

MDC PARTNERS INC  
Form 10-Q  
April 29, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended March 31, 2014**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 001-13178**

**MDC Partners Inc.**

(Exact name of registrant as specified in its charter)

**Canada**

**98-0364441**

(State or other jurisdiction of

(IRS Employer Identification No.)

incorporation or organization)

**745 Fifth Avenue**

**10151**

**New York, New York**

(Address of principal executive offices) (Zip Code)

**(646) 429-1800**

Registrant's telephone number, including area code:

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

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

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

Large accelerated Filer

Accelerated filer

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

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

Yes  No

The numbers of shares outstanding as of April 25, 2014 were: 50,283,325 Class A subordinate voting shares and 3,755 Class B multiple voting shares.

**Website Access to Company Reports**

MDC Partners Inc.'s internet website address is [www.mdc-partners.com](http://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 per share amounts)

	Three Months Ended March 31,	
	2014	2013
Revenue:		
Services	\$ 292,569	\$ 265,636
Operating Expenses:		
Cost of services sold	191,693	177,858
Office and general expenses	78,174	67,360
Depreciation and amortization	11,295	9,479
	281,162	254,697
Operating profit	11,407	10,939
Other Income (Expense):		
Other, net	(6,537 )	2,689
Interest expense and finance charges	(12,754 )	(12,428 )
Loss on redemption of notes	—	(55,588 )
Interest income	109	103
	(19,182 )	(65,224 )
Loss from continuing operations before income taxes, equity in affiliates	(7,775 )	(54,285 )
Income tax benefit	(334 )	(14,250 )
Loss from continuing operations before equity in non-consolidated affiliates	(7,441 )	(40,035 )
Equity in earnings of non-consolidated affiliates	63	41
Loss from continuing operations	(7,378 )	(39,994 )
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(106 )	(2,182 )
Net loss	(7,484 )	(42,176 )
Net income attributable to the noncontrolling interests	(1,362 )	(982 )
Net loss attributable to MDC Partners Inc.	\$ (8,846 )	\$ (43,158 )
Loss Per Common Share:		
Basic and Diluted:		
Loss from continuing operations attributable to MDC Partners Inc. common shareholders	\$ (0.18 )	\$ (0.87 )
Discontinued operations attributable to MDC Partners Inc. common shareholders	—	(0.05 )
Loss attributable to MDC Partners Inc. common shareholders	\$ (0.18 )	\$ (0.92 )
Weighted Average Number of Common Shares Outstanding:		
Basic and Diluted	49,338,332	46,850,840

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

Cost of services sold	\$ 2,527	\$ 1,179
Office and general expenses	1,841	3,322
Total	\$ 4,368	\$ 4,501

See notes to the unaudited condensed consolidated financial statements.

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

(thousands of United States dollars)

	Three Months Ended March 31,	
	2014	2013
Comprehensive loss:		
Net loss	\$ (7,484 )	\$ (42,176 )
Other comprehensive income (loss):		
Foreign currency translation adjustment	1,742	(1,040 )
Comprehensive loss	(5,742 )	(43,216 )
Comprehensive loss attributable to noncontrolling interest	(1,110 )	(971 )
Comprehensive loss attributable to MDC Partners Inc.	\$ (6,852 )	\$ (44,187 )

See notes to the unaudited condensed consolidated financial statements.

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

(thousands of United States dollars)

	March 31, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 17,497	\$ 102,007
Accounts receivable, less allowance for doubtful accounts of \$1,852 and \$2,011	365,475	309,796
Expenditures billable to clients	69,423	63,246
Other current assets	34,535	25,458
Total Current Assets	486,930	500,507
Fixed assets, at cost, less accumulated depreciation of \$117,903 and \$118,119	50,540	52,071
Investment in non-consolidated affiliates	320	275
Goodwill	873,855	744,333
Other intangibles assets, net	72,800	56,262
Deferred tax asset	22,613	21,131
Other assets	63,214	50,648
<b>Total Assets</b>	<b>\$ 1,570,272</b>	<b>\$ 1,425,227</b>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND SHAREHOLDERS' DEFICIT</b>		
Current Liabilities:		
Accounts payable	\$ 214,568	\$ 246,694
Accruals and other liabilities	256,718	240,580
Advance billings	180,050	149,540
Current portion of long-term debt	424	467
Current portion of deferred acquisition consideration	53,885	53,041
Total Current Liabilities	705,645	690,322
Long-term debt	696,800	664,661
Long-term portion of deferred acquisition consideration	164,893	100,872
Other liabilities	33,068	34,430
Deferred tax liabilities	63,925	63,020
<b>Total Liabilities</b>	<b>1,664,331</b>	<b>1,553,305</b>
Redeemable Noncontrolling Interests (Note 2)	155,980	148,534
Commitments, contingencies and guarantees (Note 11)		
Shareholders' Deficit:		
Preferred shares, unlimited authorized, none issued		
Class A Shares, no par value, unlimited authorized, 49,476,405 and 49,092,427 shares issued and outstanding in 2014 and 2013	264,075	262,655



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Class B Shares, no par value, unlimited authorized, 3,755 shares issued and outstanding in 2014 and 2013, each convertible into one Class A share	1	1
Shares to be issued, 42,000 shares	424	424
Charges in excess of capital	(151,661 )	(126,352 )
Accumulated deficit	(474,422 )	(465,576 )
Stock subscription receivable	(55 )	(55 )
Accumulated other comprehensive income (loss)	1,197	(797 )
	(360,441 )	(329,700 )
MDC Partners Inc. Shareholders' Deficit		
Noncontrolling Interests	110,402	53,088
Total Shareholders' Deficit	(250,039 )	(276,612 )
Total Liabilities, Redeemable Noncontrolling Interests and Shareholders' Deficit	\$1,570,272	\$ 1,425,227

See notes to the unaudited condensed consolidated financial statements.

