
Non-cash transactions:		
Capital leases	\$621	\$—
Dividends payable	\$453	\$1,077
Deferred acquisition consideration settled through issuance of shares	\$28,727	\$10,458
Value of shares issued for acquisition	\$—	\$34,219
Leasehold improvements paid for directly by landlord	\$—	\$7,250
See notes to the unaudited condensed consolidated financial statements.		

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

	Convertible Preference Shares		Common Shares		Share Capital to Be Issued		Additional Paid-in Capital	Changes in Excess of Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	MDC Partners Inc. Shareholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at December 31, 2016	—	\$—	52,802,058	\$317,784	100,000	\$2,360	\$—	\$(311,581)	\$(581,848)	\$(1,824)	\$(575,100)
Net income attributable to MDC Partners Inc.	—	—	—	—	—	—	—	—	19,180	—	19,180
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	—	(3,769)	(3,769)
Issuance of Series 4 convertible preference shares in private placement	95,000	90,220	—	—	—	—	—	—	—	—	90,220
Issuance of restricted stock	—	—	273,169	5,803	—	—	(5,803)	—	—	—	—
Shares acquired and canceled	—	—	(114,822)	(1,239)	—	—	—	—	—	—	(1,239)
Deferred acquisition consideration settled through issuance of shares	—	—	3,353,939	28,727	(100,000)	(2,360)	1,485	—	—	—	27,852
Stock-based compensation	—	—	—	—	—	—	6,082	—	—	—	6,082
Changes in redemption value of redeemable noncontrolling interests	—	—	—	—	—	—	(300)	—	—	—	(300)
Decrease in noncontrolling interests and redeemable noncontrolling interests from	—	—	—	—	—	—	2,315	—	—	—	2,315

business
acquisitions
and step-up
transactions

Dispositions	—	—	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	348	—	—	—	348
Transfer to charges in excess of capital	—	—	—	—	—	—	(4,127)	—	—	—	—
Balance at September 30, 2017	95,000	\$90,220	56,314,344	\$351,075	—	\$—	\$—	\$(307,454)	\$(562,668)	\$(5,593)	\$(434,420)

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, except per share amounts, unless otherwise stated)

1. Basis of Presentation

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

References herein to “Partner Firms” generally refer to the Company’s subsidiary agencies.

These statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company’s Annual Report on Amendment No. 1 on Form 10-K/A (the “Annual Report on Form 10-K/A”) for the year ended December 31, 2016.

2. Significant Accounting Policies

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

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

Reclassifications. Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation. During the nine months ended September 30, 2017, the Company changed the presentation of book overdrafts on its statement of cash flows to classify the associated cash flows as operating activities. Book overdrafts were previously presented within financing activities. This resulted in cash inflows of \$17,532 being reclassified from financing activities to operating activities for the nine months ended September 30, 2016. There was no impact on the Company’s consolidated statements of operations, comprehensive income (loss), or balance sheets.

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

Fair Value. The Company applies the fair value measurement guidance of the Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification (the “ASC”) Topic 820, Fair Value Measurements, for financial assets and liabilities that are required to be measured at fair value and for non-financial 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 market assumptions. The inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets.

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

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

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

and the Company classifies such items in Level 2.

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

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more than 10% of the Company's consolidated accounts receivable at September 30, 2017 and December 31, 2016. No client accounted for 10% of the Company's revenue for the three and nine months ended September 30, 2017 or the three and nine months ended September 30, 2016.

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

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

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

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

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

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

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, 2017 and December 31, 2016, was \$10,350 and \$10,132, respectively. These investments are periodically evaluated to determine whether a significant event or change in circumstances has occurred that may impact the fair value of each investment other than temporary declines below book value. A variety of factors are considered when determining if a decline is other than temporary, including, among others, the financial condition and prospects of the investee, as well as the Company's investment intent. In addition, the Company's partner agencies may receive minority equity interests from start-up companies in lieu of fees.

Goodwill and Indefinite Lived Intangibles. In accordance with the FASB ASC Topic 350, Intangibles - Goodwill and Other, goodwill and indefinite lived intangible assets (trademarks) acquired as a result of a business combination, which are not subject to amortization, are tested for impairment annually as of October 1st of each year, or more frequently if indicators of potential impairment exist. For goodwill, impairment is assessed at the reporting unit level. For the nine months ended September 30, 2017 and the year ended December 31, 2016, goodwill was \$839,361 and \$844,759, respectively. For the three and nine months ended September 30, 2017, there was a reduction in goodwill of

\$17,593 relating to the sale of certain subsidiaries, which was offset by \$12,195 net foreign exchange translation adjustments. As a result of these transactions, the Company performed interim goodwill testing on two reporting units and determined that there was no impairment charge in respect to the impacted reporting units. For the three and nine months ended September 30, 2016, due to triggering events during the third quarter of 2016, the Company performed an interim goodwill impairment test and recognized goodwill impairment of \$29,631. In addition, in the third quarter of 2016, the Company sold all of its ownership interests in Bryan Mills Iradesso Corporation (“Bryan Mills”) to the noncontrolling shareholders, resulting in a write off of goodwill of \$764. See Note 4 for further information on the dispositions.

Business Combinations. Business combinations are accounted for using the acquisition method and accordingly, the assets acquired (including identified intangible assets), the liabilities assumed and any noncontrolling interest in the acquired business

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are recorded at their acquisition date fair values. The Company's acquisition model typically provides for an initial payment at closing and for future additional contingent purchase price obligations. Contingent purchase price obligations are recorded as deferred acquisition consideration on the balance sheet at the acquisition date fair value and are remeasured at each reporting period. Changes in such estimated values are recorded in the results of operations. For further information see Notes 4 and 9. For the three and nine months ended September 30, 2017 and 2016, \$2,462 of income and \$12,152 of expense, respectively, and \$11,152 and \$17,180 of expense, respectively, related to changes in such estimated values and was recorded in results of operations. The Company expenses acquisition related costs as incurred. For the three and nine months ended September 30, 2017 and 2016, \$216 and \$693 respectively, and \$806 and \$2,266, respectively, of acquisition related costs were charged to operations. For each acquisition, the Company undertakes a detailed review to identify intangible assets and a valuation is performed for all such identified assets. The Company uses several market participant measurements to determine the estimated value. This approach includes consideration of similar and recent transactions, as well as utilizing discounted expected cash flow methodologies. Like most service businesses, a substantial portion of the intangible asset value that the Company acquires is the specialized know-how of the workforce, which is treated as part of goodwill and is not required to be valued separately. The majority of the value of the identifiable intangible assets acquired is derived from customer relationships, including the related customer contracts, as well as trade names. In executing the Company's overall acquisition strategy, one of the primary drivers in identifying and executing a specific transaction is the existence of, or the ability to expand the existing, client relationships. The expected benefits of the Company's acquisitions are typically shared across multiple agencies and regions.

Redeemable Noncontrolling Interests. Many of the Company's acquisitions include contractual arrangements where the noncontrolling shareholders have an option to purchase, or may require the Company to purchase, such noncontrolling shareholders' incremental ownership interests under certain circumstances and the Company has similar call options under the same contractual terms. The amount of consideration under these contractual arrangements is not a fixed amount, but rather is dependent upon various valuation formulas as described in Note 12. In the event that an incremental purchase may be required of the Company, the amounts are recorded as redeemable noncontrolling interests in mezzanine equity on the balance sheet at their acquisition date fair value and adjusted for changes to their estimated redemption value through additional paid-in capital (but not less than their initial redemption value), except for foreign currency translation adjustments. These adjustments will not impact the calculation of earnings (loss) per share if the redemption values are less than the estimated fair values.

For the three and nine months ended September 30, 2017 and 2016, there was no related impact on the Company's earnings (loss) per share calculation. Changes in the estimated redemption amounts of the redeemable noncontrolling interests are adjusted at each reporting period with a corresponding adjustment to equity. These adjustments will not impact the calculation of earnings (loss) per share.

The following table presents changes in redeemable noncontrolling interests:

	Nine Months Ended September 30, 2017	Year Ended December 31, 2016
Beginning Balance	\$ 60,180	\$ 69,471
Redemptions	(816)	(1,708)
Additions ⁽¹⁾	—	2,274
Changes in redemption value	299	(9,604)
Currency translation adjustments	429	(253)
Ending Balance	\$ 60,092	\$ 60,180

(1) Additions consist of transfers from noncontrolling interests related to step-up transactions and new acquisitions. **Subsidiary and Equity Investment Stock Transactions.** Transactions involving the purchase, sale or issuance of stock of a subsidiary where control is maintained are recorded as a reduction in the redeemable noncontrolling interests or noncontrolling interests, as applicable. Any difference between the purchase price and noncontrolling interest are

recorded to additional paid-in capital. In circumstances where the purchase of shares of an equity investment results in obtaining control, the existing carrying value of the investment is remeasured to the acquisition date fair value and any gain or loss is recognized in results of operations.

