MDC PARTNERS INC
Form 10-Q
August 02, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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 **New York, New York**	**10151**
(Address of principal executive offices)	(Zip Code)

(646) 429-1800

Registrant's telephone number, including area code:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x
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 x

The numbers of shares outstanding as of July 25, 2012 were: 31,859,709 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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue:				
Services	$ 274,102	$ 238,020	$ 509,758	$ 453,111
Operating Expenses:				
Cost of services sold	188,929	161,078	365,889	318,631
Office and general expenses	74,245	52,508	134,279	96,932
Depreciation and amortization	13,645	9,569	23,644	19,872
	276,819	223,155	523,812	435,435
Operating profit (loss)	(2,717)	14,865	(14,054)	17,676
Other Income (Expense):				
Other income (expense), net	214	448	(809)	762
Interest expense	(11,830)	(10,666)	(22,826)	(20,230)
Interest income	21	33	70	71
	(11,595)	(10,185)	(23,565)	(19,397)
Income (loss) from continuing operations before income taxes, equity in affiliates	(14,312)	4,680	(37,619)	(1,721)
Income tax expense	2,544	588	3,807	946
Income (loss) from continuing operations before equity in affiliates	(16,856)	4,092	(41,426)	(2,667)
Equity in earnings of non-consolidated affiliates	34	79	306	334
Income (loss) from continuing operations	(16,822)	4,171	(41,120)	(2,333)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(1,687)	(321)	(2,240)	(895)
Net income (loss)	(18,509)	3,850	(43,360)	(3,228)
Net income attributable to the noncontrolling interests	(1,605)	(2,527)	(3,035)	(4,132)
Net income (loss) attributable to MDC Partners Inc.	$ (20,114)	$ 1,323	$ (46,395)	$ (7,360)
Income (loss) Per Common Share:				
Basic:				
Income (loss) from continuing operations attributable to MDC Partners Inc. common shareholders	$ (0.60)	$ 0.06	$ (1.45)	$ (0.22)
Discontinued operations attributable to MDC Partners Inc. common shareholders	(0.05)	(0.01)	(0.07)	(0.03)

Income (loss) attributable to MDC Partners Inc. common shareholders	$ (0.65)	$ 0.05	$ (1.52)	$ (0.25)
Diluted:				
Income (loss) from continuing operations attributable to MDC Partners Inc. common shareholders	$ (0.60)	$ 0.05	$ (1.45)	$ (0.22)
Discontinued operations attributable to MDC Partners Inc. common shareholders	(0.05)	(0.01)	(0.07)	(0.03)
Income (loss) attributable to MDC Partners Inc. common shareholders	$ (0.65)	$ 0.04	$ (1.52)	$ (0.25)
Weighted Average Number of Common Shares Outstanding:				
Basic	30,872,050	29,016,384	30,380,991	28,952,182
Diluted	30,872,050	32,301,722	30,380,991	28,952,182
Non cash stock based compensation expense is included in the following line items above:				
Cost of services sold	$ 431	$ (306)	$ 431	$ 734
Office and general expenses	14,922	6,081	20,806	9,315
Total	$ 15,353	$ 5,775	$ 21,237	$ 10,049

See notes to the unaudited condensed consolidated financial statements.

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MDC PARTNERS INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(thousands of United States dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Comprehensive Income (loss):				
Net income (loss)	$ (18,509)	$ 3,850	$ (43,360)	$ (3,228)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(1,341)	442	527	1,287
Comprehensive income (loss)	(19,850)	4,292	(42,833)	(1,941)
Comprehensive loss attributable to noncontrolling interest	(1,605)	(2,527)	(3,034)	(4,135)
Comprehensive income (loss) attributable to MDC Partners Inc.	$ (21,455)	$ 1,765	$ (45,867)	$ (6,076)

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)

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 71,696	$ 8,096
Accounts receivable, less allowance for doubtful accounts of $1,046 and $851	334,375	238,592
Expenditures billable to clients	70,553	39,067
Other current assets	16,669	12,657
Total Current Assets	493,293	298,412
Fixed assets, at cost, less accumulated depreciation of $109,086 and $101,928	51,775	47,737
Investment in affiliates	124	99
Goodwill	736,886	605,244
Other intangibles assets, net	65,116	57,980
Deferred tax asset	15,422	15,380
Other assets	30,821	30,893
Total Assets	$ 1,393,437	$ 1,055,745
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	$ 322,970	$ 178,282
Accruals and other liabilities	78,834	72,930
Advance billings	157,373	122,021
Current portion of long-term debt	1,267	1,238
Current portion of deferred acquisition consideration	90,686	51,829
Total Current Liabilities	651,130	426,300
Long-term debt	470,128	383,936
Long-term portion of deferred acquisition consideration	82,638	85,394
Other liabilities	47,922	14,900
Deferred tax liabilities	53,467	50,724
Total Liabilities	1,305,285	961,254
Redeemable Noncontrolling Interests (Note 2)	102,794	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, 31,019,906 and 29,277,408 shares issued and outstanding in 2012 and 2011	253,216	228,208
	1	1

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	(63,835)	(45,102)
Accumulated deficit	(277,669)	(231,274)
Stock subscription receivable	(55)	(55)
Accumulated other comprehensive loss	(4,130)	(4,658)
MDC Partners Inc. Shareholders' Equity (Deficit)	(92,048)	(52,456)
Noncontrolling Interests	77,406	39,515
Total Equity (Deficit)	(14,642)	(12,941)
Total Liabilities, Redeemable Noncontrolling Interests and Equity (Deficit)	$ 1,393,437	$ 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)

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net loss	$ (43,360)	$ (3,228)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(2,240)	(895)
Loss from continuing operations	(41,120)	(2,333)
Adjustments to reconcile net loss from continuing operations to cash (used in) provided by operating activities:		
Depreciation	9,120	8,957
Amortization of intangibles	14,524	10,915
Non-cash stock-based compensation	21,237	10,049
Amortization of deferred finance charges and debt discount	1,129	1,158
Adjustment to deferred acquisition consideration	6,692	(564)
Gain (loss) on disposition of assets	(19)	—
Deferred income taxes	2,807	(13)
Earnings of non-consolidated affiliates	(306)	(334)
Other non-current assets and liabilities	1,097	(3,142)
Foreign exchange	497	(54)
Changes in working capital:		
Accounts receivable	(35,450)	(7,034)
Expenditures billable to clients	(28,862)	18,606
Prepaid expenses and other current assets	(882)	(1,987)
Accounts payable, accruals and other liabilities	18,512	(30,658)
Advance billings	25,948	(29,086)
Cash flows used in continuing operating activities	(5,076)	(25,520)
Discontinued operations	(1,485)	(182)
Net cash used in operating activities	(6,561)	(25,702)
Cash flows from investing activities:		
Capital expenditures	(9,550)	(8,304)
Acquisitions, net of cash acquired	37,143	(12,850)
Proceeds from sale of assets	35	43
Other investments	(1,466)	(1,600)
Profit distributions from affiliates	166	3,967
Cash flows provided by (used in) continuing investing activities	26,328	(18,744)
Discontinued operations	22	(161)
Net cash provided by (used in) investing activities	26,350	(18,905)
Cash flows from financing activities:		
Proceeds from issuance of 11% Notes	—	61,050
Proceeds from revolving credit facility	86,054	34,462
Acquisition related payments	(46,764)	(27,196)

Repayment of long-term debt	(261)	(382)
Proceeds from exercise of options	18	1,010
Purchase of shares	(2,983)	(2,568)
Deferred financing costs	(116)	(2,985)
Distributions to noncontrolling partners	(5,555)	(8,329)
Bank overdrafts	27,123	(7,161)
Payment of dividends	(13,329)	(8,367)
Net cash provided by financing activities	44,187	39,534
Effect of exchange rate changes on cash and cash equivalents	(376)	(172)
Net increase (decrease) in cash and cash equivalents	63,600	(5,245)
Cash and cash equivalents at beginning of period	8,096	10,949
Cash and cash equivalents at end of period	$ 71,696	$ 5,704
Supplemental disclosures:		
Cash income taxes paid	$ 347	$ 135
Cash interest paid	$ 20,379	$ 17,238
Non-cash transactions:		
Capital leases	$ 399	$ 515
Dividends payable	$ 239	$ 609

See notes to the unaudited condensed consolidated financial statements.

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MDC PARTNERS INC. AND SUBSIDIARIES

UNAUDITED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(thousands of United States dollars)

	Common Stock				Share Capital to be issued			Charges in		Stock	Accumula	M
	Class A		Class B				Additional	Excess of	Accumulated	Subscription	Comprehens	Sh
	Shares	Amount	Shares	Amount	Shares	Amount	Paid in Capital	Capital	Deficit	Receivable	Loss	Eq
Balance at December 31, 2011	29,277,408	$228,208	2,503	$1	28,000	$424	$-	$(45,102)	$(231,274)	$(55)	$(4,658)	$(
Net loss attributable to MDC Partners	-	-	-	-	-	-	-	-	(46,395)	-	-	(4
Foreign currency translation adjustments	-	-	-	-	-	-	-	-	-	-	528	5
Stock Appreciation Rights Exercised	26,426	100	-	-	-	-	(100)	-	-	-	-	-
Shares acquired and cancelled	(214,477)	(2,983)	-	-	-	-	-	-	-	-	-	(
Issuance of restricted stock	1,928,644	27,873	-	-	-	-	(27,873)	-	-	-	-	-
Options Exercised	1,905	18	-	-	-	-	-	-	-	-	-	1
Stock-based compensation	-	-	-	-	-	-	20,604	-	-	-	-	2
Changes in redemption value of redeemable noncontrolling interests	-	-	-	-	-	-	838	-	-	-	-	8
Increase in redeemable noncontrolling interests from acquisition	-	-	-	-	-	-	(3,240)	-	-	-	-	(
Increase in noncontrolling interests from	-	-	-	-	-	-	-	-	-	-	-	-

acquisition												
Dividends paid and to be paid	-	-	-	-	-	-	(8,962)	-	-	-	-	(
Transfer to charges in excess of capital	-	-	-	-	-	-	18,733	(18,733)	-	-	-	-
Balance at June 30, 2012	31,019,906	$253,216	2,503	$1	28,000	$424	$-	$(63,835)	$(277,669)	$(55)	$(4,130)	$(

See notes to the unaudited condensed consolidated financial statements.

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MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(thousands of United States dollars, unless otherwise stated)

1. Basis of Presentation

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

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

These statements should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 31, 2011.

Effective June 30, 2012, one of the Company’s operating subsidiaries, a start-up called The Bull-Whitehouse, LLC has been deemed a discontinued operation.

In addition, the Company discontinued a division of Redscout, LLC called “Redscout Ventures”.

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

2. Significant Accounting Policies

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

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

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

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

- Level 1 — Quoted prices for identical instruments in active markets.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations where inputs are observable or where significant value drivers are observable.
- Level 3 — Instruments where significant value drivers are unobservable to third parties.

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

Concentration of Credit Risk. The Company provides marketing communications services to clients who operate in most industry sectors. Credit is granted to qualified clients in the ordinary course of business. Due to the diversified nature of the Company's client base, the Company does not believe that it is exposed to a concentration of credit risk; the Company did not have a client that accounted for more than 10% of the Company's consolidated accounts receivable at June 30, 2012 or December 31, 2011. Furthermore, the Company did not have a client that accounted for more than 10% of the Company's revenue for the three and six months ended June 30, 2012 or for the three and six months ended June 30, 2011.

Cash and Cash Equivalents. The Company's cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. The Company has a concentration risk in that there are cash deposits in excess of federally insured amounts. Included in cash and cash equivalents at June 30, 2012 and December 31, 2011, is approximately $46 and $46, respectively, of cash restricted as to withdrawal pursuant to a collateral agreement and a customer's contractual requirements.