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

(thousands of United States dollars)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$ (7,484 )	\$ (42,176 )
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(106 )	(2,182 )
Loss from continuing operations	(7,378 )	(39,994 )
Adjustments to reconcile net loss from continuing operations to cash used in operating activities:		
Stock-based compensation	4,368	4,501
Depreciation	4,602	4,638
Amortization of intangibles	6,693	4,841
Amortization of deferred finance charges and debt discount	619	5,653
Loss on redemption of notes	—	50,385
Adjustment to deferred acquisition consideration	8,388	2,314
Deferred income taxes (benefits)	(579 )	(14,570 )
Earnings of non-consolidated affiliates	(63 )	(41 )
Distributions in excess of carrying value	—	(3,058 )
Other non-current assets and liabilities	(12,188 )	1,234
Foreign exchange	5,145	443
Changes in working capital:		
Accounts receivable	(54,462 )	(41,319 )
Expenditures billable to clients	(6,177 )	(268 )
Prepaid expenses and other current assets	(9,245 )	(5,899 )
Accounts payable, accruals and other liabilities	(8,326 )	(13,333 )
Advance billings	29,406	13,019
Cash flows used in continuing operating activities	(39,197 )	(31,454 )
Discontinued operations	(106 )	(1,504 )
Net cash used in operating activities	(39,303 )	(32,958 )
Cash flows from investing activities:		
Capital expenditures	(3,016 )	(2,915 )
Acquisitions, net of cash acquired	(39,951 )	—
Proceeds from sale of assets	20	11
Other investments	(2,077 )	(1,202 )
Profit distributions from affiliates	281	3,096
Cash flows used in continuing investing activities	(44,743 )	(1,010 )
Discontinued operations	—	(11 )
Net cash used in investing activities	(44,743 )	(1,021 )
Cash flows from financing activities:		
Proceeds from issuance of 6.75% Notes	—	550,000
Repayment of 11% notes	—	(425,000 )

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Proceeds of revolving credit agreement	32,292	—
Acquisition related payments	(10,715 )	(2,225 )
Repayment of long-term debt	(112 )	(618 )
Purchase of shares	(3,103 )	(3,380 )
Premium paid on redemption of notes	—	(50,385 )
Deferred financing costs	—	(15,971 )
Distributions to noncontrolling partners	(2,276 )	(1,387 )
Cash overdrafts	(6,853 )	(5,756 )
Payment of dividends	(9,724 )	(210 )
Net cash provided by (used in) financing activities	(491 )	45,068
Effect of exchange rate changes on cash and cash equivalents	27	(59 )
Net increase (decrease) in cash and cash equivalents	(84,510 )	11,030
Cash and cash equivalents at beginning of period	102,007	60,330
Cash and cash equivalents at end of period	\$ 17,497	\$ 71,360
Supplemental disclosures:		
Cash income taxes paid	\$ 83	\$ 67
Cash interest paid	\$ 334	\$ 18,342
Non-cash transactions:		
Dividends payable	\$ 967	\$ 831

See notes to the unaudited condensed consolidated financial statements.

## MDC PARTNERS INC. AND SUBSIDIARIES

## UNAUDITED CONDENSED STATEMENTS OF SHAREHOLDERS' DEFICIT

(thousands of United States dollars)

	Common Stock		Share Capital to Be Issued				Additional Paid in Capital	Charges in Excess of Capital	Accumulated Deficit	Stock Subscriptions Receivable	Accumulated Other Comprehensive Income	MDC Partners' Interest
	Class A Shares	Amount	Class B Shares	Amount	Shares	Amount						
Balance at December 31, 2013	49,092,427	\$262,655	3,755	\$1	42,000	\$424	\$-	\$(126,352)	\$(465,576)	\$(55)	\$(797)	\$-
Net loss attributable to MDC Partners	-	-	-	-	-	-	-	-	(8,846)	-	-	-
Other Comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	1,994	-
Issuance of restricted stock	501,326	4,523	-	-	-	-	(4,523)	-	-	-	-	-
Shares acquired and cancelled	(117,348)	(3,103)	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	2,247	-	-	-	-	-
Changes in redemption value of redeemable noncontrolling interests	-	-	-	-	-	-	(9,336)	-	-	-	-	-
Changes in noncontrolling interests and redeemable noncontrolling interest from step-up transactions	-	-	-	-	-	-	(4,798)	-	-	-	-	-
Increase in noncontrolling interests from business acquisitions	-	-	-	-	-	-	-	-	-	-	-	-

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Dividends paid and to be paid	-	-	-	-	-	-	(8,899)	-	-	-	-	-	-
Transfer to charges in excess of capital	-	-	-	-	-	-	25,309	(25,309)	-	-	-	-	-
Balance at March 31, 2014	49,476,405	\$264,075	3,755	\$1	42,000	\$424	\$-	\$(151,661)	\$(474,422)	\$(55)	\$1,197	\$-	\$-

See notes to the unaudited condensed consolidated financial statements.

**MDC PARTNERS INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(thousands of United States dollars, unless otherwise stated)

**1. Basis of Presentation**

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

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

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

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

**2. Significant Accounting Policies**

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

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

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

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

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

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

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

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

*Concentration of Credit Risk.* The Company provides marketing communications services to clients who operate in most industry sectors. Credit is granted to qualified clients in the ordinary course of business. Due to the diversified nature of the Company's client base, the Company does not believe that it is exposed to a concentration of credit risk; the Company did not have a client that accounted for more than 10 % of the Company's consolidated accounts receivable at March 31, 2014 or December 31, 2013. Furthermore, the Company did not have a client that accounted for more than 10 % of the Company's revenue for the three months ended March 31, 2014 or for the three months ended March 31, 2013.

*Cash and Cash Equivalents.* The Company's cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. The Company has a concentration risk in that there are cash deposits in excess of federally insured amounts. Included in cash and cash equivalents at March 31, 2014 and December 31, 2013, is approximately \$7,392 and \$44, respectively, of cash restricted as to withdrawal pursuant to various trust agreements and a collateral agreement with customer's contractual requirements.

*Business Combinations.* Valuation of acquired companies is based on a number of factors, including specialized know-how, reputation, competitive position and service offerings. The Company's acquisition strategy has been focused on acquiring the expertise of an assembled workforce in order to continue to build upon the core capabilities of its various strategic business platforms to better serve the Company's clients. Consistent with the acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed after 2010 included an initial payment at the time of closing and provide for future additional contingent purchase price payments. Contingent payments for these transactions, as well as certain acquisitions completed in prior years, are derived using the performance of the acquired entity and are based on 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 months ended March 31, 2014 and 2013, \$8,022 and \$ 2,296 of expense was recognized in operations related to changes in estimated value, respectively. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests is recorded as Redeemable Noncontrolling Interests. As of January 1, 2009, the Company expenses acquisition related costs in accordance with the Accounting Standard's Codification's guidance on acquisition accounting. For the three months ended March 31, 2014 and 2013, \$1,071 and \$536 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 three months ended March 31, 2014 and 2013, there have been no charges to noncontrolling interests. Changes in the estimated redemption amounts of the put options are adjusted at each reporting period with a corresponding adjustment to equity. These adjustments will not impact the calculation of earnings per share.