Variable Interest Entity. Effective March 28, 2012, the Company invested in Doner Partners LLC (“Doner”). The Company acquired a 30% voting interest and convertible preferred interests that allow the Company to increase ordinary voting ownership to 70% at the Company’s option. Effective April 1, 2017, the Company acquired an additional 15% voting and convertible preferred interest that allowed the Company to increase ordinary voting ownership to 85% at the Company’s option. The Company now has a 45% voting interest. The Company has determined that (i) this entity is a variable interest entity, and (ii) the Company is the primary beneficiary because it receives a disproportionate share of profits and losses as compared to its ownership percentage. As such, Doner is consolidated for all periods subsequent to the date of investment.

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Doner is a full service integrated creative agency that is included as part of the Company's portfolio in the Global Integrated Agencies segment. The Company's Credit Agreement (see Note 6) is guaranteed and secured by all of Doner's assets.

Total assets and total liabilities of Doner included in the Company's consolidated balance sheet at September 30, 2017 were \$100,229 and \$53,508, respectively, and at December 31, 2016 were \$102,456 and \$57,622, respectively.

Guarantees. Guarantees issued or modified by the Company to third parties after January 1, 2003 are generally recognized at the inception or modification of the guarantee as a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The initial measurement of that liability is the fair value of the guarantee. The recognition of a liability is required even if it is not probable that payments will be required under a guarantee. The Company's liability associated with guarantees is not significant. See Note 12.

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

The Company follows the Multiple-Element Arrangement topic of the FASB ASC, which addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities and how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. The Company follows the Principal Agent Consideration topic of the FASB ASC which addresses (i) whether revenue should be recorded at the gross amount billed because it has earned revenue from the sale of goods or services, or recorded at the net amount retained because it has earned a fee or commission, and (ii) that reimbursements received for out-of-pocket expenses incurred should be characterized in the income statement as revenue. Accordingly, the Company has included such reimbursed expenses in revenue.

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

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

For arrangements with customers for which the Company earns a fixed fee for development of customized mobile applications ("Apps"), revenue is recognized in accordance with the accounting guidance contained in ASC 605-35 and is primarily recognized using the proportional performance method of accounting. Performance is generally measured based upon the efforts incurred to date in relation to total estimated efforts to the completion of the contract.

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

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

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

Interest Expense. Interest expense primarily consists of the cost of borrowing on the Company's previously outstanding 6.75% Senior Notes due 2020 (the "6.75% Notes"); the Company's currently outstanding 6.50% senior unsecured notes due 2024 (the "6.50% Notes"); and the Company's \$325 million senior secured revolving credit

agreement due 2021 (the “Credit Agreement”). The Company uses the effective interest method to amortize the deferred financing costs on the 6.75% Notes and the 6.50% Notes as well as the original issue premium on the previously outstanding 6.75% Notes. The Company also uses the straight-line method to amortize the deferred financing costs on the Credit Agreement. For the three and nine months ended September 30, 2017 and 2016, interest expense included \$24 and \$77, respectively, and \$30 and \$181, respectively, relating to present value adjustments for fixed deferred acquisition consideration payments.

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The Company redeemed the 6.75% Notes with the net proceeds from the issuance of the 6.50% Notes. For further information see Note 6.

Income Taxes. The Company's U.S. operating units are generally structured as limited liability companies, which are treated as partnerships for tax purposes. The Company is only taxed on its share of the profits, while noncontrolling holders are responsible for taxes on their share of the profits. Deferred income taxes reflect the tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as the tax effect of carryforwards. The Company currently has a fully reserved valuation allowance on its deferred tax assets related to U.S. net operating losses. Realization of our deferred tax assets is evaluated on a quarterly basis and is based upon all available evidence. It is possible that sufficient positive evidence to support the realization of the Company's net deferred tax assets will exist in the near future, and the previously provided valuation allowance could be reversed in whole or in part.

During the nine months ended September 30, 2017 and 2016, the Company's effective tax rate was impacted by losses in certain tax jurisdictions where a valuation allowance was deemed necessary.

During the second quarter of 2017, the Company identified and recorded out-of-period adjustments related to the misapplication of ASC 740 and ASC 850-740 accounting policies as they applied to the calculation of deferred tax liabilities. The corrections have resulted in a \$6,916 increase to the Company's deferred tax liability on the condensed consolidated balance sheet as of December 31, 2016. The Company has performed a qualitative and quantitative analysis of this misapplication and determined it not to be material to prior periods. The Company has revised prior period information presented on this Form 10-Q as follows: (i) for the three and nine months ended September 30, 2016, income tax expense has been decreased by \$1,390 and decreased by \$713, respectively, (ii) basic and diluted net loss attributable to MDC Partners Inc. common shareholders for the nine months ended September 30, 2016 increased by \$0.01 per share, and (iii) deferred tax liabilities and accumulated deficit increased by \$6,916 as of December 31, 2016. The correction had no impact on the Company's cash flows.

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

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

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

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

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

The Company has adopted the straight-line attribution method for determining the compensation cost to be recorded during each accounting period. The Company commences recording compensation expense related to awards that are based on performance conditions under the straight-line attribution method when it is probable that such performance conditions will be met.

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

From time to time, certain acquisitions and step-up transactions include an element of compensation related payments. The Company accounts for those payments as stock-based compensation. In January 2017, the Company issued 327,500 Stock Appreciation Rights (“SARS”) to its employees. The SARS have an exercise price of \$6.60 and will vest on the three year anniversary of the grant date. The Company will be recording a stock-based compensation charge of \$770 from the date of the grant through 2020 for these SARS awards. During the nine months ended September 30, 2017, the Company issued 243,000 shares of restricted stock and restricted stock units (collectively, “RSUs”) to its employees and directors. The RSUs have an aggregate grant date fair value of \$1,966 and generally vest on the third anniversary of the date of grant. In addition, during the first quarter of 2017, the Company issued RSUs of which 930,600 awarded shares were outstanding as of September 30, 2017. However, the vesting of these awards is

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contingent upon the Company meeting a cumulative three year financial performance target and continued employment through the March 1, 2020 vesting date. These RSU awards do not yet have an established grant date fair value because the financial performance target is not yet established. Once the Company defines the financial performance target, and assuming the achievement of such performance targets is expected, the grant date is established and the Company will record the compensation expense over the vesting period. Additionally, the Company still has outstanding RSUs of 513,321 which are also based on a cumulative financial performance target and will vest on March 1, 2019.

Income (Loss) per Common Share. Basic income (loss) per common share is based upon the weighted average number of common shares outstanding during each period. Share capital to be issued, as reflected in shareholders' deficit on the balance sheet, are also included if there is no circumstance under which those shares would not be issued. Diluted income (loss) per common share is based on the above, in addition, if dilutive, it also includes common share equivalents, which include outstanding options, stock appreciation rights, and unvested restricted stock units. In periods of net loss, all potentially issuable common shares are excluded from diluted net loss per common share because they are anti-dilutive.

During the first quarter of 2017, the Company issued and sold 95,000 newly authorized Series 4 Convertible Preference Shares (the "Preference Shares") in a private placement. The two-class method is applied to calculate basic net income (loss) attributable to MDC Partners, Inc. per common share in periods in which shares of convertible preference shares were outstanding, as shares of convertible preference shares are participating securities due to their dividend rights. See Notes 7 and 8. The two-class method is an earnings allocation method under which earnings per share is calculated for common stock considering a participating security's rights to undistributed earnings as if all such earnings had been distributed during the period. Either the two-class method or the if-converted method is applied to calculate diluted net income per common share, depending on which method results in more dilution. The Company's participating securities are not included in the computation of net loss per common share in periods of net loss because the convertible preference shareholders have no contractual obligation to participate in losses.

Foreign Currency Translation. The Company's financial statements were prepared in accordance with the requirements of FASB ASC Topic 830, Foreign Currency Matters. The functional currency of the Company is the Canadian dollar and it has decided to use U.S. dollars as its reporting currency for consolidated reporting purposes. Generally, the Company's subsidiaries use their local currency as their functional currency. Accordingly, the currency impacts of the translation of the balance sheets of the Company's non-U.S. dollar based subsidiaries to U.S. dollar statements are included as cumulative translation adjustments in accumulated other comprehensive income.

Translation of intercompany debt, which is not intended to be repaid, is included in cumulative translation adjustments. Cumulative translation adjustments are not included in net earnings unless they are actually realized through a sale or upon complete or substantially complete liquidation of the Company's net investment in the foreign operation. Translation of current intercompany balances are included in net earnings. The balance sheets of non-U.S. dollar based subsidiaries are translated at the period end rate. The income statements of non-U.S. dollar based subsidiaries are translated at average exchange rates for the period.