Business Combinations. Valuation 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. Consistent with the acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed from 2009 to 2012 included an initial payment at the time of closing and provide for future additional contingent purchase price payments. Contingent payments for these transactions, as well as certain acquisitions completed in prior years, are derived using the performance of the acquired entity and are based on pre-determined formulas. Contingent purchase price obligations for acquisitions completed prior to January 1, 2009 are accrued when the contingency is resolved and payment is certain. Contingent purchase price obligations related to acquisitions completed subsequent to December 31, 2008 are recorded as liabilities at estimated value and are remeasured at each reporting period and changes in estimated value are recorded in results of operations. For the three and six months ended June 30, 2012, $3,967 and $6,495 of expense was recognized related to changes in estimated value, respectively. For the three and six months ended June 30, 2011, $2,000 of expense and $977 of income has been recorded in operating income, respectively. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests are recorded as Redeemable Noncontrolling Interests. As of January 1, 2009, the Company expenses acquisition related costs in accordance with the Accounting Standard's Codification's guidance on acquisition accounting. For the three and six months ended June 30, 2012, $930 and $1,670 of acquisition related costs have been charged to operations. For the three and six months ended June 30, 2011, $644 and $1,641 of acquisition related costs have been charged to operations, respectively.

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

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

The Company has recorded its put options as mezzanine equity at their current estimated redemption amounts. The Company accrues changes in the redemption amounts over the period from the date of issuance to the earliest redemption date of the put options. The Company accounts for the put options with a charge to noncontrolling interests to reflect the excess, if any, of the estimated exercise price over the estimated fair value of the noncontrolling interest shares at the date of the option being exercised. For the six months ended June 30, 2012 and 2011, there have been no charges to noncontrolling interests. Changes in the estimated redemption amounts of the put options are adjusted at each reporting period with a corresponding adjustment to equity. These adjustments will not impact the calculation of earnings per share.

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(thousands of United States dollars, unless otherwise stated)

2. Significant Accounting Policies – (continued)

The following table presents changes in Redeemable Noncontrolling Interests.

	Six Months Ended June 30,	
	2012	2011
Beginning Balance as of December 31,	$107,432	$77,560
Redemptions	(7,622)	(5,754)
Granted	4,189	9,036
Changes in redemption value	(838)	7,475
Currency Translation Adjustments	(367)	916
Ending Balance as of June 30,	$102,794	$89,233

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

The Company has determined that it is the primary beneficiary because MDC receives a disproportionate share of profits and losses as compared to the Company’s ownership percentage. Total assets and total liabilities of Doner included in the Company’s consolidated balance sheet at June 30, 2012 were $216,145 and $187,118, respectively.

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

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

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

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(thousands of United States dollars, unless otherwise stated)

2. Significant Accounting Policies – (continued)

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

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

Interest Expense. Interest expense primarily consists of the cost of borrowing on the revolving credit facility and the 11% Senior Notes. The Company uses the effective interest method to amortize the original issue discount and original issue premium on the 11% Senior Notes. At June 30, 2012 and December 31, 2011, $8 and $232 was amortized, respectively, net of amortized premium of $652 and $943, respectively. The Company amortizes deferred financing costs using the effective interest method over the life of the 11% Senior Notes and straight line over the life of the revolving credit facility. The total net deferred financing costs, included in Other Assets on the balance sheet, as of June 30, 2012 and December 31, 2011 was $10,746 and $11,715, net of accumulated amortization of $4,611 and $3,526, respectively. During the six months of 2012, the Company recorded $116 of deferred financing costs primarily relating to the 2012 amendment of the revolving credit facility.

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

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. The Company uses the “simplified” method to determine the term of the award due to the fact that historical share option exercise experience does not provide a reasonable basis upon which to estimate the expected term.

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

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

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

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

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

During the six months ended June 30, 2012, the Company issued 875,727 restricted stock units (“RSUs”) to its employees and directors. The RSUs have an aggregate grant date fair value of $11,142 and generally vest on the third anniversary date with certain awards subjected to accelerated vesting based on the financial performance of the Company.

A total of 699,736 Class A shares of restricted stock, granted to employees as equity incentive awards, are included in the Company’s calculation of Class A shares outstanding as of June 30, 2012.

3 . Income (Loss) Per Common Share

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Numerator				
Numerator for basic income (loss) per common share - loss from continuing operations	$(16,822)	$4,171	$(41,120)	$(2,333)
Net income attributable to the noncontrolling interests	(1,605)	(2,527)	(3,035)	(4,132)
Income (loss) attributable to MDC Partners Inc. common shareholders from continuing operations	(18,427)	1,644	(44,155)	(6,465)
Effect of dilutive securities	—	—	—	—
Numerator for diluted income (loss) per common share – loss attributable to MDC Partners Inc. common shareholders from continuing operations	$(18,427)	$1,644	$(44,155)	$(6,465)
Denominator				
Denominator for basic income (loss) per common share – adjusted weighted shares	30,872,050	29,016,384	30,380,991	28,952,182
Effect of dilutive securities	—	3,285,338	—	—
Denominator for diluted income (loss) per common share - adjusted weighted shares	30,872,050	32,301,722	30,380,991	28,952,182
Basic income (loss) per common share from continuing operations attributable to MDC Partners Inc.	$(0.60)	$0.06	$(1.45)	$(0.22)
Diluted income (loss) per common share from continuing operations attributable to MDC Partners Inc.	$(0.60)	$0.05	$(1.45)	$(0.22)

During the six months ended June 30, 2012, options and other rights to purchase 4,045,110 shares of common stock, which includes 875,030 shares of non-vested restricted stock and restricted stock units, were outstanding and were not included in the computation of diluted income per common share because their effect would be antidilutive.

During the six months ended June 30, 2011, options and other rights to purchase 5,374,941 shares of common stock, which includes 2,104,380 shares of non-vested restricted stock, were outstanding but were not included in the computation of diluted income per common share because their effect would be antidilutive.

4.Acquisitions

Pro forma financial information has not been presented for the 2012 acquisitions noted below since they did not have a material effect on the Company's operating results. Included in the Company's consolidated statement of operations for the three and six months ended June 30, 2012 was revenue of $28,515 and $30,463, respectively, and net income of $1,333 and $1,051, respectively, related to 2012 acquisitions. The Company assumed cash of $57,833, accounts receivable of $60,568, and accounts payable and accrued liabilities of $111,358.

2012 Acquisitions

During 2012, the Company completed a number of transactions. Effective March 28, 2012, MDC invested in Doner Partners LLC (“Doner”). The Company acquired a 30% voting interest and a convertible preferred interest that allows the Company to increase ordinary voting ownership to 70% at MDC’s option, at no additional cost to the Company. Doner is a full service integrated creative agency. In addition, the Company acquired a 70% interest in TargetCast LLC (“TargetCast”). TargetCast is a full service media agency that expands our media strategy and activation offerings. The Company acquired a 51% interest in Dotbox LLC (“Dotbox”). The Dotbox acquisition forms the foundation for a potential e-commerce solution within the network. Doner and Dotbox are now included in the Company’s Strategic Marketing Services segment, while TargetCast is included in the Company’s Performance Marketing Group segment. During the 6 months, the Company also entered into immaterial transactions with certain majority owned entities.

The aggregate purchase price for these transactions has an estimated present value at acquisition date of $96,475 and consisted of total closing cash payments of $21,288, and additional contingent deferred acquisition consideration that are based on the financial results of the underlying businesses from 2011 to 2018 with final payments due in 2018 with an estimated present value at acquisition date of $75,187. During the quarter ended June 30, 2012, the Company paid $1,500 relating to deferred acquisition consideration and $4,000 relating to a working capital payment. An allocation of excess purchase price consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $21,581 consisting primarily of customer lists and covenants not to compete, and goodwill of $131,985 representing the value of assembled workforce. The identified assets will be amortized from a five to seven year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded $42,631 as the present value of noncontrolling interest. The Company also recorded an entry of $422 to reduce short term noncontrolling included in accrued and other liabilities, increase redeemable noncontrolling interest by $142 and an offset to additional paid-in-capital of $3,501. The intangibles and goodwill are tax deductible.

The actual adjustments that the Company will ultimately make in finalizing the allocation of purchase price to fair value of the net assets acquired will depend on a number of factors, including additional information such as changes in the unaudited financial statements.

2011 Acquisitions

Pro forma financial information has not been presented for the 2011 acquisitions noted below since they did not have a material effect on the Company’s operating results. Included in the Company’s consolidated statement of operations for the year ended December 31, 2011 was revenue of $68,869 and a net loss of $7,219 related to the 2011 acquisitions. The Company assumed accounts receivable of $35,200 and accounts payable of $65,718 as of the acquisition dates.

During 2011, the Company completed a number of acquisitions. The Company, through a wholly-owned subsidiary, acquired substantially all of the assets of RJ Palmer LLC and a 75% interest in Trade X Partners LLC ("Trade X"). These acquisitions expand the Company's portfolio with another full service media buying agency as well as provide corporate bartering services to clients and are included in the Performance Marketing Services segment. The Company also entered into a transaction through its subsidiary Kwittken PR LLC ("Kwittken") which acquired 100% of Epoch PR Limited. Epoch is a communications and PR agency and expands Kwittken's capabilities to London and is included in the Strategic Marketing Services segment. The Company also acquired a 51% interest in AIC Publishing Services LP ("AIC. The Company, through a wholly-owned subsidiary, purchased a 70% interest in Concentric Partners, LLC ("Concentric") and a 65% interest in Laird + Partners, New York LLC ("Laird"). The Concentric acquisition is expected to serve as the foundation of the Company's healthcare platform. The Laird acquisition increases the Company's positioning in the luxury goods and retail marketplace. Concentric and Laird are now included in the Company's Strategic Marketing Services segment. The Company, through a wholly-owned subsidiary, purchased 60% of the total outstanding membership interests in Anomaly Partners, LLC ("Anomaly"). This acquisition expands the Company's portfolio with another creatively driven agency brand with an international presence. Anomaly is now included in the Company's Strategic Marketing Services segment. The company also completed a number of immaterial transactions with certain majority owned entities.

The aggregate purchase price for these transactions has an estimated present value at acquisition date of $107,575 and consisted of total closing cash payments of $44,953, and additional contingent deferred acquisition consideration, that are based on actual financial results of the underlying businesses from 2011 to 2016 with final payments due in 2017 with an estimated present value at acquisition date of $62,622. During 2011, the Company paid $2,426 of working capital payments. An allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $13,639 consisting primarily of customer lists and covenants not to compete, and goodwill of $85,463 representing the value of assembled workforce. The identified intangible assets will be amortized from a five to eight year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. The intangibles and goodwill of $69,359 are tax deductible. In addition, the Company has recorded $14,172, the present value of redeemable noncontrolling interest in relation to Anomaly, Laird, and Trade X. Also, the Company has recorded $6,706, the present value of noncontrolling interest in relation to AIC and Concentric. The founder of Trade X and remaining principals at Anomaly and Laird have the put option rights only upon termination without cause, disability, or death. In relation to the step up transactions, the Company also recorded an entry to reduce redeemable noncontrolling interest by $7,922 and additional paid-in-capital of $7,475.

The actual adjustments that the Company will ultimately make in finalizing the allocation of purchase price to fair value of the net assets acquired, will depend on a number of factors, including additional information such as changes in the unaudited financial statements.