The following table presents changes in Redeemable Noncontrolling Interests.

	March 31, 2014	December 31, 2013
Beginning Balance	\$ 148,534	\$ 117,953
Redemptions	(1,605 )	(4,270 )
Granted	—	—
Changes in redemption value	9,336	35,689
Currency Translation Adjustments	(285 )	(838 )
Ending Balance	\$ 155,980	\$ 148,534

*Variable Interest Entity.* Effective March 28, 2012, the Company invested in Doner Partners LLC (“Doner”), and has determined that this entity is a variable interest entity (“VIE”) and is consolidated for all periods subsequent to the date of investment. The Company acquired a 30 % voting interest and convertible preferred interests that allow the Company to increase ordinary voting ownership to

70 % at MDC’s option. Doner is a full service integrated creative agency that is included as part of our portfolio in the Strategic Marketing Services Segment. The Company’s Credit Agreement is guaranteed and secured by all of Doner’s assets.

The Company has determined that it is the primary beneficiary because MDC receives a disproportionate share of profits and losses as compared to the Company’s ownership percentage. Total assets and total liabilities of Doner included in the Company’s consolidated balance sheet at March 31, 2014 were \$223,478 and \$181,166, respectively and at December 31, 2013 were \$224,964 and \$179,501, 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.

## 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 agreement and Senior Notes. The Company amortizes deferred financing costs using the effective interest method over the life of the Senior Notes and straight line over the life of the revolving credit agreement.

*Income Taxes.* The Company's US operating units are generally structured as limited liability companies, which are treated as partnerships for tax purposes. The Company is only taxed on its share of profits, while noncontrolling holders are responsible for taxes on their share of the profits. The Company currently has a fully reserved valuation allowance for its US net operating losses. During the three months ended March 31, 2014 and 2013, the Company had losses in non-US based entities where a valuation allowance was not deemed necessary.

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

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

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

the exercise of the award by the employee.

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

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

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

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

During the three months ended March 31, 2014, the Company issued 125,578 restricted stock units ("RSUs") to its employees and directors. The RSUs have an aggregate grant date fair value of \$3,166 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 806,920 Class A shares of restricted stock, granted to employees as equity incentive awards but not yet vested, have been excluded in the Company's calculation of Class A shares outstanding as of March 31, 2014.

**3. Loss Per Common Share**

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

	Three Months Ended March 31,	
	2014	2013
Numerator		
Numerator for basic loss per common share – loss from continuing operations	\$ (7,378	) \$ (39,994
Net income attributable to the noncontrolling interests	(1,362	) (982
Loss attributable to MDC Partners Inc. common shareholders from continuing operations	(8,740	) (40,976
Effect of dilutive securities	—	—
Numerator for diluted loss per common share – loss attributable to MDC Partners Inc. common shareholders from continuing operations	\$ (8,740	) \$ (40,976
Denominator		
Denominator for basic loss per common share – adjusted weighted shares	49,338,332	46,850,840
Effect of dilutive securities	—	—
Denominator for diluted loss per common share - adjusted weighted shares	49,338,332	46,850,840
Basic and diluted loss per common share from continuing operations attributable to MDC Partners Inc.	\$ (0.18	) \$ (0.87

During the three months ended March 31, 2014, options and other rights to purchase 1,113,210 shares of common stock, which includes 1,000,710 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 three months ended March 31, 2013, options and other rights to purchase 5,718,488 shares of common stock, which includes 1,269,404 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 2014 since there were no material acquisitions. During the three months of 2014, the Company completed acquisitions and a number of step-up transactions to increase its equity ownership percentage in majority owned entities. Included in the Company's consolidated statement of operations for the three months ended March 31, 2014 was revenue of \$5,662, and net income of \$724, related to 2014 acquisitions.

#### ***2014 Acquisitions***

During the first quarter of 2014, the Company entered into acquisitions and various immaterial transactions with certain majority owned entities. Effective January 1, 2014, MDC acquired 60% of the equity interests of Luntz Global Partners LLC ("LG"). Effective February 14, 2014 MDC acquired 65% of the equity interests of Kingsdale Partners LP ("Kingsdale"). LG and Kingsdale are both in the Company's Performance Marketing Services segment.

The aggregate purchase price has an estimated present value at acquisition date of \$95,890 and consisted of total closing cash payments of \$41,315, and additional deferred acquisition consideration that are based on the financial results of the underlying businesses from 2013 to 2017 with final payments due in 2018 that have an estimated present value at acquisition date of \$54,575. An allocation of excess purchase price consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of \$22,998 consisting primarily of customer lists, a technology asset, and covenants not to compete, and goodwill of \$132,478 representing the value of the assembled workforce. The identified assets will be amortized over a five to six year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded \$61,516 as the present value of noncontrolling interest. The intangibles and goodwill of \$57,880 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.

#### ***2013 Acquisitions***

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



The aggregate purchase price has an estimated present value at acquisition date of \$38,202 and consisted of total closing cash payments of \$12,000, and additional contingent deferred acquisition consideration that are based on the financial results of the underlying businesses from 2013 to 2017 with final payments due in 2018 that have an estimated present value at acquisition date of \$26,202. An allocation of excess purchase price consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of \$10,835 consisting primarily of customer lists, a technology asset, and covenants not to compete, and goodwill of \$35,956 representing the value of the assembled workforce. The identified assets will be amortized over a five to six year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded \$11,090 as the present value of noncontrolling interest. The intangibles and goodwill of \$46,791 are tax deductible.