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

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3. Income (Loss) Per Common Share

The following table sets forth the computation of basic and diluted income (loss) per common share:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Numerator				
Net income (loss) attributable to MDC Partners Inc.	\$18,493	\$(32,140)	\$19,180	\$(54,937)
Accretion on convertible preference shares	(1,948)	—	(4,365)	—
Net income allocated to convertible preference shares	(2,408)	—	(1,782)	—
Numerator for basic loss per common share - Net income (loss) attributable to MDC Partners Inc. common shareholders	14,137	(32,140)	13,033	(54,937)
Effect of dilutive securities:				
Adjustment to net income allocated to convertible preference shares	13	—	9	—
Numerator for diluted income (loss) per common share- Net income (loss) attributable to MDC Partners Inc. common shareholders	\$14,150	\$(32,140)	\$13,042	\$(54,937)
Denominator				
Denominator for basic income (loss) per common share - weighted average common shares	57,566,705	52,244,819	53,915,536	50,861,890
Effect of dilutive securities:				
Impact of stock options and non-vested stock under employee stock incentive plans	376,373	—	312,672	—
Denominator for diluted income (loss) per common share - adjusted weighted shares and assumed conversions	57,943,085	52,244,819	54,228,208	50,861,890
Basic income (loss) per common share	\$0.25	\$(0.62)	\$0.24	\$(1.08)
Diluted income (loss) per common share	\$0.24	\$(0.62)	\$0.24	\$(1.08)

As of September 30, 2017, options and other rights to purchase 1,118,085 shares of common stock were outstanding, of which 741,712 and 805,413 shares of non-vested restricted stock and restricted stock units were anti-dilutive during the three and nine months ended September 30, 2017, respectively, and therefore excluded from the computation of diluted income per common share. Additionally, 1,443,921 shares of non-vested restricted stock and restricted stock unit awards, which are contingent upon the Company meeting an undefined cumulative three year earnings target and continued employment, are excluded from the computation of diluted income per common share as the contingency has not been satisfied at September 30, 2017. Lastly, there were 95,000 shares of Preference Shares outstanding which were convertible into 9,936,514 Class A common shares at September 30, 2017. These Preference Shares were anti-dilutive for the three and nine months ended September 30, 2017, and are therefore excluded from the diluted loss per common share calculation for the period.

As of September 30, 2016, options and other rights to purchase 918,260 shares of common stock were outstanding, of which 880,760 shares of non-vested restricted stock and restricted stock units were anti-dilutive during the three and nine months ended September 30, 2016 and therefore excluded from the computation of diluted income per common share. Additionally, 523,321 shares of non-vested restricted stock and restricted stock unit awards, which are contingent upon the Company meeting an undefined cumulative three year earnings target and continued employment, are excluded from the computation of diluted income per common share as the contingency had not been satisfied as of September 30, 2016.

4. Acquisitions and Dispositions

Valuations of acquired companies are based on a number of factors, including specialized know-how, reputation, competitive position and service offerings. The Company's acquisition strategy has been focused on acquiring the expertise of an assembled workforce in order to continue to build upon the core capabilities of its various strategic business platforms to better serve the Company's clients. The Company's strategy includes acquiring ownership stakes in well-managed businesses with strong reputations in the industry. The Company's model of "Perpetual Partnership"

often involves acquiring a majority interest rather than a 100% interest and leaving management owners with a significant financial interest in the performance of the acquired entity for a minimum period of time, typically not less than five years. The Company's acquisition model in this scenario typically provides for (i) an initial payment at the time of closing, (ii) additional contingent purchase price obligations based on the future performance of the acquired entity, and (iii) an option by the Company to purchase (and in some instances a requirement to so purchase) the remaining interest of the acquired entity under a predetermined formula.

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Contingent purchase price obligations. The Company's contingent purchase price obligations are generally payable within a five year period following the acquisition date, and are based on (i) the achievement of specific thresholds of future earnings, and (ii) in certain cases, the growth rate of those earnings. Contingent purchase price obligations are recorded as deferred acquisition consideration on the balance sheet at the acquisition date fair value and adjusted at each reporting period through operating income or net interest expense, depending on the nature of the arrangement. On occasion, the Company may initiate a renegotiation of previously acquired ownership interests and any resulting change in the estimated amount of consideration to be paid is adjusted in the reporting period through operating income or net interest expense, depending on the nature of the arrangement. See Notes 2, 9, and 12 for additional information on the deferred acquisition consideration.

Options to purchase. When acquiring less than 100% ownership, the Company may enter into agreements that give the Company an option to purchase, or require the Company to purchase, the incremental ownership interests under certain circumstances. Where the option to purchase the incremental ownership is within the Company's control, the amounts are recorded as noncontrolling interests in the equity section of the Company's balance sheet. Where the incremental purchase may be required of the Company, the amounts are recorded as redeemable noncontrolling interests in mezzanine equity at their estimated acquisition date redemption value and adjusted at each reporting period for changes to their estimated redemption value through additional paid-in capital (but not less than their initial redemption value), except for foreign currency translation adjustments. On occasion, the Company may initiate a renegotiation to acquire an incremental ownership interest and the amount of consideration paid may differ materially from the balance sheet amounts. See Note 12 for additional information on redeemable noncontrolling interests.

Employment conditions. From time to time, specifically when the projected success of an acquisition is deemed to be dependent on retention of specific personnel, such acquisition may include deferred payments that are contingent upon employment terms as well as financial performance. The Company accounts for those payments through operating income as stock-based compensation over the required retention period. For the three and nine months ended September 30, 2017 and 2016, stock-based compensation included \$4,064 and \$9,792, respectively, and \$2,259 and \$7,184, respectively, of expense relating to those payments.

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

2017 Acquisitions

In 2017, the Company entered into various non-material transactions in connection with certain of its majority-owned entities. As a result of the foregoing, the Company made total cash closing payments of \$3,858, increased fixed deferred consideration liability by \$7,208, reduced redeemable noncontrolling interests by \$816, reduced noncontrolling interests equity by \$11,965, reduced noncontrolling interest payable by \$397, and increased additional paid-in capital by \$2,316. In addition, a stock-based compensation charge of \$996 has been recognized representing the consideration paid in excess of the fair value of the interest acquired.

2017 Dispositions

During the three months ended September 30, 2017, the Company sold all of its ownership interests in three subsidiaries resulting in recognition of a net loss on sale of business of \$1,424. The net assets reflected in the calculation of the net loss on sale was inclusive of goodwill of \$17,593. Goodwill was allocated to the subsidiaries based on the relative fair value of the sold subsidiaries compared to the fair value of the respective reporting units. See Note 1 for details. Additionally, the Company recorded a reduction in noncontrolling interests of \$10,657.

2016 Acquisitions

Effective July 1, 2016, the Company acquired 100% of the equity interests of Forsman & Bodenfors AB (“F&B”), an advertising agency based in Sweden, for an estimated aggregate purchase price at acquisition date of \$49,837, consisting of a closing payment of 1,900,000 MDC Class A subordinate voting shares with an acquisition date fair value of \$34,219, plus additional deferred acquisition payments with an estimated present value at acquisition date of \$15,618. The amount of additional payments are based on the financial results of the acquired business for 2015 and 2016 as well as for the value of the Company’s shares from July 1, 2016 up to and including the close of business on November 2, 2016. During the three months ended June 30, 2017, the Company paid cash of \$3,055 and issued an additional 2,450,000 MDC Class A subordinate voting shares with a fair value of \$20,800 as a settlement of deferred acquisition consideration.

An allocation of excess purchase price consideration of this acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of \$36,698, consisting primarily of customer lists, trade names and covenants not to compete, and goodwill

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of \$24,778, including the value of the assembled workforce. The identified assets have a weighted average useful life of approximately 10.8 years and will be amortized in a manner represented by the pattern in which the economic benefits of such assets are expected to be realized. In addition, the Company has recorded \$2,275 as the present value of redeemable noncontrolling interests and \$5,514 as the present value of noncontrolling interests both relating to the noncontrolling interest of F&B's subsidiaries. None of the intangibles and goodwill are tax deductible and the Company recorded a deferred tax liability of \$8,074 related to the intangibles. F&B's results are included in the Global Integrated Agencies segment.

During the six months ended June 30, 2017, F&B earned revenue of \$43,535 and incurred a net loss of \$4,460, which is included in our consolidated results for the nine months ended September 30, 2017. The net loss was attributable to an increase in the deferred acquisition payment liability related to such acquisition, driven by the decrease in the future market performance of the Company's stock price and the amortization of the intangibles identified in the allocation of the purchase price consideration.

Effective April 1, 2016, the Company acquired the remaining 40% ownership interests of Luntz Global Partners LLC. In 2016, the Company also entered into various non-material transactions in connection with other majority-owned entities. As a result of the foregoing, the Company made total cash closing payments of \$1,581, eliminated the contingent deferred acquisition payments of \$4,052 and fixed deferred acquisition payments of \$467 related to certain initial acquisition of the equity interests, reduced other assets by \$428, reduced redeemable noncontrolling interests by \$1,005, reduced noncontrolling interests by \$19,354, increased accruals and other liabilities by \$94, and increased additional paid-in capital by \$22,775. Additional deferred payments with an estimated present value at acquisition date of \$2,393 that are contingent upon service conditions have been excluded from deferred acquisition consideration and will be expensed as stock-based compensation over the required service period.