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

Transfers (to) from the Noncontrolling Interest

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss) attributable to MDC Partners Inc.	$ (20,114)	$ 1,323	$ (46,395)	$ (7,360)
Transfers to the noncontrolling interest:				
Increase (decrease) in MDC Partners Inc. paid-in capital for purchase of equity interests in excess of Redeemable Noncontrolling Interests	(1,977)	504	(3,240)	504
Decrease in MDC Partners Inc. paid-in capital from issuance of equity interest	$ —	$ (1,147)	$ —	$ (1,147)
Net transfers to (from) noncontrolling interest	$ (1,977)	$ (643)	$ (3,240)	$ (643)
Change from net income (loss) attributable to MDC Partners Inc. and transfers to noncontrolling interest	$ (22,091)	$ 680	$ (49,635)	$ (8,003)

5. Accrued and Other Liabilities

At June 30, 2012 and December 31, 2011, accrued and other liabilities included amounts due to noncontrolling interest holders, for their share of profits, which will be distributed within the next twelve months of $1,314 and $4,049, respectively.

Changes in noncontrolling interest amounts included in accrued and other liabilities for the year ended December 31, 2011 and six months ended June 30, 2012 were as follows:

	Noncontrolling Interests
Balance, December 31, 2010	$ 8,577
Income attributable to noncontrolling interests	7,754
Distributions made	(12,264)
Cumulative translation adjustments	(18)
Balance, December 31, 2011	$ 4,049
Income attributable to noncontrolling interests	3,035
Distributions made	(5,555)
Other (1)	(213)
Cumulative translation adjustments	(2)
Balance, June 30, 2012	$ 1,314

(1) Other primarily relates to step-up transactions and discontinued operations.

6. Discontinued Operations

In June 2012, the Company discontinued a start-up subsidiary, The Bull-Whitehouse, LLC. The results of operations for the three and six months ended June 30, 2012 was a loss of $616 and $695, respectively.

In June 2012, the Company also discontinued a division of Redscout LLC, called Redscout Ventures. The results of operations for the three months ended June 30, 2012 and 2011 was a loss of $409 and $179, respectively. The results of operations for the six months ended June 30, 2012 and 2011 was a loss of $585 and $429, respectively.

In December 2011, the Company discontinued a division of Accent Marketing Services, LLC, called Performance Marketing Group. As a result, the Company has classified this entity's results of operations as as discontinued operations. The results of operations for the three months ended June 30, 2012 and 2011 was a loss of $660 and $142, respectively. The results of operations for the six months ended June 30, 2012 and 2011 was a loss of $960 and $466, respectively.

Included in discontinued operations in the Company’s consolidated statements of operations for the three and six months ended June 30, 2012 and 2011 was the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue	$ 2,286	$ 2,456	$ 4,670	$ 4,869
Operating loss	$ (1,745)	$ (311)	$ (2,349)	$ (877)
Other income (expense) (1)	$ 58	$ (10)	$ 109	$ (18)
Net loss from discontinued operations attributable to MDC Partners Inc., net of taxes	$ (1,687)	$ (321)	$ (2,240)	$ (895)

(1) Includes loss attributable to noncontrolling interests.

7. Short-Term Debt, Long-Term Debt and Convertible Notes

Debt consists of:

	June 30, 2012	December 31, 2011
Revolving credit facility	$124,086	$ 38,032
11% Senior Notes due 2016	345,000	345,000
Original issue discount	(553)	(561)
Notes payable and other bank loans	1,426	1,266
	469,959	383,737
Obligations under capital leases	1,436	1,437
	471,395	385,174
Current portion	1,267	1,238
Long term portion	$470,128	$ 383,936

MDC Financing Agreement and Senior Notes

Issuance of 11% Senior Notes

On October 23, 2009, the Company and its wholly-owned subsidiaries, as guarantors, issued and sold $225,000 aggregate principal amount of 11% Notes due 2016 (the “11% Notes”). The 11% Notes bear interest at a rate of 11% per annum, accruing from October 23, 2009. Interest is payable semiannually in arrears in cash on May 1 and November 1 of each year, beginning on May 1, 2010. The 11% Notes will mature on November 1, 2016, unless earlier redeemed or repurchased. The Company received net proceeds before expenses of $208,881, which included an original issue discount of approximately 4.7% or $10,494, and underwriter fees of $5,624. The 11% Notes were sold in a private placement in reliance on exemptions from registration under the Securities Act of 1933, as amended. The Company used the net proceeds of this offering to repay the outstanding balance and terminate its prior Fortress Financing Agreement, and redeemed its outstanding 8% C$45,000 convertible debentures on November 26, 2009.

On May 14, 2010, the Company and its wholly-owned subsidiaries, as guarantors, issued and sold an additional $65,000 aggregate principal amount of 11% Notes due 2016. The additional notes were issued under the Indenture governing the 11% notes and treated as a single series with the original 11% notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of $67,208, which included an original issue premium of $2,600, and underwriter fees of $392. The Company used the net proceeds of the offering to repay the outstanding balance under the Company's revolving credit facility described elsewhere herein, and for general corporate purposes, including acquisitions.

On April 19, 2011, the Company and its wholly-owned subsidiaries, as guarantors, issued and sold an additional $55,000 aggregate principal amount of 11% Notes due 2016. The additional notes were issued under the Indenture governing the 11% Notes and treated as a single series with the original 11% Notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of $59,580, which included an original issue premium of $6,050, and underwriter fees of $1,470. The Company used the net proceeds of the offering to repay the outstanding balance under the Company's revolving credit facility described elsewhere herein, and for general corporate purposes.

The Company may, at its option, redeem the 11% Notes (including the additional notes) in whole at any time or in part, on and after November 1, 2013 at a redemption price of 105.500% of the principal amount thereof. If redeemed during the twelve-month period beginning on November 1, 2014, at a redemption price of 102.750% of the principal amount thereof or if redeemed during the twelve-month period beginning on or after November 1, 2015 at a redemption price of 100% of the principal amount thereof. Prior to November 1, 2013, the Company may, at its option, redeem some or all of the 11% Notes at a price equal to 100% of the principal amount of the Notes plus a "make whole" premium and accrued and unpaid interest. The Company may also redeem, at its option, prior to November 1, 2012, up to 35% of the 11% Notes with the proceeds from one or more equity offerings at a redemption price of 111% of the principal amount thereof. If the Company experiences certain kinds of changes of control (as defined in the Indenture), holders of the 11% Notes may require the Company to repurchase any 11% Notes held by them at a price equal to 101% of the principal amount of the 11% Notes plus accrued and unpaid interest. The indenture governing the 11% Notes contains certain events of default and restrictive covenants which are customary with respect to non-investment grade debt securities, including limitations on the incurrence of additional indebtedness, dividends, sales of assets and transactions with affiliates.

At June 30, 2012, the Company had issued $5,204 of undrawn outstanding Letters of Credit.

At June 30, 2012 and December 31, 2011, accounts payable included $30,473 and $3,350 of outstanding checks, respectively.

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(thousands of United States dollars, unless otherwise stated)

7. Short-Term Debt, Long-Term Debt and Convertible Notes – (continued)

Credit Agreement

On October 23, 2009, the Company and its subsidiaries entered into a $75,000 five year senior secured revolving credit agreement (the "WF Credit Agreement") with Wells Fargo Capital Finance, LLC (formerly Wells Fargo Foothill, LLC), as agent, and the lenders from time to time party thereto. On November 22, 2010, this agreement was amended to increase the availability under the facility to $100,000. On April 29, 2011, the Company entered into an additional amendment to increase the availability under the facility to $150,000 and extend the maturity date to October 23, 2015. The WF Credit Agreement replaced the Company's prior $185,000 senior secured financing agreement with Fortress Credit Corp., as collateral agent, and Wells Fargo Foothill, Inc., as administrative agent. Advances under the WF 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 applicable margin for borrowing at June 30, 2012 is 2.25% in the case of Base Rate Loans and 2.50% in the case of LIBOR Rate Loans. In addition to paying interest on outstanding principal under the WF Credit Agreement, the Company is required to pay an unused revolver fee to the lender under the WF Credit Agreement in respect of unused commitments thereunder.

On July 27, 2012, the Company entered into a further amendment to the WF Credit Agreement. This most recent amendment provides that the Company's Total Leverage Ratio (as defined), measured on a quarter-end basis, must be no greater than (i) 4.25x, for the twelve-month period ending June 30, 2012, and (ii) 4.0x, for the twelve-month period ending September 30, 2012 and for the twelve-month period ending on the last day of each calendar quarter thereafter.

The WF Credit Agreement is guaranteed by all of the Company's present and future subsidiaries, other than immaterial subsidiaries (as defined) and is secured by all of the assets of the Company. The WF Credit Agreement includes covenants that, among other things, restrict the Company'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 the Company'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 the Company's assets to, another person. These covenants are subject to a number of important limitations and exceptions. The WF Credit Agreement also contains financial covenants, including a senior leverage ratio, a total leverage ratio, a fixed charge coverage ratio, a minimum receivables level, and a minimum earnings level, as defined.

The Company is currently in compliance with all of the terms and conditions of its WF 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 June 30, 2012, the weighted average interest rate under the WF Credit Agreement was 4.7%.

8. Fair Value Measurements

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

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

- *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- *Level 2:* Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- *Level 3:* Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

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

The following tables present certain information for our financial liabilities that is disclosed at fair value on a recurring basis at June 30, 2012 and 2011:

	Level 1		Level 1	
	June 30, 2012		June 30, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
11% Notes due 2016	$344,447	$376,050	$344,450	$386,400

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

The following table presents changes in Deferred Acquisition Consideration.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	June 30,	
	2012	2011
Beginning Balance of contingent payments	$129,759	$98,534
Payments	(35,999)	(24,131)
Grants	65,700	9,784
Redemption value adjustments	6,711	(550)
Foreign translation adjustment	16	370
Ending Balance of contingent payments	$166,187	$84,007

In addition to the above amounts, there are fixed payments of $7,137 and $6,760 for total deferred acquisition consideration of $173,324 and $90,767, which reconciles to the consolidated financial statements at June 30, 2012 and 2011, respectively.

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

At June 30, 2012 and December 31, 2011, the carrying amount of the Company’s financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximated fair value because of their short-term maturity.

9. Other Income (Expense)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Other income (expense)	$ 21	$ 19	$ 16	$ 91
Foreign currency gain (loss)	197	429	(844)	671
Gain (loss) on sale of assets	(4)	—	19	—
	$ 214	$ 448	$ (809)	$ 762

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10. Segment Information

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

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

The Company reports in two segments plus corporate. The segments are as follows:

- The *Strategic Marketing Services* segment includes 72andSunny, Anomaly Partners, Crispin Porter & Bogusky, Doner and kirshenbaum bond senecal + partners among others. This segment consists of integrated marketing consulting services firms that offer a full complement of marketing consulting services including advertising and media, marketing communications including direct marketing, public relations, corporate communications, market research, corporate identity and branding, interactive marketing, ecommerce and sales promotion. Each of the entities within the Strategic Marketing Services Group share similar economic characteristics, specifically related to the nature of their respective services, the manner in which the services are provided and the similarity of their respective customers. Due to the similarities in these businesses, they exhibit similar long term financial performance and have been aggregated together.

- The *Performance Marketing Services* segment includes our firms that provide consumer insights to satisfy the growing need for targetable, measurable solutions or cost effective means of driving return on marketing investment. These services interface directly with the consumer of a client's product or service. Such services include the design, development, research and implementation of consumer media services and direct marketing initiatives. Each of the entities within the Performance Marketing Services Group share similar economic characteristics specifically related to the nature of their respective services, the manner in which the services are provided, and the similarity of their respective customers. Due to the similarities in these businesses, the services provided to the customer and they exhibit similar long term financial performance and have been aggregated together.