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

***Noncontrolling Interests***

Changes in the Company's ownership interests in our less than 100 % owned subsidiaries during the three months ended March 31 were as follows:

**Net Loss Attributable to MDC Partners Inc. and**

**Transfers (to) from the Noncontrolling Interest**

	Three Months Ended March 31,	
	2014	2013
Net loss attributable to MDC Partners Inc.	\$ (8,846	) \$ (43,158
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 and Noncontrolling Interests	(4,798	) (1,059
Net transfers to noncontrolling interest	\$ (4,798	) \$ (1,059
Change from net loss attributable to MDC Partners Inc. and transfers to noncontrolling interest	\$ (13,644	) \$ (44,217

## 5. Accruals and Other Liabilities

At March 31, 2014 and December 31, 2013, accruals and other liabilities included accrued media of \$156,551 and \$144,161, respectively; trust liabilities of \$7,230 and nil; respectively, and included amounts due to noncontrolling interest holders, for their share of profits, which will be distributed within the next twelve months of \$4,243 and \$5,210, respectively.

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

	Noncontrolling Interests
Balance, December 31, 2012	\$ 3,624
Income attributable to noncontrolling interests	6,461
Distributions made	(5,525 )
Cumulative translation adjustments	650
Balance, December 31, 2013	\$ 5,210
Income attributable to noncontrolling interests	1,362
Distributions made	(2,276 )
Other	(53 )
Balance, March 31, 2014	\$ 4,243

Other primarily relates to step-up transactions and discontinued operations and cumulative translation adjustments.

## 6. Discontinued Operations

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

Included in discontinued operations in the Company's consolidated statements of operations for the three months ended March 31, 2014 and 2013 was the following:

	Three Months Ended March 31,	
	2014	2013
Revenue	\$ —	\$ 1,183

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Operating loss	\$ —	\$ (683 )
Other expense	\$ (106 )	\$ (69 )
Noncontrolling interest expense (recovery)	—	(42 )
Loss on disposal	—	(1,388 )
Net loss from discontinued operations attributable to MDC Partners Inc., net of taxes	\$ (106 )	\$ (2,182 )

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**7. Debt**

Debt consists of:

	March 31, 2014	December 31, 2013
Revolving credit agreement	\$ 32,292	\$ —
6.75% Senior Notes due 2020	660,000	660,000
Original issue premium	3,918	4,056
Notes payable and other bank loans	80	120
	696,290	664,176
Obligations under capital leases	934	952
	697,224	665,128
Less current portion:	424	467
	\$ 696,800	\$ 664,661

**MDC Financing Agreement and Senior Notes***Issuance of 6.75% Senior Notes*

On March 20, 2013, MDC Partners Inc. (“MDC”) entered into an indenture (the “Indenture”) among MDC, its existing and future restricted subsidiaries that guarantee, or are co-borrowers under or grant liens to secure, MDC’s senior secured revolving credit agreement (the “Credit Agreement”), as guarantors (the “Guarantors”) and The Bank of New York Mellon, as trustee, relating to the issuance by MDC of its 6.75% Senior Notes due 2020 (the 6.75% Notes”). The 6.75% Notes bear interest at a rate of 6.75% per annum, accruing from March 20, 2013. Interest is payable semiannually in arrears in cash on April 1 and October 1 of each year, beginning on October 1, 2013. The 6.75% Notes will mature on April 1, 2020, unless earlier redeemed or repurchased. The Company received net proceeds from the offering of the 6.75% Notes equal to approximately \$537,600. The Company used the net proceeds to redeem all of the existing 11% Notes, together with accrued interest, related premiums, fees and expenses and recorded a charge for loss on redemption of notes of \$55,588, including write offs of unamortized original issue premium and debt issuance costs. Remaining proceeds were used for general corporate purposes.

On November 15, 2013, the Company issued an additional \$110,000 aggregate principal amount of its 6.75% Notes. The additional notes were issued under the Indenture governing the 6.75% Notes and treated as a single series with the original 6.75% Notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of

\$111,925, which included an original issue premium of \$4,125, and underwriter fees of \$2,200. The Company used the net proceeds of the offering for general corporate purposes.

The 6.75% Notes are guaranteed on a senior unsecured basis by all of MDC's existing and future restricted subsidiaries that guarantee, or are co-borrowers under or grant liens to secure, the Credit Agreement. The 6.75% Notes are unsecured and unsubordinated obligations of MDC and rank (i) equally in right of payment with all of MDC's or any Guarantor's existing and future senior indebtedness, (ii) senior in right of payment to MDC's or any Guarantor's existing and future subordinated indebtedness, (iii) effectively subordinated to all of MDC's or any Guarantor's existing and future secured indebtedness to the extent of the collateral securing such indebtedness, including the Credit Agreement, and (iv) structurally subordinated to all existing and future liabilities of MDC's subsidiaries that are not Guarantors.

MDC may, at its option, redeem the 6.75% Notes in whole at any time or in part from time to time, on and after April 1, 2016 at a redemption price of 103.375% of the principal amount thereof if redeemed during the twelve-month period beginning on April 1, 2016, at a redemption price of 101.688% of the principal amount thereof if redeemed during the twelve-month period beginning on April 1, 2017 and at a redemption price of 100% of the principal amount thereof if redeemed on April 1, 2018 and thereafter.

Prior to April 1, 2016, MDC may, at its option, redeem some or all of the 6.75% Notes at a price equal to 100% of the principal amount of the 6.75% Notes plus a "make whole" premium and accrued and unpaid interest. MDC may also redeem, at its option, prior to April 1, 2016, up to 35% of the 6.75% Notes with the proceeds from one or more equity offerings at a redemption price of 106.750% of the principal amount thereof.

If MDC experiences certain kinds of changes of control (as defined in the Indenture), holders of the 6.75% Notes may require MDC to repurchase any 6.75% Notes held by them at a price equal to 101% of the principal amount of the 6.75% Notes plus accrued and unpaid interest. In addition, if MDC sells assets under certain circumstances, it must offer to repurchase the 6.75% Notes at a price equal to 100% of the principal amount of the 6.75% Notes plus accrued and unpaid interest.