2016 Dispositions

Effective September 30, 2016, the Company sold all of its ownership interests in Bryan Mills to the noncontrolling shareholders and recognized a loss of \$800. The net assets reflected in the calculation of the loss on sale was inclusive of goodwill of \$764.

Noncontrolling Interests

Changes in the Company's ownership interests in its less than 100% owned subsidiaries during the three and nine months ended September 30, 2017 and 2016 were as follows:

Net Income (Loss) Attributable to MDC Partners Inc. and

Transfers (to) from the Noncontrolling Interests

	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2017	2016	2017	2016
Net income (loss) attributable to MDC Partners Inc.	\$18,493	\$(32,140)	\$19,180	\$(54,937)
Transfers from the noncontrolling interest:				
(Decrease) increase in MDC Partners Inc. paid-in capital for purchase of equity interests in excess of Redeemable Noncontrolling Interests and Noncontrolling Interests	(337)	(520)	2,315	22,498
Net transfers from noncontrolling interests	\$(337)	\$(520)	\$2,315	\$22,498
Change from net income (loss) attributable to MDC Partners Inc. and transfers to noncontrolling interests	\$18,156	\$(32,660)	\$21,495	\$(32,439)

5. Accounts Payable, Accruals and Other Liabilities

At September 30, 2017 and December 31, 2016, accruals and other liabilities included accrued media of \$169,460 and \$201,872, respectively; and included amounts due to noncontrolling interest holders for their share of profits, which will be distributed within the next twelve months of \$5,802 and \$4,154, respectively.

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Changes in amounts due to noncontrolling interest holders included in accrued and other liabilities for the year ended December 31, 2016 and nine months ended September 30, 2017 were as follows:

	Noncontrolling Interests
Balance, December 31, 2015	\$ 5,473
Income attributable to noncontrolling interests	5,218
Distributions made	(7,772)
Other ⁽¹⁾	1,235
Balance, December 31, 2016	\$ 4,154
Income attributable to noncontrolling interests	6,588
Distributions made	(5,272)
Other ⁽¹⁾	332
Balance, September 30, 2017	\$ 5,802

⁽¹⁾ Other consists primarily of business acquisitions, sale of a business, step-up transactions, and cumulative translation adjustments.

At September 30, 2017 and December 31, 2016, accounts payable included \$47,430 and \$80,193 of outstanding checks, respectively.

6. Debt

The Company's indebtedness was comprised as follows:

	September 30, 2017	December 31, 2016
Revolving credit agreement	\$ 48,607	\$54,425
6.50% Notes due 2024	900,000	900,000
Debt issuance costs	(18,161)	(18,420)
	930,446	936,005
Obligations under capital leases	743	431
	931,189	936,436
Less: Current portion of long-term debt	300	228
	\$ 930,889	\$936,208

6.50% Notes

On March 23, 2016, MDC entered into an indenture (the "Indenture") among MDC, its existing and future restricted subsidiaries that guarantee, are co-borrowers under, or grant liens to secure, the Credit Agreement, as guarantors (the "Guarantors") and The Bank of New York Mellon, as trustee, relating to the issuance by MDC of \$900,000 aggregate principal amount of the 6.50% Notes. The 6.50% Notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933. The 6.50% Notes bear interest at a rate of 6.50% per annum, accruing from March 23, 2016. Interest is payable semiannually in arrears on May 1 and November 1 of each year, beginning November 1, 2016. The 6.50% Notes mature on May 1, 2024, unless earlier redeemed or repurchased. The Company received net proceeds from the offering of the 6.50% Notes equal to approximately \$880,000. The Company used the net proceeds to redeem all of its existing 6.75% Notes, together with accrued interest, related premiums, fees and expenses and recorded a charge for the loss on redemption of such notes of \$33,298, including write offs of unamortized original issue premium and debt issuance costs. Remaining proceeds were used for general corporate purposes, including funding of deferred acquisition consideration.

The 6.50% 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 6.50% 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.

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MDC may, at its option, redeem the 6.50% Notes in whole at any time or in part from time to time, on and after May 1, 2019 (i) at a redemption price of 104.875% of the principal amount thereof if redeemed during the twelve-month period beginning on May 1, 2019, (ii) at a redemption price of 103.250% of the principal amount thereof if redeemed during the twelve-month period beginning on May 1, 2020, (iii) at a redemption price of 101.625% of the principal amount thereof if redeemed during the twelve-month period beginning on May 1, 2021, and (iv) at a redemption price of 100% of the principal amount thereof if redeemed on May 1, 2022 and thereafter.

Prior to May 1, 2019, MDC may, at its option, redeem some or all of the 6.50% Notes at a price equal to 100% of the principal amount of the 6.50% Notes plus a “make whole” premium and accrued and unpaid interest. MDC may also redeem, at its option, prior to May 1, 2019, up to 35% of the 6.50% Notes with the proceeds from one or more equity offerings at a redemption price of 106.50% of the principal amount thereof.

If MDC experiences certain kinds of changes of control (as defined in the Indenture), holders of the 6.50% Notes may require MDC to repurchase any 6.50% Notes held by them at a price equal to 101% of the principal amount of the 6.50% Notes plus accrued and unpaid interest. In addition, if MDC sells assets under certain circumstances, it must apply the proceeds from such sale and offer to repurchase the 6.50% Notes at a price equal to 100% of the principal amount 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 6.50% Notes are also subject to customary events of default, including a cross-payment default and cross-acceleration provision.

Redemption of 6.75% Notes

On March 23, 2016, the Company redeemed the 6.75% Notes in whole at a redemption price of 103.375% of the principal amount thereof with the proceeds from the issuance of the 6.50% Notes.

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, \$225,000 senior secured revolving credit agreement due 2018 (the “Credit Agreement”) with Wells Fargo Capital Finance, LLC, as agent, and the lenders from time to time party thereto. Advances under the Credit Agreement are to be used for working capital and general corporate purposes, in each case pursuant to the terms of the Credit Agreement. Capitalized terms used in this section and not otherwise defined have the meanings set forth in the Credit Agreement.

Effective October 23, 2014, MDC and its subsidiaries entered into an amendment to its Credit Agreement. The amendment: (i) expanded the commitments under the facility by \$100,000, from \$225,000 to \$325,000; (ii) extended the date by an additional eighteen months to September 30, 2019; (iii) reduced 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) modified certain covenants to provide the Company with increased flexibility to fund its continued growth and other general corporate purposes.

Effective May 3, 2016, MDC and its subsidiaries entered into an additional amendment to its Credit Agreement. The amendment: (i) extends the date by an additional nineteen months to May 3, 2021; (ii) reduces the base borrowing interest rate by 25 basis points; (iii) provides the Company the ability to borrow in foreign currencies; and (iv) certain other modifications to provide additional flexibility in operating the Company’s business.

Advances under the Credit Agreement bear interest as follows: (a)(i) LIBOR Rate Loans bear interest at the LIBOR Rate and (ii) Base Rate Loans bear interest at the Base Rate, plus (b) an applicable margin. The initial applicable margin for borrowing is 1.50% in the case of Base Rate Loans and 1.75% in the case of LIBOR Rate Loans. In addition to paying interest on outstanding principal under the Credit Agreement, MDC is required to pay an unused revolver fee to lenders under the Credit Agreement in respect of unused commitments thereunder.

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

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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, 2017, there were \$48,607 borrowings under the Credit Agreement.

At September 30, 2017, the Company had issued \$5,009 of undrawn outstanding letters of credit.

7. Share Capital

The Company's issued and outstanding share capital is as follows:

Series 4 Convertible Preference Shares

A total of 95,000, non-voting convertible preference shares, all of which were issued and outstanding as of September 30, 2017. See Note 8 for details. There were no such shares issued and outstanding as of December 31, 2016.

Class A Common Shares ("Class A Shares")

An unlimited number of subordinate voting shares, carrying one vote each, entitled to dividends equal to or greater than Class B Shares, convertible at the option of the holder into one Class B Share for each Class A Share after the occurrence of certain events related to an offer to purchase all Class B shares. There were 56,310,589 and 52,798,303 Class A Shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively.

Class B Common Shares ("Class B Shares")

An unlimited number of voting shares, carrying 20 votes each, convertible at any time at the option of the holder into one Class A share for each Class B share. There were 3,755 Class B Shares issued and outstanding as of September 30, 2017 and December 31, 2016.

8. Convertible Preference Shares

On March 7, 2017 (the "Issue Date"), the Company issued 95,000 newly created Preference Shares to affiliates of The Goldman Sachs Group, Inc. (collectively, the "Purchaser") pursuant to a \$95,000 private placement. The Company received proceeds of approximately \$90,220, net of fees and estimated expenses, which were primarily used to pay down existing debt under the Company's credit facility and for general corporate purposes. In connection with the closing of the transaction, effective March 7, 2017, the Company increased the size of its Board of Directors (the "Board") to seven members and appointed one nominee designated by the Purchaser. Except as required by law, the Preference Shares do not have voting rights, and are not redeemable at the option of the Purchaser.