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

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

Three Months Ended June 30, 2012

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$ 183,750	$ 90,352	$ —	$ 274,102
Cost of services sold	122,285	66,644	—	188,929
Office and general expenses	39,557	17,713	16,975	74,245
Depreciation and amortization	8,828	4,488	329	13,645
Operating Profit/(Loss)	13,080	1,507	(17,304)	(2,717)
Other Income (Expense):				
Other income, net				214
Interest expense, net				(11,809)
Loss from continuing operations before income taxes, equity in affiliates				(14,312)
Income tax expense				2,544
Loss from continuing operations before equity in affiliates				(16,856)
Equity in earnings of non-consolidated affiliates				34
Loss from continuing operations				(16,822)
Loss from discontinuing operations attributable to MDC Partners Inc., net of taxes				(1,687)
Net loss				(18,509)
Net income attributable to the noncontrolling interests	(1,353)	(252)	—	(1,605)
Net loss attributable to MDC Partners Inc.				$ (20,114)
Non cash stock based compensation	$ 1,967	$ 1,887	$ 11,499	$ 15,353

Supplemental Segment Information:

Capital expenditures	$ 2,447	$ 1,905	$ 87	$ 4,439

Three Months Ended June 30, 2011

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$ 154,957	$ 83,063	$ —	$ 238,020
Cost of services sold	99,099	61,979	—	161,078
Office and general expenses	27,625	14,280	10,603	52,508
Depreciation and amortization	5,182	4,270	117	9,569
Operating Profit/(Loss)	23,051	2,534	(10,720)	14,865
Other Income (Expense):				
Other income, net				448
Interest expense, net				(10,633)
Income from continuing operations before income taxes, equity in affiliates				4,680
Income tax expense				588
Income from continuing operations before equity in affiliates				4,092
Equity in earnings of non-consolidated affiliates				79
Income from continuing operations				4,171
Loss from discontinuing operations attributable to MDC Partners Inc., net of taxes				(321)
Net income				3,850
Net income attributable to the noncontrolling interests	(2,335)	(192)	—	(2,527)
Net income attributable to MDC Partners Inc.				$ 1,323
Non cash stock based compensation	$ 176	$ 478	$ 5,121	$ 5,775
Supplemental Segment Information:				
Capital expenditures	$ 2,620	$ 789	$ 32	$ 3,441

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Six Months Ended June 30, 2012

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$ 343,846	$ 165,912	$—	$ 509,758
Cost of services sold	241,838	124,051	—	365,889
Office and general expenses	74,197	35,174	24,908	134,279
Depreciation and amortization	13,925	9,042	677	23,644
Operating Profit/(Loss)	13,886	(2,355)	(25,585)	(14,054)
Other Income (Expense):				
Other income, net				(809)
Interest expense, net				(22,756)
Loss from continuing operations before income taxes, equity in affiliates				(37,619)
Income tax expense				3,807
Loss from continuing operations before equity in affiliates				(41,426)
Equity in earnings of non-consolidated affiliates				306
Loss from continuing operations				(41,120)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(2,240)
Net loss				(43,360)
Net income attributable to the noncontrolling interests	(2,453)	(582)	—	(3,035)
Net loss attributable to MDC Partners Inc.				$ (46,395)
Non cash stock based compensation	$ 3,833	$ 3,578	$ 13,826	$ 21,237
Supplemental Segment Information:				
Capital expenditures	$ 5,134	$ 4,229	$ 187	$ 9,550
Goodwill and intangibles	$ 543,134	$ 258,868	$—	$ 802,002
Total Assets	$ 835,564	$ 429,899	$ 127,974	$ 1,393,437

Six Months Ended June 30, 2011

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$ 296,450	$ 156,661	$ —	$ 453,111
Cost of services sold	199,660	118,971	—	318,631
Office and general expenses	54,778	24,845	17,309	96,932
Depreciation and amortization	10,989	8,662	221	19,872
Operating Profit/(Loss)	31,023	4,183	(17,530)	17,676
Other Income (Expense):				
Other income, net				762
Interest expense, net				(20,159)
Loss from continuing operations before income taxes, equity in affiliates				(1,721)
Income tax expense				946
Loss from continuing operations before equity in affiliates				(2,667)
Equity in earnings of non-consolidated affiliates				334
Loss from continuing operations				(2,333)
Loss from discontinuing operations attributable to MDC Partners Inc., net of taxes				(895)
Net loss				(3,228)
Net income attributable to the noncontrolling interests	(3,978)	(154)	—	(4,132)
Net loss attributable to MDC Partners Inc.				$ (7,360)
Non cash stock based compensation	$ 1,723	$ 983	$ 7,343	$ 10,049
Supplemental Segment Information:				
Capital expenditures	$ 6,353	$ 1,721	$ 230	$ 8,304
Goodwill and intangibles	$ 390,835	$ 215,826	$ —	$ 606,661
Total assets	$ 578,419	$ 332,092	$ 42,408	$ 952,919

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

	United States	**Canada**	**Other**	**Total**
Revenue				
Three Months Ended June 30,				
2012	$223,514	$38,284	$12,304	$274,102
2011	$189,213	$40,330	$8,477	$238,020
Six Months Ended June 30,				
2012	$411,379	$74,722	$23,657	$509,758
2011	$361,122	$75,469	$16,520	$453,111

11. Commitments, Contingencies and Guarantees

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

Put Options. Owners of interests in certain subsidiaries have the right in certain circumstances to require the Company to acquire the remaining ownership interests held by them. The owners' ability to exercise any such "put option" right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise. In addition, these rights cannot be exercised prior to specified staggered exercise dates. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund the related amounts during the period 2012 to 2019. It is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights.

The amount payable by the Company in the event such rights are exercised is dependent on various valuation formulas and on future events, such as the average earnings of the relevant subsidiary through the date of exercise, the growth rate of the earnings of the relevant subsidiary during that period, and, in some cases, the currency exchange rate at the date of payment.

Management estimates, assuming that the subsidiaries owned by the Company at June 30, 2012, 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 $23,917 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 $2,784 by the issuance of share capital. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately $78,877 only upon termination of such owner’s employment with the applicable subsidiary or death. Included in redeemable noncontrolling interests at June 30, 2012 is $102,794 of these put options because they are not within the control of the Company. The ultimate amount payable relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised.

Natural Disasters. Certain of the Company’s operations are located in regions of the United States and Caribbean which typically are subject to hurricanes. During the three and six months ended June 30, 2012 and 2011, these operations did not incur any costs related to damages resulting from hurricanes.

Guarantees. The Company has provided customary representations and warranties whose terms range in duration and may not be explicitly defined. The Company has also retained certain liabilities for events occurring prior to sale, relating to tax, environmental, litigation and other matters. Generally, the Company has indemnified the purchasers in the event that a third party asserts a claim against the purchaser that relates to a liability retained by the Company. These types of indemnification guarantees typically extend for a number of years.

Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees. The Company continues to monitor the conditions that are subject to guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under any guarantees or indemnifications in the period when those losses are probable and estimable.

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

Commitments. The Company has commitments to fund $2,767 of investments. At June 30, 2012, the Company had issued $5,204 of undrawn outstanding letters of credit.

12. New Accounting Pronouncements

On January 1, 2012, FASB Accounting Standards Update No. 2011-08, Testing Goodwill for Impairment ("ASU 2011-08") became effective. This standard gives an entity the option of performing a qualitative assessment to determine whether it is necessary to perform step 1 of the annual goodwill impairment test. An entity is required to perform step 1 only if it concludes that it is more likely than not that a reporting unit's fair value is less than its carrying amount. An entity may choose to perform the qualitative assessment on none, some or all of its reporting units or an entity may bypass the qualitative assessment for any reporting unit in any period and proceed directly to step 1 of the impairment test. We perform our annual impairment test at the beginning of the fourth quarter of each year.

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

Unless otherwise indicated, references to the "Company" mean MDC Partners Inc. and its subsidiaries, and references to a fiscal year means the Company's year commencing on January 1 of that year and ending December 31 of that year (e.g., fiscal 2012 means the period beginning January 1, 2012, and ending December 31, 2012).

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

The following discussion focuses on the operating performance of the Company for the three and six months ended June 30, 2012 and 2011, and the financial condition of the Company as of June 30, 2012. 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, 2011 as reported on Form 10-K. All amounts are in U.S. dollars unless otherwise stated.

Executive Summary

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

MDC manages the business by monitoring several financial and non-financial performance indicators. The key indicators that we review focus on the areas of revenues and operating expenses, which results in earnings before interest, income taxes and depreciation and amortization ("EBITDA") and capital expenditures. Revenue growth is analyzed by reviewing the components and mix of the growth, including: growth by major geographic location; existing growth by major reportable segment (organic); growth from currency changes; and growth from acquisitions.

MDC conducts its businesses through the Marketing Communications Group. Within the Marketing Communications Group, there are two reportable operating segments: Strategic Marketing Services and Performance Marking Services. In addition, MDC has a "Corporate Group" which provides certain administrative, accounting, financial, human resources and legal functions. Through our operating "partners", MDC provides advertising, consulting, customer relationship management, and specialized communication services to clients throughout the United States, Canada, Europe, and the Caribbean.

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

MDC measures operating expenses in two distinct cost categories: cost of services sold, and office and general expenses. Cost of services sold is primarily comprised of employee compensation related costs and direct costs related primarily to providing services. Office and general expenses are primarily comprised of rent and occupancy costs and administrative service costs including related employee compensation costs. Also included in operating expenses is depreciation and amortization.

Because we are a service business, we monitor these costs on a percentage of revenue basis. Cost of services sold tends to fluctuate in conjunction with changes in revenues, whereas office and general expenses and depreciation and amortization, which are not directly related to servicing clients, tend to decrease as a percentage of revenue as revenues increase because a significant portion of these expenses are relatively fixed in nature. We also monitor the resulting EBITDA generated to assist in determining where investment needs to be made.

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

Certain Factors Affecting Our Business

Overall Factors Affecting our Business and Results of Operations. The most significant factors include national, regional and local economic conditions, our clients' profitability, mergers and acquisitions of our clients, changes in top management of our clients and our ability to retain and attract key employees. New business wins and client losses occur for of a variety of factors. The two most significant factors are; clients' desire to change marketing communication firms, and the creative product our firms are offering. A client may choose to change marketing communication firms for any number of reasons, such as a change in top management and the new management wants to go retain an agency that it may have previously worked with. In addition, if the client is merged or acquired by another company, the marketing communication firm is often changed. Further, global clients are trending to consolidate the use of numerous marketing communication firms to just one or two. Another factor in a client changing firms is the agency's campaign or work product is not providing results and they feel a change is in order to generate additional revenues.

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

Acquisitions and Dispositions. Our strategy includes acquiring ownership stakes in well-managed businesses with strong reputations in the industry. We engaged in a number of acquisition and disposal transactions during the 2009 to 2012 period, which affected revenues, expenses, operating income and net income. Additional information regarding material acquisitions is provided in Note 4 "Acquisitions" and information on dispositions is provided in Note 6 "Discontinued Operations" in the Notes to the Unaudited Condensed Consolidated Financial Statements.

