

MDC PARTNERS INC
Form 10-Q
May 10, 2012

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 March 31, 2012

or

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

For the transition period from _____ to _____

Commission file number: 001-13178

MDC Partners Inc.

(Exact name of registrant as specified in its charter)

Canada 98-0364441
(State or other jurisdiction of
incorporation or organization) (IRS Employer Identification No.)

745 Fifth Avenue
10151
New York, New York
(Address of principal executive offices) (Zip Code)

(646) 429-1800

Registrant's telephone number, including area code:

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The numbers of shares outstanding as of April 25, 2012 were: 30,907,377 Class A subordinate voting shares and 2,503 Class B multiple voting shares.

Website Access to Company Reports

MDC Partners Inc.'s internet website address is www.mdc-partners.com. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act, will be made available free of charge through the Company's website as soon as reasonably practical after those reports are electronically filed with, or furnished to, the Securities and Exchange Commission. The information found on, or otherwise accessible through, the Company's website is not incorporated into, and does not form a part of, this quarterly report on Form 10-Q.

MDC PARTNERS INC.

QUARTERLY REPORT ON FORM 10-Q

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Item 1. Financial Statements**MDC PARTNERS INC. AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	Three Months Ended March 31,	
	2012	2011
Revenue:		
Services	\$ 235,978	\$ 215,091
Operating Expenses:		
Cost of services sold	177,260	157,762
Office and general expenses	60,372	44,464
Depreciation and amortization	10,001	10,303
	247,633	212,529
Operating profit (loss)	(11,655	) 2,562
Other Income (Expenses):		
Other income (expense), net	(1,023	) 313
Interest expense	(10,996	) (9,564
Interest income	41	38
	(11,978	) (9,213
Loss from continuing operations before income taxes, equity in affiliates	(23,633	) (6,651
Income tax expense	1,263	358
Loss from continuing operations before equity in affiliates	(24,896	) (7,009
Equity in earnings of non-consolidated affiliates	272	255
Loss from continuing operations	(24,624	) (6,754
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(300	) (326
Net loss	(24,924	) (7,080
Net income attributable to the noncontrolling interests	(1,357	) (1,605
Loss attributable to MDC Partners Inc.	\$ (26,281	) \$ (8,685
Loss Per Common Share:		
Basic and diluted:		
Loss from continuing operations attributable to MDC Partners Inc. common shareholders	\$ (0.87	) \$ (0.30
Discontinued operations attributable to MDC Partners Inc. common shareholders	(0.01	) (0.01
Loss attributable to MDC Partners Inc. common shareholders	\$ (0.88	) \$ (0.31
Weighted Average Number of Common Shares Outstanding:		
Basic and diluted:	29,889,932	28,200,111

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Non cash stock-based compensation expense is included in the following line items above:

Cost of services sold	\$ —	\$ 1,040
Office and general expenses	5,884	3,234
Total	\$ 5,884	\$ 4,274

See notes to the unaudited condensed consolidated financial statements.

MDC PARTNERS INC. AND SUBSIDIARIES**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(thousands of United States dollars)

	Three Months Ended March 31,	
	2012	2011
Comprehensive Loss:		
Net loss	\$ (24,924)	\$ (7,080)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	1,868	845
Comprehensive loss for the year	(23,056)	(6,235)
Comprehensive loss attributable to noncontrolling interest	(1,363)	(1,608)
Comprehensive loss attributable to MDC Partners Inc.	\$ (24,419)	\$ (7,843)

See notes to the unaudited condensed consolidated financial statements.

MDC PARTNERS INC. AND SUBSIDIARIES**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(thousands of United States dollars)

	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 35,957	\$ 8,096
Accounts receivable, less allowance for doubtful accounts of \$862 and \$851	319,154	238,592
Expenditures billable to clients	56,530	39,067
Other current assets	14,517	12,657
Total Current Assets	426,158	298,412
Fixed assets, at cost, less accumulated depreciation of \$106,910 and \$101,928	52,352	47,737
Investment in affiliates	192	99
Goodwill	738,233	605,244
Other intangibles assets, net	74,113	57,980
Deferred tax asset	15,440	15,380
Other assets	32,122	30,893
Total Assets	\$ 1,338,610	\$ 1,055,745
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	\$ 291,795	\$ 178,282
Accruals and other liabilities	98,835	72,930
Advance billings	167,891	122,021
Current portion of long-term debt	1,293	1,238
Current portion of deferred acquisition consideration	67,735	51,829
Total Current Liabilities	627,549	426,300
Long-term debt	369,873	383,936
Long-term portion of deferred acquisition consideration	136,503	85,394
Other liabilities	50,597	14,900
Deferred tax liabilities	51,739	50,724
Total Liabilities	1,236,261	961,254
Redeemable Noncontrolling Interests (Note 2)	108,855	107,432
Commitments, contingencies and guarantees (Note 11)		
Shareholders' Equity (Deficit):		
Preferred shares, unlimited authorized, none issued	—	—
Class A Shares, no par value, unlimited authorized, 30,063,937 and 29,277,408 shares issued in 2012 and 2011	238,717	228,208
	1	1