The holders of the Preference Shares have the right to convert their Preference Shares in whole at any time and from time to time, and in part at any time and from time to time after the ninetieth day following the original issuance date of the Preference Shares, into a number of Class A Shares equal to the then-applicable liquidation preference divided by the applicable conversion price at such time (the "Conversion Price"). The initial liquidation per share preference of each Preference Share is \$1,000. The initial Conversion Price will be \$10.00 per Preference Share, subject to customary adjustments for share splits and combinations, dividends, recapitalizations and other matters, including weighted average anti-dilution protection for certain issuances of equity or equity-linked securities.

The Preference Shares' liquidation preference accretes at 8.0% per annum, compounded quarterly until the five-year anniversary of the Issue Date. During the nine months ended September 30, 2017, the Preference Shares accreted at a monthly rate of approximately \$6.84 per Preference Share, for total accretion of \$4,365, bringing the aggregate liquidation preference to \$99,365 as of September 30, 2017. The accretion is considered in the calculation of net income (loss) attributable to MDC Partners Inc. common shareholders. See Notes 2 and 3.

Holders of the Preference Shares are entitled to dividends in an amount equal to any dividends that would otherwise have been payable on the Class A Shares issued upon conversion of the Preference Shares. The Preference Shares are convertible at the Company's option (i) on and after the two-year anniversary of the Issue Date, if the closing trading price of the Class A Shares over a specified period prior to conversion is at least 125% of the Conversion Price or (ii) after the fifth anniversary of the Issue Date, if the closing trading price of the Class A Shares over a specified period prior to conversion is at least equal to the Conversion Price.

Following certain change in control transactions of the Company in which holders of Preference Shares are not entitled to receive cash or qualifying listed securities with a value at least equal to the liquidation preference plus

accrued and unpaid dividends, (i) holders will be entitled to cash dividends on the liquidation preference at an increasing rate (beginning at 7%), and (ii) the

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Company will have a right to redeem the Preference Shares for cash at the greater of their liquidation preference plus accrued and unpaid dividends or their as-converted value.

9. Fair Value Measurements

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

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

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

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

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

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

Financial Liabilities Measured at Fair Value on a Recurring Basis

The following tables present certain information for the financial liabilities that are disclosed at fair value on a recurring basis at September 30, 2017 and December 31, 2016:

Level 1		Level 1	
September 30, 2017		December 31, 2016	
Carrying Amount	Fair Value	Carrying Amount	Fair Value

Liabilities:

6.50% Notes due 2024	\$900,000	\$909,000	\$900,000	\$812,250
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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, 2017	December 31, 2016
Beginning balance of contingent payments	\$224,754	\$306,734
Payments ⁽¹⁾	(73,358)	(105,169)
Additions ⁽²⁾	—	16,132
Redemption value adjustments ⁽³⁾	19,233	13,930
Other ⁽⁴⁾	(27,118)	(6,412)
Foreign translation adjustment	1,336	(461)
Ending balance of contingent payments	\$144,847	\$224,754

For the nine months ended September 30, 2017 and the year ended December 31, 2016, payments include \$28,727 (1) and \$10,458, respectively, of deferred acquisition consideration settled through the issuance of 3,353,939 and 691,559 MDC Class A subordinate voting shares, respectively, in lieu of cash.

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

(3) 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.

(4) For the year ended December 31, 2016, other is comprised of (i) \$2,360 transferred to shares to be issued related to

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100,000 MDC Class A subordinate voting shares to be issued contingent on specific thresholds of future earnings that management expects to be attained; and (ii) \$4,052 of contingent payments eliminated through the acquisition of incremental ownership interests, see Note 4.

In addition to the above amounts, there are fixed payments of \$3,421 and \$4,810 for total deferred acquisition consideration of \$148,268 and \$229,564, which reconciles to the consolidated balance sheets at September 30, 2017 and December 31, 2016, respectively.

The Company includes the payments of all deferred acquisition consideration in financing activities in the Company's consolidated statement of cash flows as the Company believes these payments to be seller-related financing activities, which is the predominant source of cash flows. The FASB recently issued new guidance regarding the classification of cash flows for contingent consideration that is effective January 1, 2018. See Note 13 for further information.

Level 3 payments relate to payments made for deferred acquisition consideration. Level 3 grants relate to contingent purchase price obligations related to acquisitions and are recorded on the balance sheet at the acquisition date fair value. The estimated liability is determined in accordance with various contractual valuation formulas that may be dependent on future events, such as the growth rate of the earnings of the relevant subsidiary during the contractual period and, in some cases, the currency exchange rate as of the date of payment. Level 3 redemption value adjustments relate to the remeasurement and change in these various contractual valuation formulas as well as adjustments of present value.

At September 30, 2017 and December 31, 2016, 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. Borrowings under the Credit Agreement approximate fair value due to the debt bearing fluctuating market interest rates. The Company does not disclose the fair value for equity method investments or investments held at cost as it is not practical to estimate fair value since there is no readily available market data.

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

On a non-recurring 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.

10. Other Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Other income (expense)	\$(7)	\$26	\$271	\$(220)
Loss on sale of business ⁽¹⁾	(1,424)	(800)	(1,424)	(800)
Gain on sale of investments ⁽²⁾	168	682	168	682
Foreign currency transaction gain (loss)	9,912	(5,916)	18,797	9,868
	\$8,649	\$(6,008)	\$17,812	\$9,530

(1) During the three months ended September 30, 2017, the Company sold all of its ownership interests in three subsidiaries resulting in recognition of a net loss on sale of business of \$1,424. See Note 4 for further information.

Effective September 30, 2016, the Company sold all of its ownership interests in Bryan Mills to the noncontrolling shareholders and recognized a loss of \$800.

(2) During the third quarter of 2017, the Company sold one investment accounted for under the cost method and recognized a gain of \$168. During the third quarter of 2016, the Company sold one investment accounted for under the equity method and one investment accounted for under the cost method and recognized a gain of \$682.

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11. Segment Information

The Company determines an operating segment if a component (i) engages in business activities from which it earns revenues and incurs expenses, (ii) has discrete financial information, and is (iii) regularly reviewed by the Chief Operating Decision Maker (“CODM”) to make decisions regarding resource allocation for the segment and assess its performance. Once operating segments are identified, the Company performs an analysis to determine if aggregation of its operating segments is consistent with the principles detailed in ASC 280. This determination is based upon a quantitative analysis of the expected and historic average long-term profitability for each operating segment, together with an assessment of the qualitative characteristics set forth in ASC Topic 280-10-50.

The four reportable segments that meet the appropriate aggregation criteria are as follows: “Global Integrated Agencies”; “Domestic Creative Agencies”; “Specialist Communications”; and “Media Services.” In addition, the Company combines and discloses those operating segments that do not meet the aggregation criteria as “All Other.” The Company also reports corporate expenses, as further detailed below, as “Corporate.” All segments follow the same basis of presentation and accounting policies as those described in Note 1 and 2, respectively.

The Global Integrated Agencies reportable segment is comprised of the Company’s six global, integrated operating segments with broad marketing communication capabilities, including advertising, branding, digital, social media, design and production services, serving multinational clients around the world. The Global Integrated Agencies reportable segment includes 72andSunny, Anomaly, Crispin Porter + Bogusky, Doner, Forsman & Bodenfors, and kbs+. These operating segments share similar characteristics related to (i) the nature of their services; (ii) the type of global clients and the methods used to provide services; and (iii) the extent to which they may be impacted by global economic and geopolitical risks. In addition, these operating segments compete with each other for new business and from time to time have business move between them. The Company believes the historic and expected average long-term profitability is similar among the operating segments aggregated in the Global Integrated Agencies reportable segment.

The Domestic Creative Agencies reportable segment is comprised of four operating segments that are national advertising agencies leveraging creative capabilities at their core. The Domestic Creative Agencies reportable segment includes Colle + McVoy, Laird+Partners, Mono Advertising and Union. These operating segments share similar characteristics related to (i) the nature of their creative advertising services; (ii) the type of domestic client accounts and the methods used to provide services; and (iii) the extent to which they may be impacted by domestic economic and policy factors within North America. In addition, these operating segments compete with each other for new business and from time to time have business move between them. The Company believes the historic and expected average long-term profitability is similar among the operating segments aggregated in the Domestic Creative Agencies reportable segment.

The Specialist Communications reportable segment is comprised of seven operating segments that are each communications agencies with core service offerings in public relations and related communications services. The Specialist Communications reportable segment includes Allison & Partners, Hunter PR, HL Group Partners, Kwittken, Luntz Global, Sloane & Company and Veritas. These operating segments share similar characteristics related to (i) the nature of their public relations and communication services, including content creation, social media and influencer marketing; (ii) the type of client accounts and the methods used to provide services; (iii) the extent to which they may be impacted by domestic economic and policy factors within North America; and (iv) the regulatory environment regarding public relations and social media. In addition, these operating segments compete with each other for new business and from time to time have business move between them. The Company believes the historic and expected average long-term profitability is similar among the operating segments aggregated in the Specialist Communications reportable segment.