## 7. Debt – (continued)

### *Credit Agreement*

The Indenture includes covenants that, among other things, restrict MDC's ability and the ability of its restricted subsidiaries (as defined in the Indenture) to incur or guarantee additional indebtedness; pay dividends on or redeem or repurchase the capital stock of MDC; make certain types of investments; create restrictions on the payment of dividends or other amounts from MDC's restricted subsidiaries; sell assets; enter into transactions with affiliates; create liens; enter into sale and leaseback transactions; and consolidate or merge with or into, or sell substantially all of MDC's assets to, another person. These covenants are subject to a number of important limitations and exceptions. The 6.75% Notes are also subject to customary events of default, including cross-payment default and cross-acceleration provision.

On March 20, 2013, MDC, Maxxcom Inc. (a subsidiary of MDC) and each of their subsidiaries party thereto entered into an amended and restated, \$225 million senior secured revolving credit agreement due 2018 (the "Credit Agreement") with Wells Fargo Capital Finance, LLC, as agent, and the lenders from time to time party thereto. Advances under the Credit Agreement will be used for working capital and general corporate purposes, in each case pursuant to the terms of the Credit Agreement. Capitalized terms used in this section and not otherwise defined have the meanings set forth in the Credit Agreement.

Advances under the Credit Agreement bear interest as follows: (a)(i) LIBOR Rate Loans bear interest at the LIBOR Rate and (ii) Base Rate Loans bear interest at the Base Rate, plus (b) an applicable margin. The initial applicable margin for borrowing is 1.25% in the case of

Base Rate Loans and 2.00% in the case of LIBOR Rate Loans. In addition to paying interest on outstanding principal under the Credit Agreement, MDC is required to pay an unused revolver fee to lenders under the Credit Agreement in respect of unused commitments thereunder.

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

subject to customary events of default.

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

At March 31, 2014, the Company had issued \$5,192 of undrawn outstanding Letters of Credit.

At March 31, 2014 and December 31, 2013, accounts payable included \$27,459 and \$34,312 of outstanding checks, respectively.

## 8. Fair Value Measurements

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

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

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

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

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

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

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 March 31, 2014 and December 31, 2013:

	Level 1 March 31, 2014		Level 1 December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
6.75% Notes due 2020	\$ 663,918	\$ 694,650	\$ 664,056	\$ 690,525

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

The following table presents changes in Deferred Acquisition Consideration.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	March 31, 2014	December 31, 2013
Beginning Balance of contingent payments	\$ 151,848	\$ 194,795
Payments	(3,965 )	(106,460 )
Grants	46,088	31,608
Redemption value adjustments	9,415	38,712
Transfers (to) from fixed payments	(5,146 )	(6,318 )
Foreign translation adjustment	(270 )	(489 )
Ending Balance of contingent payments	\$ 197,970	\$ 151,848

In addition to the above amounts, there are fixed payments of \$20,808 and \$2,065 for total deferred acquisition consideration of \$218,778 and \$153,913, which reconciles to the consolidated financial statements at March 31, 2014 and December 31, 2013, 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 March 31, 2014 and December 31, 2013, the carrying amount of the Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximated fair value because of their short-term maturity.

**9. Other Income (Expense)**

	Three Months Ended March 31,	
	2014	2013
Other income (expense)	\$ (20 )	\$ (307 )
Distribution in excess of carrying value	—	3,058
Foreign currency loss	(6,517 )	(62 )
	\$ (6,537 )	\$ 2,689

## 10. Segment Information

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

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

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

The *Strategic Marketing Services* segment consists of integrated marketing consulting services firms that offer a full complement of marketing, activation and consulting services including advertising and media, marketing communications including direct marketing, public relations, corporate communications, market research, corporate identity and branding, interactive marketing, and sales promotion. Each of the entities within the Strategic Marketing Services Group share similar economic characteristics, specifically related to the nature of their respective services, the manner in which the services are provided and the similarity of their respective customers. Due to the similarities in these businesses, they exhibit similar long term financial performance and have been aggregated together.

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

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

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

**Three Months Ended March 31, 2014**

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 205,948	\$ 86,621	\$—	\$292,569
Cost of services sold	133,132	58,561	—	191,693
Office and general expenses	44,167	24,032	9,975	78,174
Depreciation and amortization	5,046	5,747	502	11,295
Operating Profit (Loss)	23,603	(1,719 )	(10,477 )	11,407
Other Income (Expense):				
Other income, net				(6,537 )
Interest expense, net				(12,645 )
Loss from continuing operations before income taxes, equity in affiliates				(7,775 )
Income tax benefit				(334 )
Loss from continuing operations before equity in affiliates				(7,441 )
Equity in earnings of non-consolidated affiliates				63
Loss from continuing operations				(7,378 )
Loss from discontinuing operations attributable to MDC Partners Inc., net of taxes				(106 )
Net loss				(7,484 )
Net income attributable to the noncontrolling interests	(1,342 )	(20 )	—	(1,362 )
Net loss attributable to MDC Partners Inc.				\$(8,846 )
Stock based compensation	\$ 2,139	\$ 1,277	\$952	\$4,368

Supplemental Segment Information:

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Capital expenditures	\$ 1,621	\$ 854	\$541	\$3,016
Goodwill and intangibles	\$ 512,931	\$ 433,724	\$—	\$946,655
Total Assets	\$ 839,792	\$ 594,088	\$ 136,392	\$1,570,272

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**Three Months Ended March 31, 2013**

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 183,430	\$ 82,206	\$—	\$265,636
Cost of services sold	118,571	59,287	—	177,858
Office and general expenses	36,428	20,787	10,145	67,360
Depreciation and amortization	5,774	3,340	365	9,479
Operating Profit (Loss)	22,657	(1,208 )	(10,510 )	10,939
Other Income (Expense):				
Other expense, net				2,689
Interest expense, net				(67,913 )
Loss from continuing operations before income taxes, equity in affiliates				(54,285 )
Income tax benefit				(14,250 )
Loss from continuing operations before equity in affiliates				(40,035 )
Equity in earnings of non-consolidated affiliates				41
Loss from continuing operations				(39,994 )
Loss from discontinuing operations attributable to MDC Partners Inc., net of taxes				(2,182 )
Net loss				(42,176 )
Net income attributable to the noncontrolling interests	(762 )	(220 )	—	(982 )
Net loss attributable to MDC Partners Inc.				\$(43,158 )
Stock based compensation	\$ 1,141	\$ 829	\$2,531	\$4,501
Supplemental Segment Information:				
Capital expenditures	\$ 1,774	\$ 1,052	\$ 89	\$2,915
Goodwill and intangibles	\$ 528,944	\$ 248,096	\$—	\$777,040

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Total Assets	\$ 852,901	\$ 404,072	\$ 161,536	\$ 1,418,509
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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 March 31,				
2014	\$243,305	\$30,913	\$18,351	\$292,569
2013	\$219,509	\$32,055	\$14,072	\$265,636

## 11. Commitments, Contingencies and Guarantees

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

*Put Options.* Owners of interests in certain subsidiaries have the right in certain circumstances to require the Company to acquire the remaining ownership interests held by them. The owners' ability to exercise any such "put option" right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise. In addition, these rights cannot be exercised prior to specified staggered exercise dates. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund the related amounts during the remainder of 2014 to 2019. It is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights.