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

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

Results of Operations:

Three Months Ended June 30, 2012

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$ 183,750	$ 90,352	$ —	$ 274,102
Cost of services sold	122,285	66,644	—	188,929
Office and general expenses	39,557	17,713	16,975	74,245
Depreciation and amortization	8,828	4,488	329	13,645
Operating Profit/(Loss)	13,080	1,507	(17,304)	(2,717)
Other Income (Expense):				
Other income, net				214
Interest expense, net				(11,809)
Loss from continuing operations before income taxes, equity in affiliates				(14,312)
Income tax expense				2,544
Loss from continuing operations before equity in affiliates				(16,856)
Equity in earnings of non-consolidated affiliates				34
Loss from continuing operations				(16,822)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(1,687)
Net loss				(18,509)
Net income attributable to the noncontrolling interests				(1,605)
Net loss attributable to MDC Partners Inc.				$ (20,114)
Non cash stock based compensation	$ 1,967	$ 1,887	$ 11,499	$ 15,353

For the Three Months Ended June 30, 2011

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$ 154,957	$ 83,063	$ —	$ 238,020
Cost of services sold	99,099	61,979	—	161,078
Office and general expenses	27,625	14,280	10,603	52,508
Depreciation and amortization	5,182	4,270	117	9,569
Operating Profit/(Loss)	23,051	2,534	(10,720)	14,865
Other Income (Expense):				
Other income, net				448
Interest expense, net				(10,633)
Loss from continuing operations before income taxes, equity in affiliates				4,680
Income tax expense				588
Income from continuing operations before equity in affiliates				4,092
Equity in earnings of non-consolidated affiliates				79
Income from continuing operations				4,171
Loss from discontinued operations attributable to MDC Partners Inc. net of taxes				(321)
Net income				3,850
Net income attributable to the noncontrolling interests	(2,335)	(192)	—	(2,527)
Net income attributable to MDC Partners Inc.				$ 1,323
Non cash stock based compensation	$ 176	$ 478	$ 5,121	$ 5,775

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For the Six Months Ended June 30, 2012

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$ 343,846	$ 165,912	$ —	$ 509,758
Cost of services sold	241,838	124,051	—	365,889
Office and general expenses	74,197	35,174	24,908	134,279
Depreciation and amortization	13,925	9,042	677	23,644
Operating Profit/(Loss)	13,886	(2,355)	(25,585)	(14,054)
Other Income (Expense):				
Other income, net				(809)
Interest expense, net				(22,756)
Loss from continuing operations before income taxes, equity in affiliates				(37,619)
Income tax expense				3,807
Loss from continuing operations before equity in affiliates				(41,426)
Equity in earnings of non-consolidated affiliates				306
Loss from continuing operations				(41,120)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(2,240)
Net loss				(43,360)
Net income attributable to the noncontrolling interests	(2,453)	(582)	—	(3,035)
Net loss attributable to MDC Partners Inc.				$ (46,395)
Non cash stock based compensation	$ 3,833	$ 3,578	$ 13,826	$ 21,237

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For the Six Months Ended June 30, 2011

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$ 296,450	$ 156,661	$ —	$ 453,111
Cost of services sold	199,660	118,971	—	318,631
Office and general expenses	54,778	24,845	17,309	96,932
Depreciation and amortization	10,989	8,662	221	19,872
Operating Profit/(Loss)	31,023	4,183	(17,530)	17,676
Other Income (Expense):				
Other income, net				762
Interest expense, net				(20,159)
Loss from continuing operations before income taxes, equity in affiliates				(1,721)
Income tax expense				946
Loss from continuing operations before equity in affiliates				(2,667)
Equity in earnings of non-consolidated affiliates				334
Loss from continuing operations				(2,333)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(895)
Net loss				(3,228)
Net income attributable to the noncontrolling interests	(3,978)	(154)	—	(4,132)
Net loss attributable to MDC Partners Inc.				$ (7,360)
Non cash stock based compensation	$ 1,723	$ 983	$ 7,343	$ 10,049

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Three Months Ended June 30, 2012, Compared to Three Months Ended June 30, 2011

Revenue was $274.1 million for the quarter ended June 30, 2012, representing an increase of $36.1 million, or 15.2%, compared to revenue of $238.0 million for the quarter ended June 30, 2011. This revenue increase related primarily to acquisition growth of $21.9 million and organic growth of $19.8 million. In addition, a strengthening of the US Dollar, primarily versus the Canadian dollar during the quarter ended June 30, 2012, resulted in decreased revenues of $5.7 million.

The operating loss for the quarter ended June 30, 2012 was $2.7 million compared to an operating profit of $14.9 million for the quarter ended June 30, 2011. The decrease in operating profit was primarily the result of a decrease in operating profit of $10.0 million in the Strategic Marketing Services segment, a decrease of $1.0 million within the Performance Marketing Services segment, and an increase in corporate operating expense of $6.6 million.

The loss from continuing operations attributable to MDC Partners Inc. for the second quarter of 2012 was $18.4 million, compared to income of $1.6 million in 2011. This increase in loss of $20.1 million was primarily the result of a decrease in operating profits of $17.6 million, an increase in interest expense of $1.2 million and an increase in income tax expense of $2.0 million, a decrease in other income, net of $0.2 million, offset by a decrease in net income attributable to noncontrolling interests of $0.9 million.

Marketing Communications Group

Revenues in the second quarter of 2012 attributable to the Marketing Communications Group, which consists of two reportable segments — Strategic Marketing Services and Performance Marketing Services, were $274.1 million compared to $238.0 million in the second quarter of 2011, representing a year-over-year increase of 15.2%.

The components of the increase in revenue in 2012 are shown in the following table:

	Revenue **$ 000's**	%
Quarter ended June 30, 2011	$238,020	—
Organic	19,826	8.3 %
Acquisitions	21,906	9.2 %
Foreign exchange impact	(5,650)	(2.3)%
Quarter ended June 30, 2012	$274,102	15.2%

The geographic mix in revenues was consistent between the second quarter of 2012 and 2011 and is demonstrated in the following table:

	2012	2011
US	82 %	79 %
Canada	14 %	17 %
Other	4 %	4 %

The operating profit of the Marketing Communications Group decreased by approximately 43.0% to $14.6 million from $25.6 million. Operating margins decreased by 5.4% and were 5.3% for 2012 compared to 10.7% for 2011. The decrease in operating profit and operating margin was primarily due to increases in total staff costs, office and general expenses and depreciation and amortization offset by an increase in revenues and a decrease in direct costs. Direct costs (excluding staff costs) decreased as a percentage of revenues from 21.6% in 2011 to 17.7% in 2012. Total staff costs increased as a percentage of revenue from 52.2% in 2011 to 58.3% in 2012. Direct costs decreased as there were fewer pass-through costs incurred on the clients' behalf during the second quarter of 2012 where the company was acting as principal versus agent for certain client contracts. Total staff costs increased due to severance in 2012 and the impact of the Company's investment spending which occurred throughout 2011. Office and general expenses increased as a percentage of revenue from 17.6% in 2011 to 20.9% in 2012. This increase was primarily due to adjustments relating to deferred acquisition consideration, resulting in expense of 1.4% as a percentage of revenue in 2012 compared to 0.8% as a percentage of revenue in 2011 and an increase in non-cash stock based compensation related expenses from 0.3% as a percentage of revenue in 2011 to 1.4% as a percentage of revenue in 2012, due to charges relating from acquisitions and from certain entities which exceed expectations. Depreciation and amortization as a percentage of revenue increased from 4.0% in 2011 to 4.9% in 2012 due primarily to the additional acquisitions completed at the end of the first quarter of 2012.

Strategic Marketing Services

Revenues attributable to Strategic Marketing Services in the second quarter of 2012 were $183.8 million, compared to $155.0 million in the second quarter of 2011. The year-over-year increase of $28.8 million or 18.6% was attributable primarily to organic growth of $16.6 million as a result of net new business wins, and acquisition growth of $13.6 million. A strengthening of the US dollar versus the Canadian dollar in 2012 compared to 2011 resulted in a $1.4 million decrease in revenues from the division’s Canadian-based operations.

The operating profit of Strategic Marketing Services decreased by $10.0 million from $23.1 million in the second quarter of 2011 to $13.1 million in the second quarter of 2012. Operating margins decreased from 14.9% in the second quarter of 2011 to 7.1% in the second quarter of 2012. The decrease in operating profits and operating margins were primarily due to increases in total staff costs, office and general costs and depreciation and amortization offset by an increase in revenues and a decrease in direct costs. Direct costs (excluding staff labor) decreased as a percentage of revenue from 17.3% in the second quarter of 2011 to 13.9% in the second quarter of 2012. Direct costs decreased as there were fewer pass-through costs incurred on the clients’ behalf during the second quarter of 2012 where the company was acting as principal versus agent for certain client contracts. Total staff costs increased as a percentage of revenue from 52.4% in the second quarter of 2011 to 59.1% in the second quarter of 2012. Total staff costs increased due to severance in 2012 and the impact of the Company’s investment spending which occurred throughout 2011. Office and general expenses increased as a percentage of revenue from 17.8% in the second quarter of 2011 to 21.5% in the second quarter of 2012. The increase in office and general costs was primarily due to a $3.5 million increase in adjustments related to deferred acquisition consideration, and an increase in non cash stock based compensation related expenses from 0.1% as a percentage of revenue in 2011 to 1.1% as a percentage of revenue in 2012, due to charges relating from acquisitions. Depreciation and amortization as a percentage of revenue increased from 3.3% in 2011 to 4.8% in 2012, due primarily to the additional acquisitions completed at the end of the first quarter of 2012.

Performance Marketing Services

The Performance Marketing Services segment generated revenues of $90.4 million for the second quarter of 2012, an increase of $7.3 million, or 8.8% higher than revenues of $83.1 million in the second quarter of 2011. The year over year increase was attributed primarily to growth from acquisitions of $8.3 million, and organic revenue growth of $3.2 million, due to net new business wins. In addition, a strengthening of the US dollar verses the Canadian dollar in 2012 compared to 2011 resulted in a $4.2 million decrease in revenues from the division’s Canadian-based operations.

The operating profit of Performance Marketing Services decreased by $1.0 million, from income of $2.5 million in the second quarter of 2011 to $1.5 million in the second quarter of 2012. Operating margins decreased from 3.1% in 2011, to 1.7% in 2012. The decrease in operating profits and operating margins were primarily due to increases in total staff costs, office and general costs and depreciation and amortization offset by an increase in revenues and a decrease in direct costs. Direct costs (excluding staff labor) decreased as a percentage of revenue from 29.5% in 2011 to 25.4% in

2012. Direct costs decreased as there were fewer pass-through costs incurred on the clients' behalf during the second quarter of 2012 where the company was acting as principal versus agent for certain client contracts. Total staff costs increased as a percentage of revenue from 52.0% in 2011 to 56.7% in 2012. Total staff costs increased due to severance in 2012 and the impact of the Company's investment spending which occurred throughout 2012. Office and general costs increased as a percentage of revenue from 17.2% in 2011 to 19.6% in 2012. This increase was due to additional non cash stock based compensation related expenses from 0.6% as a percentage of revenue in 2011, to 2.1% as a percentage of revenue in 2012, due to charges relating from acquisitions. Offsetting this increase was a reduction in earn out costs from an expense of $1.0 million in 2011 to income of $0.5 million in 2012. Depreciation and amortization was consistent at approximately 5.0% as a percentage of revenue.

Corporate

Operating costs related to the Company's Corporate operations totaled $17.3 million in the second quarter of 2012 compared to $10.7 million in the second quarter of 2011. This increase of $6.6 million was primarily related to increased compensation and related expenses of $6.5 million, of which non-cash stock based compensation was $6.4 million. In addition, Corporate operations incurred $0.2 million in additional depreciation and amortization, and additional advertising and promotion costs were offset by decreases in occupancy costs, travel and entertainment and acquisition related costs.

Other Income, Net

Other income (expense) decreased to an income of $0.2 million in the second quarter of 2012 compared to an income of $0.4 million in the second quarter of 2011. The decrease was primarily related to a decrease in the unrealized foreign exchange gain. Specifically, this unrealized gain was due primarily to the fluctuation in the US dollar during 2012 and 2011 compared to the Canadian dollar primarily on the Company's US dollar denominated intercompany balances with its Canadian subsidiaries.