The Media Services reportable segment is comprised of a unique single operating segment known as MDC Media Partners. MDC Media Partners is comprised of the Company’s network of stand-alone agencies with media buying and planning as their core competency, including the integrated platform Assembly. The agencies within this single operating segment share a Chief Executive Officer and Chief Financial Officer, who have operational oversight of these agencies. These agencies provide other services, including influencer marketing, content, insights & analytics,

out-of-home, paid search, social media, lead generation, programmatic, artificial intelligence, and corporate barter. MDC Media Partners operates primarily in North America.

All Other consists of the Company's remaining operating segments that provide a range of diverse marketing communication services, but generally do not have similar services offerings or financial characteristics as those aggregated in the reportable segments. The All Other category includes 6Degrees, Bruce Mau Design, Concentric Partners, Civilian, Gale Partners, Hello Design, Kenna, Kingsdale, Northstar Research Partners, Redscout, Relevent, Source Marketing, Team, Vitro, Yamamoto and Y Media Labs. The nature of the specialist services provided by these operating segments vary among each other and from those operating segments aggregated into the reportable segments. This results

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in these operating segments having current and long-term performance expectations inconsistent with those operating segments aggregated in the reportable segments.

Corporate consists of corporate office expenses incurred in connection with the strategic resources provided to the operating segments, as well as certain other centrally managed expenses that are not fully allocated to the operating segments. These office and general expenses include (i) salaries and related expenses for corporate office employees, including employees dedicated to supporting the operating segments, (ii) occupancy expenses relating to properties occupied by all corporate office employees, (iii) other office and general expenses including professional fees for the financial statement audits and other public company costs, and (iv) certain other professional fees managed by the corporate office. Additional expenses managed by the corporate office that are directly related to the operating segments are allocated to the appropriate reportable segment and the All Other category.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenue:				
Global Integrated Agencies	\$ 193,979	\$ 177,262	\$ 576,935	\$ 489,880
Domestic Creative Agencies	24,173	22,181	67,473	66,274
Specialist Communications	40,670	40,309	125,470	123,006
Media Services	33,027	34,481	103,966	96,681
All Other	83,951	75,021	237,188	219,502
Total	\$ 375,800	\$ 349,254	\$ 1,111,032	\$ 995,343
Segment operating income (loss):				
Global Integrated Agencies	\$ 19,819	\$ 2,873	\$ 33,765	\$ 24,316
Domestic Creative Agencies	5,716	4,688	13,563	14,779
Specialist Communications	4,775	11,101	13,410	17,860
Media Services	2,421	466	8,618	3,510
All Other	15,213	(22,828)	31,626	(5,619)
Corporate	(10,724)	(7,051)	(28,982)	(32,982)
Total	\$ 37,220	\$ (10,751)	\$ 72,000	\$ 21,864
Other Income (Expense):				
Other income (expense), net	8,649	(6,008)	17,812	9,530
Interest expense and finance charges, net	(16,258)	(16,322)	(48,309)	(48,690)
Loss on redemption of notes	—	—	—	(33,298)
Income (loss) before income taxes and equity in earnings of non-consolidated affiliates	29,611	(33,081)	41,503	(50,594)
Income tax expense (benefit)	9,049	(1,930)	17,659	1,180
Income (loss) before equity in earnings of non-consolidated affiliates	20,562	(31,151)	23,844	(51,774)
Equity in earnings of non-consolidated affiliates	1,422	70	1,924	9
Net income (loss)	21,984	(31,081)	25,768	(51,765)
Net income attributable to the noncontrolling interest	(3,491)	(1,059)	(6,588)	(3,172)
Net income (loss) attributable to MDC Partners Inc.	\$ 18,493	\$ (32,140)	\$ 19,180	\$ (54,937)

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	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Depreciation and amortization:				
Global Integrated Agencies	\$6,359	\$6,111	\$17,889	\$14,986
Domestic Creative Agencies	\$336	\$353	\$1,062	\$1,263
Specialist Communications	\$1,220	\$189	\$3,657	\$5,123
Media Services	\$917	\$2,338	\$2,933	\$4,437
All Other ⁽¹⁾	\$2,165	\$31,693	\$6,511	\$36,624
Corporate	\$255	\$359	\$864	\$1,266
Total	\$11,252	\$41,043	\$32,916	\$63,699

(1) Includes impairment of goodwill charge of \$29,631 for the three and nine months ended September 30, 2016.

Stock-based compensation:				
Global Integrated Agencies	\$3,840	\$2,890	\$9,892	\$9,030
Domestic Creative Agencies	\$177	\$150	\$502	\$487
Specialist Communications	\$659	\$564	\$2,264	\$1,556
Media Services	\$150	\$70	\$464	\$187
All Other	\$1,077	\$949	\$2,149	\$2,124
Corporate	\$477	\$605	\$1,599	\$2,059
Total	\$6,380	\$5,228	\$16,870	\$15,443

Capital expenditures:				
Global Integrated Agencies	\$1,950	\$3,003	\$17,639	\$10,703
Domestic Creative Agencies	\$324	\$222	\$874	\$920
Specialist Communications	\$206	\$56	\$673	\$2,183
Media Services	\$2,171	\$2,008	\$3,455	\$2,634
All Other	\$2,497	\$985	\$5,660	\$3,251
Corporate	\$1	\$—	\$4	\$32
Total	\$7,149	\$6,274	\$28,305	\$19,723

The Company's CODM does not use segment assets to allocate resources or to assess performance of the segments and therefore, total segment assets have not been disclosed.

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,				
2017	\$289,702	\$31,418	\$54,680	\$375,800
2016	\$274,506	\$30,233	\$44,515	\$349,254
Nine Months Ended September 30,				
2017	\$868,847	\$88,471	\$153,714	\$1,111,032
2016	\$799,696	\$92,253	\$103,394	\$995,343

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12. 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 Notes 2, 4, and 9.

Options to purchase. Noncontrolling shareholders in certain subsidiaries have the right in certain circumstances to require the Company to acquire the remaining ownership interests held by them. The noncontrolling shareholders' ability to exercise any such option right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise and specific employment termination conditions. 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 2017 to 2023. It is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights. The amount payable by the Company in the event such 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, 2017, 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 \$15,493 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 \$202 by the issuance of share capital.

In addition, the Company is obligated under similar contractual rights to pay an aggregate amount of approximately \$42,268 only upon termination of such owner's employment with the applicable subsidiary or death.

The amount the Company would be required to pay to the noncontrolling interest holders should the Company acquire the remaining ownership interests is \$2,330 less than the initial redemption value recorded in redeemable noncontrolling interests.

Included in redeemable noncontrolling interests at September 30, 2017 was \$60,092 of these options to purchase 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 which typically are subject to hurricanes. During the nine months ended September 30, 2017 and 2016, these operations did not incur any costs related to damages resulting from hurricanes.

Guarantees. Generally, the Company has indemnified the purchasers of certain assets in the event that a third party asserts a claim against the purchaser that relates to a liability retained by the Company. These types of indemnification guarantees typically extend for 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.

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. In addition, the Company is involved in class action suits as described below.

Class Action Litigation in Canada. On August 7, 2015, Roberto Paniccia issued a Statement of Claim in the Ontario Superior Court of Justice in the City of Brantford, Ontario seeking to certify a class action suit naming the following as defendants: MDC, former CEO Miles S. Nadal, former CAO Michael C. Sabatino, CFO David Doft and BDO U.S.A. LLP. The Plaintiff alleges violations of section 138.1 of the Ontario Securities Act (and equivalent legislation in other Canadian provinces and territories) as well as common law misrepresentation based on allegedly materially

false and misleading statements in the Company's public statements, as well as omitting to disclose material facts with respect to the SEC investigation. The Company intends to continue to vigorously defend this Canadian suit on the same basis as which the U.S. class action was previously dismissed. A first case management meeting has been held. The plaintiff has served his material for leave to proceed under the Securities Act. MDC and the other defendants have served a motion to limit the scope of the proposed class definition to Canadian residents who purchased and sold shares of MDC stock on the Toronto Stock Exchange. Those motions are returnable in the fourth quarter of 2017.

Antitrust Subpoena. One of the Company's subsidiaries received a subpoena from the U.S. Department of Justice Antitrust Division concerning the Division's ongoing investigation of production practices in the advertising industry. The Company and its subsidiary are fully cooperating with this confidential investigation.

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Commitments. At September 30, 2017, the Company had issued \$5,009 of undrawn outstanding letters of credit. In addition, the Company has commitments to fund investments in an aggregate amount of \$198.