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Class B Shares, no par value, unlimited authorized, 2,503 shares issued and outstanding in 2012 and 2011, each convertible into one Class A share

Shares to be issued 28,000 shares	424	424
Charges in excess of capital	(62,393)	(45,102)
Accumulated deficit	(257,555)	(231,274)
Stock subscription receivable	(55)	(55)
Accumulated other comprehensive loss	(2,796)	(4,658)
 MDC Partners Inc. Shareholders' Equity (Deficit)	 (83,657)	 (52,456)
Noncontrolling Interests	77,151	39,515
Total Equity (Deficit)	(6,506)	(12,941)
Total Liabilities, Redeemable Noncontrolling Interests and Equity (Deficit)	\$1,338,610	\$ 1,055,745

See notes to the unaudited condensed consolidated financial statements.

MDC PARTNERS INC. AND SUBSIDIARIES**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(thousands of United States dollars)

	Three Months Ended March	
	31,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (24,924)	\$ (7,080)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(300)	(326)
Loss from continuing operations	(24,624)	(6,754)
Adjustments to reconcile net loss from continuing operations to cash (used in) provided by operating activities:		
Depreciation	4,346	4,535
Amortization of intangibles	5,655	5,768
Non-cash stock-based compensation	5,884	4,274
Amortization of deferred finance charges and debt discount	559	637
Adjustment to deferred acquisition consideration	2,675	(2,977)
Gain on disposition of assets	(23)	(17)
Deferred income taxes	1,100	—
Earnings of non-consolidated affiliates	(272)	(255)
Other non-current assets and liabilities	(1,118)	(1,199)
Foreign exchange	898	(146)
Changes in working capital:		
Accounts receivable	(17,409)	(5,882)
Expenditures billable to clients	(17,433)	(3,247)
Prepaid expenses and other current assets	405	(1,745)
Accounts payable, accruals and other liabilities	15,295	(20,674)
Advance billings	36,466	(9,464)
Cash flows provided by (used in) continuing operating activities	12,404	(37,146)
Discontinued operations	115	80
Net cash provided by (used in) operating activities	12,519	(37,066)
Cash flows from investing activities:		
Capital expenditures	(5,111)	(4,863)
Acquisitions, net of cash acquired	39,261	(12,617)
Proceeds from sale of assets	22	12
Other investments	(1,039)	(868)
Profit distributions from affiliates	—	3,783
Cash flows provided by (used in) continuing investing activities	33,133	(14,553)
Discontinued operations	—	(159)
Net cash provided by (used in) investing activities	33,133	(14,712)
Cash flows from financing activities:		
Proceeds (repayments) from revolving credit facility	(14,133)	59,741
Acquisition related payments	(1,925)	(7,453)

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Repayment of long-term debt	(46)	(281)
Proceeds from exercise of options	—		721	
Purchase of shares	(2,146)	(1,481)
Deferred financing costs	(74	)	(275)
Distributions to noncontrolling partners	(1,646	)	(4,293)
Proceeds of bank overdrafts	6,921		1,066	
Payment of dividends	(4,669)	—	
Net cash provided by (used in) financing activities	(17,718	)	47,745	
Effect of exchange rate changes on cash and cash equivalents	(73	)	46	
Net increase (decrease) in cash and cash equivalents	27,861		(3,987)
Cash and cash equivalents at beginning of period	8,096		10,949	
Cash and cash equivalents at end of period	\$ 35,957		\$ 6,962	
Supplemental disclosures:				
Cash income taxes paid	\$ 24		\$ 64	
Cash interest paid	\$ 674		\$ 422	
Dividends payable	\$ 9,752		\$ 387	
Non-cash transactions:				
Capital leases	\$ 134		\$ 313	

See notes to the unaudited condensed consolidated financial statements.

MDC PARTNERS INC. AND SUBSIDIARIES

UNAUDITED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(thousands of United States dollars)

Common Stock		Share Capital			Charges in		Stock	Accumulated	MDC Partners Inc.				
Class A	Class B	to be issued	Additional	Excess of	Accumulated	Subscribed	Other	Comprehensive	Shareholder	No			
Shares	Amount	Shares	Amount	Shares	Amount	Paid Capital	Capital Deficit	Receivable	Income	Equity	Int		
Balance at December 31, 2011	29,277,408	\$228,208	2,503	\$1	28,000	\$424	\$-	\$(45,102)	\$(231,274)	\$(55)	\$(4,658)	\$(52,456)	\$3