Net Interest Expense

Net interest expense for the second quarter of 2012 was $11.8 million, an increase of $1.2 million over the $10.6 million of net interest expense incurred during the second quarter of 2011. Interest expense increased in 2012 due to higher average outstanding debt in 2012.

Income Taxes

Income tax expense was $2.5 million in the second quarter of 2012 compared to $0.6 million for the second quarter of 2011. The Company's effective tax rate in 2012 was substantially higher and in 2011 the effective rate was substantially lower than the statutory rate due to noncontrolling interest charges, offset by non-deductible stock based compensation. In addition, effective tax rate was higher and lower due to losses in certain tax jurisdictions where the benefits are not expected to be realized.

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

Equity in Affiliates

Equity in affiliates represents the income (losses) attributable to equity-accounted affiliate operations. For the second quarter of 2012 and 2011 the income was nominal.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was $1.6 million for the second quarter of 2012, a decrease of $0.9 million from the $2.5 million of noncontrolling interest expense incurred during the second quarter of 2011, primarily due to decreased profitability of certain entities which are not wholly owned.

Discontinued Operations Attributable to MDC Partners Inc.

The loss of $1.6 million, from discontinued operations in 2012 and $0.3 million in 2011, resulted from the operating results and write-off of our investments in a division of Accent Marketing Services, LLC called Performance Marketing Group, a division of Redscout LLC called Redscout Ventures, and a start-up called The Bull-Whitehouse, LLC.

Net Loss attributable to MDC Partners Inc .

As a result of the foregoing, the net loss attributable to MDC Partners Inc. recorded for the second quarter of 2012 was $20.1 million or a loss of $0.65 per diluted share, compared to a net income attributable to MDC Partners Inc. of $1.3 million or income of $0.05 per diluted share reported for the second quarter of 2011.

Six Months Ended June 30, 2012, Compared to Six Months Ended June 30, 2011

Revenue was $509.8 million for the six months ended June 30, 2012, representing an increase of $56.6 million, or 12.5%, compared to revenue of $453.1 million for the six months ended June 30, 2011. This revenue increase related primarily to acquisition growth of $32.0 million and organic growth of $31.1 million. In addition, a strengthening of the US Dollar, primarily versus the Canadian dollar during the quarter ended June 30, 2012, resulted in decreased revenues of $6.4 million.

The operating loss for the six months ended June 30, 2012 was $14.1 million compared to an operating profit of $17.7 million for the six months ended June 30, 2011. The decrease in operating profit was primarily the result of a decrease in operating profit of $17.1 million in the Strategic Marketing Services segment, a decrease of $6.5 million within the Performance Marketing Services segment, and an increase in corporate operating expense of $8.2 million.

The loss from continuing operations attributable to MDC Partners Inc. for the first six months of 2012 was $44.2 million, compared to a loss of $6.5 million in 2011. This increase in loss of $37.7 million was primarily the result of a decrease in operating profits of $31.7 million, an increase in other expense, net of $1.6 million, an increase in interest expense, net of $2.6 million and an increase in income tax expense of $2.9 million, offset by a decrease in net income attributable to noncontrolling interests of $1.1 million.

Marketing Communications Group

Revenues in the first six months of 2012 attributable to the Marketing Communications Group, which consists of two reportable segments — Strategic Marketing Services and Performance Marketing Services, were $509.8 million compared to $453.1 million in the first six months of 2011, representing a year-over-year increase of 12.5%.

The components of the increase in revenue in 2012 are shown in the following table:

	Revenue **$ 000’s**	%
Six months ended June 30, 2011	$453,111	—
Organic	31,073	6.9 %
Acquisitions	32,001	7.0 %
Foreign exchange impact	(6,427)	(1.4)%
Six months ended June 30, 2012	$509,758	12.5%

The geographic mix in revenues was consistent between the first six months of 2012 and 2011 and is demonstrated in the following table:

	2012	2011
US	80 %	80 %
Canada	15 %	16 %
Other	5 %	4 %

The operating profit of the Marketing Communications Group decreased by approximately 67.3% to $11.5 million from $35.2 million. Operating margins decreased by 5.5% and were 2.3% for 2012 compared to 7.8% for 2011. The decrease in operating profit and operating margins was primarily due to increases in total staff costs and office and general expenses offset by an increase in revenues and a decrease in direct costs. Direct costs (excluding staff costs) decreased as a percentage of revenues from 21.6% in 2011 to 19.7% in 2012. Total staff costs increased as a percentage of revenue from 55.2% in 2011 to 59.7% in 2012. Direct costs decreased as there were fewer pass-through costs incurred on the clients' behalf during the first six months of 2012, where the company was acting as principal versus agent for certain client contracts. Total staff costs increased due to severance in 2012 and the impact of the Company's investment spending which occurred throughout 2011. Office and general expenses increased as a percentage of revenue from 17.6% in 2011 to 21.5% in 2012. This increase was due to adjustments relating to deferred acquisition consideration, resulting in expense of 1.3% as a percentage of revenue in 2012 compared to income of 0.2% as a percentage of revenue in 2011 and an increase in non cash stock based compensation related expenses from 0.6% as a percent of revenue in 2011 to 1.5% as a percentage of revenue due to charges relating to acquisitions and from certain entities which exceed expectations. Depreciation and amortization as a percentage of revenue was consistent at approximately 4.5%.

Strategic Marketing Services

Revenues attributable to Strategic Marketing Services in the first six months of 2012 were $343.8 million, compared to $296.5 million in the first six months of 2011. The year-over-year increase of $47.4 million or 16.0% was attributable primarily to organic growth of $28.6 million as a result of net new business wins, and acquisition growth of $20.7 million. A strengthening of the US dollar versus the Canadian dollar in 2012 compared to 2011 resulted in a $1.9 million decrease in revenues from the division's Canadian-based operations.

The operating profit of Strategic Marketing Services decreased by $17.1 million from $31.0 million in the first six months of 2011 to $13.9 million in the first six months of 2012. Operating margins decreased from 10.5% in the first six months of 2011 to 4.0% in the first six months of 2012. The decrease in operating profits and operating margins were primarily due to increases in total staff costs, office and general costs and depreciation and amortization offset by an increase in revenue and a decrease in direct costs. Direct costs (excluding direct labor) decreased as a percentage of revenue from 18.1% in the first six months of 2011 to 17.7% in the first six months of 2012. Direct costs decreased as there were fewer pass-through costs incurred on the clients' behalf during the first six months of 2012 where the company was acting as principal versus agent for certain client contracts. Total staff costs increased as a percentage of revenue from 55.3% in the first six months of 2011 to 59.4% in the first six months of 2012. Total staff costs increased due to severance in 2012 and the impact of the Company's investment spending which occurred throughout 2011. Office and general expenses increased as a percentage of revenue from 18.5% in the first six months of 2011 to 21.6% in the first six months of 2012. The increase in general and administrative costs was primarily due to a $6.2 million increase in adjustments related to deferred acquisition consideration. Depreciation and amortization increased from 3.7% as a percentage of revenue in 2011 to 4.1% as a percentage of revenue in 2012, due primarily to the acquisitions completed at end of first quarter of 2012.

Performance Marketing Services

The Performance Marketing Services segment generated revenues of $165.9 million for the first six months of 2012, an increase of $9.3 million, or 5.9% higher than revenues of $156.7 million in the first six months of 2011. The year over year increase was attributed primarily to growth from acquisitions of $11.3 million, organic revenue growth of $2.5 million, due to net new business wins. In addition, a strengthening of the US dollar verses the Canadian dollar in 2012 compared to 2011 resulted in a $4.5 million decrease in revenues from the division's Canadian-based operations.

The operating profit of Performance Marketing Services decreased by $6.6 million, from $4.2 million in the first six months of 2011 to a loss of $2.4 million in the first six months of 2012. Operating margins decreased from 2.7% in 2011, to a loss of 1.4% in 2012. The decrease in operating profits and margins was due to increases in total staff costs, office and general expenses offset by an increase in revenue and decrease in direct costs. Direct costs (excluding staff labor) decreased as a percentage of revenue from 28.2% in 2011 to 23.8% in 2012. Direct costs decreased as there were fewer pass-through costs incurred on the clients' behalf during the first six months of 2012 where the company was acting as principal versus agent for certain client contracts. Total staff costs increased as a percentage of revenue from 54.9% in 2011 to 60.3% in 2012. Total staff costs increased due to severance in 2012 and the impact of the Company's investment spending which occurred through 2012. Office and general expenses increased as a percentage of revenue from 15.9% in 2011, to 21.2% in 2012. This increase was due to additional non cash stock based compensation related expenses from 0.6% as a percentage of revenue in 2011 to 2.2% as a percentage of revenue in 2012, due to charges relating from acquisitions. In addition, earn out costs changed from income of $1.5 million in 2011 to income of $0.4 million in 2012. Depreciation and amortization was consistent at approximately 5.5% of revenue.

Corporate

Operating costs related to the Company's Corporate operations totaled $25.6 million in the first six months of 2012 compared to $17.5 million in the first six months of 2011. This increase of $8.1 million was primarily related to increased compensation and related expenses of $7.1 million, of which non-cash stock based compensation was $6.5 million. In addition, Corporate operations incurred an additional $0.5 million in depreciation and amortization, other increases in advertising and promotions, and training and seminars were offset by decreases in occupancy costs, travel and entertainment and acquisition related costs.

Other Income, Net

Other income (expense) decreased to an expense of $0.8 million in the first six months of 2012 compared to an income of $0.8 million in the first six months of 2011. The 2012 expense was primarily comprised of an unrealized foreign exchange loss of $0.8 million, compared to an unrealized foreign exchange gain of $0.8 million recorded in 2011. Specifically, this unrealized gain and loss was due primarily to the fluctuation in the US dollar during 2012 and 2011 compared to the Canadian dollar primarily on the Company's US dollar denominated intercompany balances with its Canadian subsidiaries.

Net Interest Expense

Net interest expense for the first six months of 2012 was $22.8 million, an increase of $2.6 million over the $20.2 million of net interest expense incurred during the first six months of 2011. Interest expense increased in 2012 due to higher average outstanding debt in 2012, relating to the 11% senior notes issued in April 2011. Interest income was nominal in both 2012 and 2011.

Income Taxes

Income tax expense was $3.8 million in the first six months of 2012 compared to income tax expense of $0.9 million for the first six months of 2011. The Company's effective tax rate in 2012 and 2011 was substantially higher than the statutory rate due to noncontrolling interest charges, offset by non-deductible stock based compensation. In addition, effective tax rate was higher due to losses in certain tax jurisdictions where the benefits are not expected to be realized.

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

Equity in Affiliates

Equity in affiliates represents the income (losses) attributable to equity-accounted affiliate operations. For the first six months of 2012 and 2011 the income was $0.3 million.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was $3.0 million for the first six months of 2012, a decrease of $1.1 million from the $4.1 million of noncontrolling interest expense incurred during the first six months of 2011, primarily due to decreased profitability of certain entities which are not wholly owned.

Discontinued Operations Attributable to MDC Partners Inc.

The loss of $2.2 million, from discontinued operations in 2012 and $0.9 million in 2011, resulted from the operating results and write-off of our investments in a division of Accent Marketing Services, LLC called Performance Marketing Group, a division of Redscout LLC called Redscout Ventures, and a start-up called The Bull-Whitehouse, LLC.

Net Loss attributable to MDC Partners Inc .

As a result of the foregoing, the net loss attributable to MDC Partners Inc. recorded for the first six months of 2012 was $46.4 million or a loss of $1.52 per diluted share, compared to a net loss attributable to MDC Partners Inc. of $7.4 million or a loss of $0.25 per diluted share reported for the first six months of 2011.