13. New Accounting Pronouncements

In May 2017, the FASB issued Accounting Standards Update (“ASU”) 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting, which provides guidance concerning which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in ASC 718. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is permitted. Amendments in this ASU will be applied prospectively to any award modified on or after the adoption date. The Company does not expect the application of this guidance to have a significant impact on its consolidated financial position or results of operations.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits, which requires the presentation of the service cost component of the net periodic pension and postretirement benefits costs in the same line item in the statement of operations as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of the net periodic pension and postretirement benefits costs are required to be presented as non-operating expenses in the statement of operations. This guidance is effective for annual periods beginning after December 15, 2017 and early adoption is permitted. The Company does not expect the application of this guidance to have a significant impact on its consolidated financial position or results of operations.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which eliminates step two from the two-step goodwill impairment test. Under the new guidance, an entity will perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value provided the loss recognized does not exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective for annual or interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019. The Company will early adopt this guidance for our impairment test performed during 2017, and does not expect the application of this guidance to have a significant impact on its consolidated financial position or results of operations.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows. This new guidance is intended to reduce diversity in practice regarding the classification of certain transactions in the statement of cash flows. This guidance is effective January 1, 2018 and requires a retrospective transition method. Early adoption is permitted. The Company currently classifies all cash outflows for contingent consideration as a financing activity. Upon adoption the Company is required to classify only the original estimated liability as a financing activity and any changes as an operating activity.

In February 2016, the FASB issued ASU 2016-02, which amends the ASC and creates Topic 842, Leases. Topic 842 will require lessees to recognize right-to-use assets and lease liabilities for those leases classified as operating leases under previous U.S. GAAP on the balance sheet. This guidance is effective for annual periods beginning after December 15, 2018 and early adoption is permitted. While not yet in a position to assess the full impact of the application of the new standard, the Company expects that the impact of recording the lease liabilities and the corresponding right-to-use assets will have a significant impact on its total assets and liabilities with a minimal impact on equity.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Liabilities, which will require equity investments, except equity method investments, to be measured at fair value and any changes in fair value will be recognized in results of operations. This guidance is effective for annual and interim periods beginning after December 15, 2017 and early application is not permitted. Additionally, this guidance provides for the recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. The Company does not expect the application of this guidance to have a significant impact on its consolidated financial position or results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which will replace all existing revenue guidance under U.S GAAP. The core principle of ASU 2014-09 is to recognize revenue when

promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received in exchange for those goods or services. On July 9, 2015, the FASB approved a one year deferral of the effective date of ASU 2014-09 to all annual and interim periods beginning after December 15, 2017. ASU 2014-09 provides for one of two methods of transition: (i) retrospective application to each prior period presented (Full Retrospective); or (ii) recognition of the cumulative effect of retrospective application of the new standard as of the beginning of the period of initial application (Modified Retrospective). The Company plans to apply ASU 2014-09 on the effective date of January 1, 2018, and intends to apply the Modified Retrospective method. Based on the Company's assessment, the application of the new standard will result in a change in the timing of our revenue recognition within certain of the Company's arrangements. Performance incentives are currently recognized in revenue when specific quantitative goals are achieved, or when the Company's performance against qualitative goals is determined by the client. Under the new standard, the Company will be required to estimate the amount of the incentive that will be earned at the inception of the contract and recognize

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such incentive over the term of the contract. While performance incentives are not material to the Company's revenue, this will result in an acceleration of revenue recognition for certain contract incentives compared to the current method. Further, based on the Company's initial assessment, it is expected that an input measure such as cost to cost or labor hours would be an appropriate measure of progress in the majority of situations for which over time revenue recognition is applied.

Furthermore, in certain businesses, the Company records revenue as a principal and includes certain third-party-pass-through and out-of-pocket costs, which are billed to clients in connection with the services provided. In March 2016, the FASB issued further guidance on principal versus agent considerations; however, our initial assessments indicate that such change is not expected to have a material effect on the Company's results of operations. The Company is continuing to evaluate the standard's impact on the consolidated results of operations and financial condition, and the related disclosure requirements.

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

Unless otherwise indicated, references to the "Company" or "MDC" 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 2017 means the period beginning January 1, 2017, and ending December 31, 2017).

The Company reports its financial results in accordance with generally accepted accounting principles ("GAAP") of the United States of America ("U.S. GAAP"). In addition, the Company has included certain non-U.S. GAAP financial measures and ratios, which it believes provide useful supplemental information to both management and readers of this report in measuring the financial performance and financial condition of the Company. These measures do not have a standardized meaning prescribed by U.S. GAAP and should not be construed as an alternative to other titled measures determined in accordance with U.S. GAAP.

Two such non-U.S. GAAP measures are "organic revenue growth" or "organic revenue decline" that refer to the positive or negative results, respectively, of subtracting both the foreign exchange and acquisition (disposition) components from total revenue growth. The acquisition (disposition) component is calculated by aggregating the prior period revenue for any acquired businesses, less the prior period revenue of any businesses that were disposed of in the current period. The organic revenue growth (decline) component reflects the constant currency impact (a) of the change in revenue of the Partner Firms which the Company has held throughout each of the comparable periods presented and (b) "non-GAAP acquisitions (dispositions), net." Non-GAAP acquisitions (dispositions), net consists of (i) for acquisitions during the current year, the revenue effect from such acquisition as if the acquisition had been owned during the equivalent period in the prior year and (ii) for acquisitions during the previous year, the revenue effect from such acquisitions as if they had been owned during that entire year or same period as the current reportable period, taking into account their respective pre-acquisition revenues for the applicable periods and (iii) for dispositions, the revenue effect from such disposition as if they had been disposed of during the equivalent period in the prior year. The Company believes that isolating the impact of acquisition activity and foreign currency impacts is an important and informative component to understand the overall change in the Company's consolidated revenue. The change in the consolidated revenue that remains after these adjustments illustrates the underlying financial performance of the Company's businesses. Specifically, it represents the impact of the Company's management oversight, investments and resources dedicated to supporting the businesses' growth strategy and operations. In addition, it reflects the network benefit of inclusion in the broader portfolio of firms that includes, but is not limited to, cross-selling and sharing of best practices. This approach isolates changes in performance of the business that take place under the Company's stewardship, whether favorable or unfavorable, and thereby reflects the potential benefits and risks associated with owning and managing a talent-driven services business.

Accordingly, during the first twelve months of ownership by the Company, the organic growth measure may credit the Company with growth from an acquired business that is dependent on work performed prior to the acquisition date, and may include the impact of prior work in progress, existing contracts and backlog of the acquired businesses. It is the presumption of the Company that positive developments that may have taken place at an acquired business during the period preceding the acquisition will continue to result in value creation in the post-acquisition period.

While the Company believes that the methodology used in the calculation of organic revenue change is entirely consistent with our closest U.S. competitors, the calculations may not be comparable to similarly titled measures

presented by other publicly traded companies in other industries. Additional information regarding the Company's acquisition activity as it relates to potential revenue growth is provided in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under "Certain Factors Affecting our Business." The following discussion focuses on the operating performance of the Company for the nine months ended September 30, 2017 and 2016 and the financial condition of the Company as of September 30, 2017. 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, 2016 as reported on the Annual Report on Amendment No. 1 on Form 10-K/A (the "Annual Report on Form 10-K/A"). All amounts are in dollars unless otherwise stated. Amounts reported in millions herein are computed based on the amounts in thousands. As a result, the sum of the components, and related calculations, reported in millions may not equal the total amounts due to rounding.

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Executive Summary

MDC conducts its business through its network of Partner Firms, the “Advertising and Communications Group,” who provide a comprehensive array of marketing and communications services for clients both domestically and globally. The Company’s objective is to create shareholder value by building, growing and acquiring market-leading Partner Firms that deliver innovative, value-added marketing, activation, communications and strategic consulting to their clients. Management believes that shareholder value is maximized with an operating philosophy of “Perpetual Partnership” with proven committed industry leaders in marketing communications.

MDC manages its business by monitoring several financial and non-financial performance indicators. The key indicators that we focus on are revenues, operating expenses and capital expenditures. Revenue growth is analyzed by reviewing a mix of measurements, including (i) growth by major geographic location, (ii) growth by client industry vertical, (iii) growth from existing clients and the addition of new clients, (iv) growth by primary discipline (v) growth from currency changes, and (vi) growth from acquisitions. In addition to monitoring the foregoing financial indicators, the Company assesses and monitors several non-financial performance indicators relating to the business performance of our Partner Firms. These indicators may include a Partner Firm’s recent new client win/loss record; the depth and scope of a pipeline of potential new client account activity; the overall quality of the services provided to clients; and the relative strength of the Partner Firm’s next generation team that is in place as part of a potential succession plan to succeed the current senior executive team.

As discussed in Note 11 of the Notes to Unaudited Condensed Consolidated Financial Statements, the Company aggregates operating segments that meet the aggregation criteria detailed in ASC 280 into one of the four reportable segments and combines and discloses those operating segments that do not meet the aggregation criteria in the All Other category. The following discussion provides additional detailed disclosure for each of the Company’s four reportable segments, plus the All Other category, within the Advertising and Communications Group.

The four reportable segments are as follows:

Global Integrated Agencies - This segment is comprised of the Company’s six global, integrated operating segments with broad marketing communication capabilities, including advertising, branding, digital, social media, design and production services, serving multinational clients around the world.