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

Management estimates, assuming that the subsidiaries owned by the Company at March 31, 2014, perform over the relevant future periods at their trailing twelve-months earnings levels, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate amount of approximately \$16,440 to the owners of such rights to acquire such ownership interests in the relevant subsidiaries. Of this amount, the Company is entitled, at its option, to fund approximately \$1,039 by the issuance of share capital. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately \$139,540 only upon termination of such owner's employment with the applicable subsidiary or death. Included in redeemable noncontrolling interests at March 31, 2014 is \$155,980 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 months ended March 31, 2014 and 2013, these operations did not incur any costs related to damages resulting from hurricanes.

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

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

*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 \$6,334 of investments. At March 31, 2014, the Company had issued \$5,192 of undrawn outstanding letters of credit.

## **12. New Accounting Pronouncements**

In April 2014, the FASB issued Standards Update No 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment. This update changes the requirements for reporting discontinued operations and requires additional disclosures. This guidance is effective for the Company beginning January 1, 2015. The implementation of the amended accounting guidance is not expected to have a material impact on our consolidated financial position or results of operations.

## **13. Subsequent Events**

On April 2, 2014, the Company issued an additional \$75,000 aggregate principal amount of 6.75% senior unsecured notes due 2020 (the "Notes"). The additional notes were issued under the Indenture governing the 6.75% Notes and treated as a single series with the original 6.75% Notes. The additional notes were sold in private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of \$77,452, which included an original issue premium of \$3,938, and underwriter fees of \$1,500 and prepayment of interest of \$14. MDC intends to use the proceeds from the offering for general corporate purposes, including the funding of deferred acquisition consideration, working capital, acquisitions and the repayment of the amount outstanding (if any) under our senior secured revolving credit facility.

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

Unless otherwise indicated, references to the "Company" mean MDC Partners Inc. and its subsidiaries, and references to a fiscal year means the Company's year commencing on January 1 of that year and ending December 31 of that year (e.g., fiscal 2014 means the period beginning January 1, 2014, and ending December 31, 2014).

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

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

## Executive Summary

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

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

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

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

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

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

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

### **Certain Factors Affecting Our Business**

*Overall Factors Affecting our Business and Results of Operations.* The most significant factors include national, regional and local economic conditions, our clients' profitability, mergers and acquisitions of our clients, changes in top management of our clients and our ability to retain and attract key employees. New business wins and client losses occur 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 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 2014 period, which affected revenues, expenses, operating income and net income. Additional information regarding material acquisitions is provided in Note 4 "Acquisitions" and information on dispositions is provided in Note 6 "Discontinued Operations" in the Notes to the Unaudited Condensed Consolidated Financial Statements.

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

*Seasonality.* Historically, with some exceptions, we generate the highest quarterly revenues during the fourth quarter in each year. The fourth quarter has historically been the period in the year in which the highest volumes of media

placements and retail related consumer marketing occur.

**Results of Operations:****Three Months Ended March 31, 2014**

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 205,948	\$ 86,621	\$—	\$292,569
Cost of services sold	133,132	58,561	—	191,693
Office and general expenses	44,167	24,032	9,975	78,174
Depreciation and amortization	5,046	5,747	502	11,295
Operating Profit (Loss)	23,603	(1,719 )	(10,477 )	11,407
Other Income (Expense):				
Other income, net				(6,537 )
Interest expense, net				(12,645 )
Loss from continuing operations before income taxes, equity in affiliates				(7,775 )
Income tax benefit				(334 )
Loss from continuing operations before equity in affiliates				(7,441 )
Equity in earnings of non-consolidated affiliates				63
Loss from continuing operations				(7,378 )
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(106 )
Net loss				(7,484 )
Net income attributable to the noncontrolling interests	(1,342 )	(20 )	—	(1,362 )
Net loss attributable to MDC Partners Inc.				\$(8,846 )
Stock based compensation	\$ 2,139	\$ 1,277	\$ 952	\$4,368



**Three Months Ended March 31, 2013**

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$ 183,430	\$ 82,206	\$—	\$265,636
Cost of services sold	118,571	59,287	—	177,858
Office and general expenses	36,428	20,787	10,145	67,360
Depreciation and amortization	5,774	3,340	365	9,479
Operating Profit (Loss)	22,657	(1,208 )	(10,510 )	10,939
Other Income (Expense):				
Other income, net				2,689
Interest expense, net				(67,913 )
Loss from continuing operations before income taxes, equity in affiliates				(54,285 )
Income tax benefit				(14,250 )
Loss from continuing operations before equity in affiliates				(40,035 )
Equity in earnings of non-consolidated affiliates				41
Loss from continuing operations				(39,994 )
Loss from discontinued operations attributable to MDC Partners Inc. net of taxes				(2,182 )
Net loss				(42,176 )
Net income attributable to the noncontrolling interests	(762 )	(220 )	—	(982 )
Net loss attributable to MDC Partners Inc.				\$(43,158 )
Stock based compensation	\$ 1,141	\$ 829	\$2,531	\$4,501

**Three Months Ended March 31, 2014, Compared to Three Months Ended March 31, 2013**

Revenue was \$292.6 million for the quarter ended March 31, 2014, representing an increase of \$26.9 million, or 10.1%, compared to revenue of \$265.6 million for the quarter ended March 31, 2013. This revenue increase related primarily to organic growth of \$22.1 million and acquisition growth of \$7.4 million. A strengthening of the US Dollar, primarily versus the Canadian dollar during the quarter ended March 31, 2014, resulted in decreased revenues of \$2.6 million.