Liquidity and Capital Resources:

Liquidity

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

	As of and for the six months ended June 30, 2012 (000's)	As of and for the six months ended June 30, 2011 (000's)	As of and for the year ended December 31, 2011 (000's)
Cash and cash equivalents	$ 71,696	$ 5,704	$ 8,096
Working capital (deficit)	$ (157,837)	$ (48,674)	$ (127,888)
Cash from operations	$ (6,561)	$ (25,702)	$ 4,548
Cash from investing	$ 26,350	$ (18,905)	$ (30,436)
Cash from financing	$ 44,187	$ 39,534	$ 23,299
Long-term debt to total equity ratio	(32.19)	4.52	(29.76)
Fixed charge coverage ratio	N/A	1.09	N/A
Fixed charge deficiency	$ 37,453	$ N/A	$ 29,453

As of June 30, 2012 and December 31, 2011, $0.7 million and $0.9 million, respectively, of the consolidated cash position was held by subsidiaries, which, although available for the subsidiaries' use, does not represent cash that is distributable as earnings to MDC Partners for use to reduce its indebtedness. It is the Company's intent through its cash management system to reduce any outstanding borrowings under the WF Credit Agreement by using available cash.

The Company intends to maintain sufficient cash and/or available borrowings to fund operations for the next twelve months.

Working Capital

At June 30, 2012, the Company had a working capital deficit of $157.8 million compared to a deficit of $127.9 million at December 31, 2011. The decrease in working capital was primarily due to seasonal shifts in the amounts collected from clients, and paid to suppliers, primarily media outlets and improvements made in the Company's billing and collecting practices. The Company includes amounts due to noncontrolling interest holders, for their share of profits, in accrued and other liabilities. At June 30, 2012, $1.3 million remained outstanding to be distributed to noncontrolling interest holders over the next twelve months.

The Company intends to maintain sufficient cash or availability of funds under the WF Credit Agreement at any particular time to adequately fund such working capital deficits should there be a need to do so from time to time.

Cash Flows

Operating Activities

Cash flow used in continuing operations, including changes in non-cash working capital, for the six months ended June 30, 2012 was $5.1 million. This was attributable primarily to a net loss from continuing operations of $41.1 million, an increase in accounts receivable of $35.5 million, an increase in expenditures billable to clients of $28.9 million, and an increase in prepaid expenses and other current assets of $0.8 million. This use of cash was offset by depreciation and amortization and non-cash stock compensation of $46.0 million, an increase in advanced billings of $25.9 million, an increase in accounts payables, accruals, and other liabilities of $18.5 million and adjustments to deferred acquisition consideration for $6.7 million, and increase of deferred income tax of $2.8 million, and a decrease in other non-current assets and liabilities of $1.1 million. Discontinued operations attributable to MDC Partners used cash of $1.5 million in the six months ended June 30, 2012.

Cash flow used in continuing operations, including changes in non-cash working capital, for the six months ended June 30, 2011 was $25.7 million. This was attributable primarily to a net operating loss from continuing operations of $2.3 million, payments of accounts payables, accruals, and other liabilities of $30.7 million, a decrease in advanced billings of $29.1 million, increase in accounts receivable of $7.0 million, in increase in prepaid and other current assets of $2.0 million, an increase in non current assets and liabilities of $3.1 million, and adjustment to deferred acquisition consideration of $0.6 million. This use of cash was offset by depreciation and amortization and non-cash stock compensation of $31.1 million, and a decrease in expenditures billable to clients of $18.6 million. Discontinued operations attributable to MDC Partners used cash of $0.2 million in the six months ended June 30, 2011.

Investing Activities

Cash flows used in investing activities were $26.4 million for the six months ended June 30, 2012, compared with a cash flow use of $18.9 million in the six months ended June 30, 2011.

In the six months ended June 30, 2012, capital expenditures totaled $9.6 million, of which $5.1 million was incurred by the Strategic Marketing Services segment, $4.2 million was incurred by the Performance Marketing Services segment, and $0.2 million was incurred by corporate. These expenditures consisted primarily of computer equipment, furniture and fixtures, and leasehold improvements. Expenditures for capital assets in the six months ended June 30, 2011 were $8.3 million. Of this amount, $6.4 million was incurred by the Strategic Marketing Services segment and $1.7 million was incurred by the Performance Marketing services Segment and $0.2 million was incurred by corporate. These expenditures consisted primarily of computer equipment and leasehold improvements.

In the six months ended June 30, 2012, cash flow provided by acquisitions net of deferred acquisition payments was $37.1 million related to the acquisitions of Doner, Dotbox, and TargetCast. In addition, the Company paid $1.5 million for other investments. These outflows were offset by $0.2 million of profit distributions from affiliates.

In the six months ended June 30, 2011, cash flow used for acquisitions and deferred acquisition payments was $12.9 million of which $11.1 million was net cash paid in the acquisition of equity interests in Anomaly, and $1.8 million was paid related to the settlement of deferred acquisition consideration. In addition, the Company paid $1.6 million for other investments. These outflows were offset by $3.9 million of profit distributions from affiliates.

Financing Activities

During the six months ended June 30, 2012, cash flows provided by financing activities amounted to $44.2 million, and consisted primarily of proceeds from the revolving credit facility of $86.1 million and $27.1 million of bank overdrafts. These inflows were offset by $46.8 million of acquisition related payments, $13.3 million of dividend payments, the purchase of treasury shares for income tax withholding requirements of $2.9 million, and $5.6 million of distributions to noncontrolling partners.

During the six months ended June 30, 2011, cash flows provided by financing activities amounted to $39.5 million, and consisted primarily from proceeds of $61.1 million from the issuance of the additional $55 million 11% senior notes, proceeds of $34.5 million relating to the revolving credit facility and $1.0 million proceeds from the exercise of options, offset by acquisition related payments of $27.2 million, distributions to noncontrolling partners of $8.3

million, payment of dividends of $8.4 million, repayments of bank overdrafts of $7.2 million, deferred financing costs of $3.0 million, the purchase of treasury shares for income tax withholding requirements of $2.6 million, and repayments of long-term debt of $0.4 million.

Total Debt

11% Senior Notes Due 2016

On October 23, 2009, the Company and its wholly-owned subsidiaries, as guarantors, issued and sold $225 million aggregate principal amount of 11% Notes due 2016. The 11% Notes bear interest at a rate of 11% per annum, accruing from October 23, 2009. Interest is payable semiannually in arrears in cash on May 1 and November 1 of each year, beginning on May 1, 2010. The 11% Notes will mature on November 1, 2016, unless earlier redeemed or repurchased. The Company received net proceeds before expenses of $209 million which included an original issue discount of approximately 4.7% or $10.5 million and underwriter fees of $5.6 million. The 11% Notes were sold in a private placement in reliance on exemptions from registration under the Securities Act of 1933, as amended. The Company used the net proceeds of this offering to repay the outstanding balance and terminate its prior Fortress Financing Agreement consisting of repayments of $130 million of term loans, a $70 million delayed draw term loan, and $9.7 million outstanding on the $55 million revolving credit facility. The Company also used the net proceeds to redeem its outstanding 8% C$45 million convertible debentures on November 26, 2009.

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

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

The Company may, at its option, redeem the 11% Notes (including the additional notes) in whole at any time or in part from time to time, on and after November 1, 2013 at a redemption price of 105.5% of the principal amount thereof. If redeemed during the twelve-month period beginning on November 1, 2014, the Company must pay a redemption price of 102.75% of the principal amount thereof. If redeemed during the twelve-month period beginning on November 1, 2015, the Company must pay a redemption price of 100% of the principal amount thereof. Prior to November 1, 2013, the Company may, at its option, redeem some or all of the 11% Notes at a price equal to 100% of the principal amount of the Notes plus a "make whole" premium and accrued and unpaid interest. The Company may also redeem, at its option, prior to November 1, 2012, up to 35% of the 11% Notes with the proceeds from one or more equity offerings at a redemption price of 111% of the principal amount thereof. If the Company experiences certain kinds of changes of control (as defined in the Indenture), holders of the 11% Notes may require the Company to repurchase any 11% Notes held by them at a price equal to 101% of the principal amount of the 11% Notes plus accrued and unpaid interest. The indenture governing the 11% Notes contains certain events of default and restrictive covenants which are customary with respect to non-investment grade debt securities, including limitations on the incurrence of additional indebtedness, dividends, sales of assets and transactions with affiliates.

Revolving Credit Agreement

On October 23, 2009, the Company and its subsidiaries entered into a $75 million five year senior secured revolving credit agreement (the "WF Credit Agreement") with Wells Fargo Capital Finance, LLC (formerly Wells Fargo Foothill, LLC), as agent, and the lenders from time to time party thereto. On November 22, 2010, this agreement was amended to increase the availability under the facility to $100 million. On April 29, 2011, the Company entered into an additional amendment to increase the availability under the facility to $150 million and extend the maturity date to

October 23, 2015. The WF Credit Agreement replaced the Company’s prior $185 million senior secured financing agreement with Fortress Credit Corp., as collateral agent, Wells Fargo Foothill, Inc., as administrative agent. Advances under the WF Credit Agreement bear interest as follows: (a)(i) LIBOR Rate Loans bear interest at the LIBOR Rate (as defined) and (ii) Base Rate Loans bear interest at the Base Rate (as defined), plus (b) an applicable margin. The applicable margin for borrowings at June 30, 2012 is 2.25% in the case of Base Rate Loans and 2.50% in the case of LIBOR Rate Loans. In addition to paying interest on outstanding principal under the WF Credit Agreement, the Company is required to pay an unused revolver fee to the lenders under the WF Credit Agreement in respect of unused commitments thereunder.

The WF Credit Agreement is guaranteed by all of the Company’s present and future subsidiaries, other than immaterial subsidiaries as defined and is secured by all the assets of the Company. The WF Credit Agreement includes covenants that, among other things, restrict the Company’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 the Company’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 the Company’s assets to, another person. These covenants are subject to a number of important limitations and exceptions. The WF Credit Agreement also contains financial covenants, including a senior leverage ratio, a total leverage ratio, a fixed charge coverage ratio, a minimum receivables level, and a minimum earnings level, as defined.

Debt as of June 30, 2012 was $471.4 million, an increase of $86.2 million, compared with $385.2 million outstanding at December 31, 2011. This increase in debt was a result of borrowings on the revolving credit agreement. At June 30, 2012, approximately $20.7 million was available under the WF Credit Agreement, which was limited to the current amounts outstanding by the 11% Senior Notes indenture.

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

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

Pursuant to the WF Credit Agreement, the Company must comply with certain financial covenants including, among other things, covenants for (i) senior leverage ratio, (ii) total leverage ratio, (iii) fixed charges ratio, and (iv) minimum earnings before interest, taxes and depreciation and amortization and (v) minimum accounts receivable level, in each case as such term is specifically defined in the WF Credit Agreement. For the period ended June 30, 2012, the Company's calculation of each of these covenants, and the specific requirements under the WF Credit Agreement, respectively, were as follows:

	June 30, 2012
Total Senior Leverage Ratio	0.70
Maximum per covenant	2.0
Total Leverage Ratio	3.97
Maximum per covenant	4.25
Fixed Charges Ratio	1.39
Minimum per covenant	1.25
Earnings before interest, taxes, depreciation and amortization	$104.0 million
Minimum per covenant	$94.6 million

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

Deferred Acquisition Consideration (Earnouts)

Acquisitions of businesses by the Company may include commitments to contingent deferred purchase consideration payable to the seller. These contingent purchase obligations are generally payable within a one to six-year period following the acquisition date, and are based on achievement of certain thresholds of future earnings and, in certain cases, also based on the rate of growth of those earnings. The contingent consideration is recorded as an obligation of the Company when the contingency is resolved and the amount is reasonably determinable, for acquisitions prior to January 1, 2009. Contingent purchase price obligations related to acquisitions completed subsequent to December 31, 2008, are recorded as liabilities at estimated value and are remeasured at each reporting period. Based on various assumptions, all deferred consideration estimates based on future operating results of the relevant entities are recorded on the Company's balance sheet June 30, 2012. The actual amount that the Company pays in connection with the obligations may differ materially from this estimate. At June 30, 2012, there was $173.3 million of deferred consideration included in the Company's balance sheet.