Domestic Creative Agencies - This segment is comprised of four operating segments that are national advertising agencies leveraging creative capabilities at their core.

Specialist Communications Agencies - This segment is comprised of seven operating segments that are each communications agencies with core service offerings in public relations and related communications services.

Media Services - This segment is comprised of a unique single operating segment with media buying and planning as its core competency.

The All Other category consists of the Company’s remaining operating segments that provide a range of diverse marketing communication services, but are not eligible for aggregation with the reportable segments in accordance with ASC 280.

In addition, MDC reports its corporate office expenses incurred in connection with the strategic resources provided to the operating segments, as well as certain other centrally managed expenses that are not fully allocated to the operating segments as Corporate. Corporate provides client and business development support to the operating segments as well as certain strategic resources, including accounting, administrative, financial, real estate, human resource and legal functions. Additional expenses managed by the corporate office that are directly related to the operating segments are allocated to the appropriate reportable segment and the All Other category.

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’ business trends and 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 (i) our clients’ desire to change marketing communication firms, and (ii) the creative product that our Partner Firms offer. A client may choose to change marketing communication firms for a 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 two. Another factor in a client changing firms is the agency's campaign or work product is not providing results and client's 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.

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Acquisitions and Dispositions. The Company's strategy includes acquiring ownership stakes in well-managed businesses with world class expertise and strong reputations in the industry. The Company's corporate group provides post-acquisition support to Partner Firms in order to help accelerate growth, including in areas such as business and client development (including cross-selling), corporate communications, corporate development, talent recruitment and training, procurement, legal services, human resources, financial management and reporting, and real estate utilization, among other areas. As most of the Company's acquisitions remain as stand-alone entities post acquisition, integration is typically implemented promptly, and new Partner Firms can begin to tap into the full range of MDC's resources immediately. Often the acquired businesses may begin to tap into certain MDC resources in the pre-acquisition period, such as talent recruitment or real estate. The Company engaged in a number of acquisition and disposition transactions during the 2009 to 2016 period, which affected revenues, expenses, operating income and net income. Additional information regarding acquisitions is provided in Note 4 of the Notes to Unaudited Condensed Consolidated Financial Statements.

Foreign Exchange Fluctuations. Our financial results and competitive position are affected by fluctuations in the exchange rate between the U.S. dollar and non-U.S. dollars, primarily the Canadian dollar. See also "Quantitative and Qualitative Disclosures About Market Risk — Foreign Exchange."

Seasonality. Historically, with some exceptions, the Company generates the lowest quarterly revenue and lowest volume of media placements during the first quarter while the Company generates the highest quarterly revenues and highest volume of media placements during the fourth quarter ever year.

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Results of Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue:				
Global Integrated Agencies	\$ 193,979	\$ 177,262	\$ 576,935	\$ 489,880
Domestic Creative Agencies	24,173	22,181	67,473	66,274
Specialist Communications	40,670	40,309	125,470	123,006
Media Services	33,027	34,481	103,966	96,681
All Other	83,951	75,021	237,188	219,502
Total	\$375,800	\$349,254	\$1,111,032	\$995,343
Segment operating income (loss):				
Global Integrated Agencies	\$ 19,819	\$ 2,873	\$ 33,765	\$ 24,316
Domestic Creative Agencies	5,716	4,688	13,563	14,779
Specialist Communications	4,775	11,101	13,410	17,860
Media Services	2,421	466	8,618	3,510
All Other	15,213	(22,828)	31,626	(5,619)
Corporate	(10,724)	(7,051)	(28,982)	(32,982)
Total	\$37,220	\$(10,751)	\$72,000	\$21,864
Other Income (Expense):				
Other income (expense), net	8,649	(6,008)	17,812	9,530
Interest expense and finance charges, net	(16,258)	(16,322)	(48,309)	(48,690)
Loss on redemption of notes	—	—	—	(33,298)
Income (loss) before income taxes and equity in earnings of non-consolidated affiliates	29,611	(33,081)	41,503	(50,594)
Income tax expense (benefit)	9,049	(1,930)	17,659	1,180
Income (loss) before equity in earnings of non-consolidated affiliates	20,562	(31,151)	23,844	(51,774)
Equity in earnings of non-consolidated affiliates	1,422	70	1,924	9
Net income (loss)	21,984	(31,081)	25,768	(51,765)
Net income attributable to the noncontrolling interest	(3,491)	(1,059)	(6,588)	(3,172)
Net income (loss) attributable to MDC Partners Inc.	\$ 18,493	(32,140)	19,180	(54,937)

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	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Depreciation and amortization:				
Global Integrated Agencies	\$6,359	\$6,111	\$17,889	\$14,986
Domestic Creative Agencies	336	353	1,062	1,263
Specialist Communications	1,220	189	3,657	5,123
Media Services	917	2,338	2,933	4,437
All Other ⁽¹⁾	2,165	31,693	6,511	36,624
Corporate	255	359	864	1,266
Total	\$11,252	\$41,043	\$32,916	\$63,699

(1) Includes impairment of goodwill charge of \$29,631 for the three and nine months ended September 30, 2016.

Stock-based compensation:				
Global Integrated Agencies	\$3,840	\$2,890	\$9,892	\$9,030
Domestic Creative Agencies	177	150	502	487
Specialist Communications	659	564	2,264	1,556
Media Services	150	70	464	187
All Other	1,077	949	2,149	2,124
Corporate	477	605	1,599	2,059
Total	\$6,380	\$5,228	\$16,870	\$15,443

Capital expenditures:				
Global Integrated Agencies	\$1,950	\$3,003	\$17,639	\$10,703
Domestic Creative Agencies	324	222	874	920
Specialist Communications	206	56	673	2,183
Media Services	2,171	2,008	3,455	2,634
All Other	2,497	985	5,660	3,251
Corporate	1	—	4	32
Total	\$7,149	\$6,274	\$28,305	\$19,723

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Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

Revenue was \$375.8 million for the three months ended September 30, 2017, compared to revenue of \$349.3 million for the three months ended September 30, 2016, representing an increase of \$26.5 million, or 7.6%. The change in revenue was driven by revenue growth from existing Partner Firms of \$27.1 million, or 7.8% and a positive foreign exchange impact of \$2.6 million, or 0.8%, partially offset by a negative impact from dispositions of \$3.2 million, or 0.9%.

Operating profit for the three months ended September 30, 2017 was \$37.2 million compared to an operating loss of \$10.8 million for the three months ended September 30, 2016, representing an increase of \$48.0 million. The increase in operating profit was primarily driven by an increase in operating profit in the Advertising and Communications Group of \$51.6 million, partially offset by an increase in Corporate operating expenses of \$3.7 million.

Net income was \$22.0 million for the three months ended September 30, 2017 compared to a net loss of \$31.1 million for the three months ended September 30, 2016, representing a net income increase of \$53.1 million. The increase was primarily attributable to an increase in operating profit of \$48.0 million and an increase in foreign exchange gain of \$15.8 million, partially offset by an increase in income tax expense of \$11.0 million.

Advertising and Communications Group

The following discussion provides additional detailed disclosure for each of the Company's four (4) reportable segments, plus "All Other," within the Advertising and Communications Group.

Revenue in the Advertising and Communications Group was \$375.8 million for the three months ended September 30, 2017 compared to revenue of \$349.3 million for the three months ended September 30, 2016, representing an increase of \$26.5 million, or 7.6%. The change in revenue was driven by revenue growth from existing Partner Firms of \$27.1 million, or 7.8%, and a positive foreign exchange impact of \$2.6 million, or 0.8%, partially offset by a negative impact from dispositions of \$3.2 million, or 0.9%. Revenue growth was attributable to net new client wins, increased spending as well as expanded scopes of services by existing clients, and higher pass-through costs. The performance by client sector was led by growth in communications, financials, food & beverage, partially offset by a decline in technology, retail, and automotive.

Revenue growth in the Advertising and Communications Group was driven by the Company's business in the United States with growth of \$15.2 million, or 5.5%, due to new business wins, increased spending as well as expanded scopes of services by existing clients, and higher pass-through costs. In Canada, revenue increased by \$1.2 million, or 3.9% mostly due to a positive foreign exchange impact. Outside of the North American region, revenue growth was \$10.2 million, or 22.8%, primarily driven by new client wins, increased spend from existing clients, and higher pass-through costs as we continue to extend our capabilities into new markets throughout Europe, Asia, and to a lesser degree, South America.

The Company also utilizes non-GAAP metrics called organic revenue growth (decline) and non-GAAP acquisitions (dispositions), net, as defined in Item 2. For the three months ended September 30, 2017 organic revenue growth was \$27.1 million, or 7.8%, all of which pertained to Partner Firms which the Company has owned throughout each of the comparable periods presented. The other components of non-GAAP activity include a negative non-GAAP acquisition (disposition), net adjustment of \$3.2 million, or 0.9%, and a positive foreign exchange impact of \$2.6 million, or 0.8%