The operating profit for the quarter ended March 31, 2014 was \$11.4 million, compared to operating profit of \$10.9 million for the quarter ended March 31, 2013. The increase in operating profit was primarily the result of an increase in operating profit of \$0.9 million in the Strategic Marketing Services segment, offset by a decrease of \$0.5 million within the Performance Marketing Services segment.

Loss from continuing operations for the first quarter of 2014 was \$7.4 million, compared to a loss of \$40.0 million for the first quarter ended March 31, 2013. This decrease in loss of \$32.6 million was primarily the result of the 2013 premium on redemption of notes of \$55.6 million, offset by a decrease in other income of \$9.2 million, and a decrease in the income tax benefit of \$13.9 million.

**Marketing Communications Group**

Revenues in the third quarter of 2014 attributable to the Marketing Communications Group, which consists of two reportable segments — Strategic Marketing Services and Performance Marketing Services, were \$292.6 million compared to \$265.6 million in the first quarter of 2013, representing a year-over-year increase of 10.1%.

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

	Revenue	
	\$ 000's	%
Quarter ended March 31, 2013	\$265,636	
Organic	22,056	8.3 %
Acquisitions	7,445	2.8 %
Foreign exchange impact	(2,568 )	(1.0 )%

Quarter ended March 31, 2014 \$292,569 10.1%

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

	2014	2013
US	83 %	83 %
Canada	11 %	12 %
Other	6 %	5 %

The operating profit of the Marketing Communications Group increased by \$0.4 million to \$21.9 million from \$21.5 million. Operating margins decreased by 0.7% and were 7.5% for 2014, compared to 8.1% for 2013. The increase in operating profit and decrease in operating margin was primarily due to increases in revenue and decreases in total staff costs, offset by increases in direct costs, (excluding staff costs) office and general expenses, and depreciation and amortization. Direct costs increased as a percentage of revenues from 13.4% in 2013, to 13.7% in 2014. Total staff costs decreased as a percentage of revenue from 61.1% in 2013 to 59.4% in 2014. Total staff costs decreased as the Company continues to benefit from prior investments in staff which have resulted in increased revenues. Direct costs increased as there were increased pass-through costs incurred on the clients' behalf during the first quarter of 2014 where the company was acting as principal versus agent for certain client contracts. Office and general expenses increased as a percentage of revenue from 21.5% in 2013, to 23.3% in 2014. This increase was primarily due to an increase of \$5.7 million in expense relating to estimated deferred acquisition consideration. Depreciation and amortization as a percentage of revenue increased from 3.4% in 2013 to 3.7% in 2014 due to the recent acquisitions in the fourth quarter of 2013 and first quarter of 2014.

### ***Strategic Marketing Services***

Revenues attributable to Strategic Marketing Services in the first quarter of 2014 were \$205.9 million, compared to \$183.4 million in the first quarter of 2013. The year-over-year increase of \$22.5 million or 12.3% was attributable primarily to organic growth as a result of net new business wins. A strengthening of the US dollar versus the Canadian dollar in 2014 compared to 2013 resulted in a decrease in revenues from the segment's Canadian-based operations.

The operating profit of Strategic Marketing Services increased by \$0.9 million from \$22.7 million in the first quarter of 2013 to \$23.6 million in the first quarter of 2014. Operating margins decreased from 12.4% in the first quarter of 2013 to 11.5% in the first quarter of 2014. The increase in operating profits and decrease in operating margins was primarily due to increases in revenues and decreases in direct costs (excluding staff labor), and depreciation and amortization, offset by increases in total staff costs and office and general costs. Direct costs decreased from 9.1% in 2013 to 8.7% in 2014. Total staff costs increased as a percentage of revenue from 61.3% in the first quarter of 2013 to 62.0% in the first quarter of 2014. Total staff costs increased due to severance costs incurred due to certain client losses. Office and general expenses increased as a percentage of revenue from 19.9% in the first quarter of 2013 to 21.5% in the first quarter of 2014. The increase was due to an increase of \$3.9 million in expense relating to estimated deferred acquisition consideration. Depreciation and amortization as a percentage of revenue decreased from 3.2% in the first quarter of 2013 to 2.5% in the first quarter of 2014 due to increased revenue on relatively fixed costs.

### ***Performance Marketing Services***

The Performance Marketing Services segment generated revenues of \$86.6 million for the first quarter of 2014, an increase of \$4.4 million, or 5.4% compared to \$82.2 million in the first quarter of 2013. The year over year increase was attributed primarily to acquisition growth of 9.1%, offset by an organic revenue decline of 1.7% due to timing of when client projects and events will be executed. In addition, a strengthening of the US dollar versus the Canadian dollar in 2014 compared to 2013 resulted in a decrease in revenues from the segment's Canadian-based operations.

The operating profit of Performance Marketing Services decreased by \$0.5 million, from an operating loss of \$1.2 million in the first quarter of 2013 to a loss of \$1.7 million in the first quarter of 2014. Operating margins decreased from a loss of 1.5% in 2013, to a loss of 2.0% in 2014. The decrease in operating profits and operating margins were primarily due to increases in direct costs, (excluding staff labor), office and general costs and depreciation and amortization, offset by a decrease in total staff costs. Total staff costs decreased from 60.5% in 2013 to 53.2% in 2014 continuing the trend started in 2013 to reduce overall staff costs. Direct costs increased from 22.9% in 2013 to 25.6% in 2014. Office and general costs increased from 25.3% in 2013 to 27.7% in 2014. The increase was due to an increase of \$1.8 million in expense relating to estimated deferred acquisition consideration. Depreciation and amortization increased from 4.1% in 2013 to 6.6% in 2014 due to the recent acquisitions in the fourth quarter of 2013 and first quarter of 2014.

*Corporate*

Operating costs related to the Company's Corporate operations totaled \$10.5 million in the first quarter of 2014 and the first quarter of 2013. Overall corporate operation costs were consistent year over year.

***Other Income, Net***

Other income (expense) decreased to expense of \$6.5 million in the first quarter of 2014 compared to income of \$2.7 million in the first quarter of 2013. The decrease was primarily related to a distribution received in excess of the assets carrying value of \$3.1 million, and an unrealized foreign exchange loss of \$0.1 million in 2013 compared to an unrealized foreign exchange loss of \$6.5 million in 2014. Specifically, these unrealized losses were due primarily to the fluctuation in the US dollar during 2014 and 2013 compared to the Canadian dollar primarily on the Company's US dollar denominated intercompany balances with its Canadian subsidiaries.