Other-Balance Sheet Commitments

Put Rights of Subsidiaries' Noncontrolling Shareholders

Owners of interests in certain of the Marketing Communications Group subsidiaries have the right in certain circumstances to require the Company to acquire the remaining ownership interests held by them. The owners' ability to exercise any such "put option" right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise. In addition, these rights cannot be exercised prior to specified staggered exercise dates. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund the related amounts during the period of 2011 to 2019. It is not determinable, at this time, if or when the owners of these put option rights will exercise all or a portion of these rights.

The amount payable by the Company in the event such put option rights are exercised is dependent on various valuation formulas and on future events, such as the average earnings of the relevant subsidiary through that date of exercise, the growth 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 June 30, 2012, perform over the relevant future periods at their trailing twelve-month earnings level, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate amount of approximately $23.9 million to the owners of such rights to acquire such ownership interests in the relevant subsidiaries. Of this amount, the Company is entitled, at its option, to fund approximately $2.8 million by the issuance of the Company's Class A subordinate voting shares. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately $78.9 million only upon termination of such owner's employment with such applicable subsidiary or death. The Company intends to finance the cash portion of these contingent payment obligations using available cash from operations, borrowings under the WF Credit Agreement (and refinancings thereof) and, if necessary, through incurrence of additional debt. The ultimate amount payable and the incremental operating income in the future relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised. Approximately $1.9 million of the estimated $23.9 million that the Company would be required to pay subsidiaries noncontrolling shareholders upon the exercise of outstanding put option rights, relates to rights exercisable within the next twelve months. Upon the settlement of the total amount of such put options, the Company estimates that it would receive incremental operating income before depreciation and amortization of $4.3 million.

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

Consideration (4)	2012	2013	2014	2015	2016 & Thereafter	Total
	($ Millions)					
Cash	$1.5	$7.9	$2.5	$3.4	$ 5.8	$21.1
Shares	0.4	0.6	0.9	0.5	0.4	2.8
	$1.9	$8.5	$3.4	$3.9	$ 6.2	$23.9(1)
Operating income before depreciation and amortization to be received(2)	$1.4	$0.4	$0.7	$1.2	$ 0.6	$4.3
Cumulative operating income before depreciation and amortization(3)	$1.4	$1.8	$2.5	$3.7	$ 4.3	(5)

(1) This amount in addition to put options only exercisable upon termination not within the control of the Company, or death, of $78.9 million, has been recognized in Redeemable Noncontrolling Interests on the Company's balance sheet.

(2) This financial measure is presented because it is the basis of the calculation used in the underlying agreements relating to the put rights and is based on actual 2011 and first half of 2012 operating results. This amount represents additional amounts to be attributable to MDC Partners Inc., commencing in the year the put is exercised.

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

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

(5) Amounts are not presented as they would not be meaningful due to multiple periods included.

Critical Accounting Policies

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

Estimates. The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America, or "GAAP", requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities including goodwill, intangible assets, redeemable noncontrolling interests, and deferred acquisition consideration, valuation allowances for receivables and deferred income tax assets and stock based compensation as well as the reported amounts of revenue and expenses during the reporting period. The statements are evaluated on an ongoing basis and estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Actual results can differ from those estimates, and it is possible that the differences could be material.

Revenue Recognition. The Company's revenue recognition policies are as required by the Revenue Recognition topics of the FASB Accounting Standards Codification. The Company earns revenue from agency arrangements in the form of retainer fees or commissions; from short-term project arrangements in the form of fixed fees or per diem fees for services; and from incentives or bonuses. A small portion of the Company's contractual arrangements with clients includes performance incentive provisions, which allow the Company to earn additional revenues as a result of its performance relative to both quantitative and qualitative goals. The Company records revenue net of state taxes, when persuasive evidence of an arrangement exists, services are provided or upon delivery of the products when ownership and risk of loss has transferred to the customer, the selling price is fixed or determinable and collection of the resulting receivable is reasonably assured.

The Company recognizes the incentive portion of revenue under these arrangements when specific quantitative goals are assured, or when the Company's clients determine performance against qualitative goals has been achieved. In all circumstances, revenue is only recognized when collection is reasonably assured. The Company records revenue net of sales and other taxes due to be collected and remitted to governmental authorities. In the majority of the Company's businesses, the Company acts as an agent and records revenue equal to the net amount retained, when the fee or commission is earned. In certain arrangements, the Company acts as principal and contracts directly with suppliers for third party media and production costs. In these arrangements, revenue is recorded at the gross amount billed. Additional information about our revenue recognition policy appears in Note 2 to our consolidated financial statements.

Acquisitions, Goodwill and Other Intangibles. A fair value approach is used in testing goodwill for impairment to determine if an other than temporary impairment has occurred. One approach utilized to determine fair values is a discounted cash flow methodology. When available and as appropriate, comparative market multiples are used. Numerous estimates and assumptions necessarily have to be made when completing a discounted cash flow valuation, including estimates and assumptions regarding interest rates, appropriate discount rates and capital structure. Additionally, estimates must be made regarding revenue growth, operating margins, tax rates, working capital requirements and capital expenditures. Estimates and assumptions also need to be made when determining the appropriate comparative market multiples to be used. Actual results of operations, cash flows and other factors used in a discounted cash flow valuation will likely differ from the estimates used and it is possible that differences and changes could be material.

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

Business Combinations. Valuation of acquired companies are based on a number of factors, including specialized know-how, reputation, competitive position and service offerings. Our acquisition strategy has been to focus on acquiring the expertise of an assembled workforce in order to continue building upon the core capabilities of our various strategic business platforms to better serve our clients. Consistent with our acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed from 2009 to 2012 include an initial payment at the time of closing and provide for future additional contingent purchase price payments. Contingent payments for these transactions, as well as certain acquisitions completed in prior years, are derived using the performance of the acquired entity and are based on pre-determined formulas. Contingent purchase price obligations for acquisitions completed prior to January 1, 2009 are accrued when the contingency is resolved and payment is certain. Contingent purchase price obligations related to acquisitions completed subsequent to December 31, 2008 are recorded as liabilities at estimated value and are remeasured at each reporting period. Changes in estimated value are recorded in results of operations. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests are recorded as redeemable noncontrolling interests. As of January 1, 2009, the Company expenses acquisition related costs in accordance with the Accounting Standard's Codification's new guidance on acquisition accounting.

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

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

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

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

Interest Expense. Interest expense primarily consists of the cost of borrowing on the revolving WF Credit Agreement and the 11% Notes. The Company uses the effective interest method to amortize the original issue discount and original issue premium on the 11% Notes. The Company amortizes deferred financing costs using the effective interest method over the life of the 11% Notes and straight line over the life of the revolving WF Credit Agreement.

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

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

New Accounting Pronouncements

On January 1, 2012, FASB Accounting Standards Update No. 2011-08, Testing Goodwill for Impairment ("ASU 2011-08") became effective. This standard gives an entity the option of performing a qualitative assessment to determine whether it is necessary to perform step 1 of the annual goodwill impairment test. An entity is required to perform step 1 only if it concludes that it is more likely than not that a reporting unit's fair value is less than its carrying amount. An entity may choose to perform the qualitative assessment on none, some or all of its reporting units or an entity may bypass the qualitative assessment for any reporting unit in any period and proceed directly to step 1 of the impairment test. We perform our annual impairment test at the end of beginning of the fourth quarter of each year.

Risks and Uncertainties

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

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

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

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

Investors should carefully consider these risk factors, and the risk factors outlined in more detail in the Company’s 2011 Annual Report on Form 10-K under the caption “Risk Factors”, and in the Company’s other SEC filings.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

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

Debt Instruments: At June 30, 2012, the Company's debt obligations consisted of amounts outstanding under its WF Credit Agreement and Senior Notes. The Senior Notes bear a fixed 11% interest rate. The WF Credit Agreement bears interest at variable rates based upon the Eurodollar rate, US bank prime rate and US base rate, at the Company's option. The Company's ability to obtain the required bank syndication commitments depends in part on conditions in the bank market at the time of syndication. Given the level of borrowings under the WF Credit Agreement of $124.1 million, as of June 30, 2012, a 1.0% increase or decrease in the weighted average interest rate, which was 4.7% at June 30, 2012, would have an $1.2 million interest impact.

Foreign Exchange: The Company conducts business in five currencies, the US dollar, the Canadian dollar, Jamaican dollar, the Euro, and the British Pound. Our results of operations are subject to risk from the translation to the US dollar of the revenue and expenses of our non-US operations. The effects of currency exchange rate fluctuations on the translation of our results of operations are discussed in the "Management's Discussion and Analysis of Financial Condition and Result of Operations". For the most part, our revenues and expenses incurred related to our non-US operations are denominated in their functional currency. This minimizes the impact that fluctuations in exchange rates will have on profit margins. The Company does not enter into foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

The Company is exposed to foreign currency fluctuations relating to its intercompany balances between the US and Canada. For every one cent change in the foreign exchange rate between the US and Canada, the Company will not incur a material impact to its financial statements.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be included in our SEC reports is recorded, processed, summarized and reported within the applicable time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), who is our principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. However, the Company's disclosure controls and procedures are designed to provide reasonable assurances of achieving the Company's control objectives.

We conducted an evaluation, under the supervision and with the participation of our management, including our CEO, our CFO and our management Disclosure Committee, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) of the Exchange Act. Based on that evaluation, our CEO and CFO concluded that, as of June 30, 2012, our disclosure controls and procedures are effective to ensure that decisions can be made timely with respect to required disclosures, as well as ensuring that the recording, processing, summarization and reporting of information required to be included in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 is appropriate.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the foregoing evaluation that occurred during the second quarter of 2012 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *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.

Item 1A. *Risk Factors*

There are no material changes in the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds*

None

Item 3. *Defaults Upon Senior Securities*

None

Item 4. *Mine Safety Disclosures*

Not applicable

Item 5. *Other Information*

None

Item 6. ***Exhibits***

The exhibits required by this item are listed on the Exhibit Table.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MDC PARTNERS
INC.

/s/ Michael Sabatino
Michael Sabatino

Senior Vice
President, Chief
Accounting Officer

August 2, 2012

EXHIBIT INDEX

Exhibit No.	Description
10.1	Tenth Amendment, dated July xx, 2012, to Credit Agreement, dated as of October 23, 2009 by and among the Company, Maxxcom Inc., a Delaware corporation, each of their subsidiaries party thereto, Wells Fargo Capital Finance, LLC (formerly Wells Fargo Foothill, LLC), as agent, and the lenders party thereto.*
12	Statement of computation of ratio of earnings to fixed charges.*
31.1	Certification by Chief Executive Officer pursuant to Rules 13a - 14(a) and 15d - 14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification by Chief Financial Officer pursuant to Rules 13a - 14(a) and 15d - 14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification by Chief Executive Officer pursuant to 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification by Chief Financial Officer pursuant to 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
99.1	Schedule of ownership by operating subsidiary.*

* Filed electronically herewith.