***Net Interest Expense***

Net interest expense for the first quarter of 2014 was \$12.6 million, a decrease of \$55.3 million over the \$67.9 million of net interest expense incurred during the first quarter of 2013. The decrease in interest expense in 2014 was due to the 2013 loss paid on the redemption of the Company's 11% Notes of \$55.6 million, offset by an increase in the outstanding principal amount of 6.75% notes.

***Income Taxes***

Income tax benefit was \$0.3 million in the first quarter of 2014 compared to a benefit of \$14.3 million for the first quarter of 2013. The Company's effective tax rate in 2014 was substantially lower due to noncontrolling interest charges, offset by non-deductible stock based compensation. In addition, the Company's effective tax rate was lower due to losses in certain tax jurisdictions where the benefits are not expected to be realized. The Company's 2013 effective rate is consistent with the statutory rate.

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

***Equity in Affiliates***

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

***Noncontrolling Interests***

Net income attributable to the noncontrolling interests was \$1.4 million for the first quarter of 2014, an increase of \$0.4 million from the \$1.0 million of noncontrolling interest expense incurred during the first quarter of 2013, primarily due to the Company's increase in profitability of certain entities within the Strategic Marketing Services segment.

***Discontinued Operations Attributable to MDC Partners Inc.***

The loss from discontinued operations was \$0.1 million for the first quarter of 2014 and \$2.2 million for the first quarter of 2013.

***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 quarter of 2014 was \$8.8 million, or a loss of \$0.18 per diluted share. This amount is compared to a net loss attributable to MDC Partners Inc. of \$43.2 million or a loss of \$0.92 per diluted share reported for the first quarter of 2013.

**Liquidity and Capital Resources:*****Liquidity***

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

	As of and for the three months ended March 31, 2014 (000's)	As of and for the three months ended March 31, 2013 (000's)	As of and for the year ended December 31, 2013 (000's)
Cash and cash equivalents	\$ 17,497	\$ 71,360	\$ 102,007
Working capital (deficit)	\$ (218,715)	) \$ (165,908)	) \$ (189,815)
Cash from (used in) operations	\$ (39,302)	) \$ (32,958)	) \$ 59,299
Cash from (used in) investing	\$ (44,743)	) \$ (1,021)	) \$ (30,124)
Cash from (used in) financing	\$ (491)	) \$ 45,068	\$ 10,492
Long-term debt to total equity ratio	(2.79)	) (4.19)	) (2.40)
Fixed charge coverage ratio	N/A	N/A	N/A
Fixed charge deficiency	\$ 7,767	\$ 51,189	\$ 131,829

As of March 31, 2014 and December 31, 2013, \$7.4 million and \$0.7 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 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 March 31, 2014, the Company had a working capital deficit of \$218.7 million compared to a deficit of \$189.8 million at December 31, 2013. The increase in working capital deficit was primarily due to seasonal shifts in the amounts collected from clients, and paid to suppliers, primarily media outlets. The Company includes amounts due to noncontrolling interest holders, for their share of profits, in accrued and other liabilities. At March 31, 2014, \$4.2 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 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 by continuing operations, including changes in non-cash working capital, for the three months ended March 31, 2014 was \$39.2 million. This was attributable to the loss from continuing operations of \$7.4 million, an increase in accounts receivable of \$54.5 million, a net increase in other non-current assets and liabilities of \$12.2 million, an increase in prepaid expenses and other current assets of \$9.2 million, a decrease in accounts payable, accruals, and other liabilities of \$8.3 million, expenditures billable to clients of \$6.2 million, and deferred income taxes of \$0.6 million. This was offset in part by an increase in advanced billings of \$29.4 million, depreciation and amortization of intangibles and stock compensation of \$15.7 million, amortization of deferred finance charges and debt discount of \$0.6 million, adjustments to deferred acquisition consideration of \$8.4 million and foreign exchange of \$5.1 million. Discontinued operations attributable to MDC Partners used cash of \$0.1 million in the three months ended March 31, 2014.

Cash flow used in continuing operations, including changes in non-cash working capital, for the three months ended March 31, 2013 was \$31.5 million. This was attributable primarily to a net loss from continuing operations of \$40.0 million, an increase in accounts receivable of \$41.3 million, a decrease in deferred income tax of \$14.6 million, a decrease in accounts payables, accruals, and other liabilities of \$13.3 million, an increase in prepaid expenses and other current assets of \$5.9 million, distributions in excess of carrying value of \$3.1 million, and an increase in expenditures billable to clients of \$0.3 million. This use of cash was offset by the loss on the redemption of notes of \$50.4 million, depreciation and amortization of intangibles and stock compensation of \$14.0 million, an increase in advanced billings of \$13.0 million, amortization of deferred financing costs and debt discount of \$5.7 million, adjustments to deferred acquisition consideration for \$2.3 million, a decrease in other non-current assets and liabilities of \$1.2 million and foreign exchange of \$0.4 million. Discontinued operations attributable to MDC Partners used cash of \$1.5 million in the three months ended March 31, 2013.

*Investing Activities*

Cash flows used in investing activities was \$44.7 million for the three months ended March 31, 2014, compared with a cash flow used of \$1.0 million in the three months ended March 31, 2013. In the three months ended March 31, 2014, the Company used \$40.0 million, net of cash acquired for the Kingsdale Partners LP and Luntz Global Partners LLC acquisitions. The Company also used \$2.1 million for other investments. These outflows were offset by \$0.3 million of profit distributions from affiliates.

In the three months ended March 31, 2014, capital expenditures totaled \$3.0 million, of which \$1.6 million was incurred by the Strategic Marketing Services segment, \$0.9 million was incurred by the Performance Marketing Services segment, and \$0.5 million was incurred by corporate. In the three months ended March 31, 2013, capital expenditures totaled \$2.9 million, of which \$1.7 million was incurred by the Strategic Marketing Services segment, \$1.1 million was incurred by the Performance Marketing Services segment, and \$0.1 million was incurred by corporate. These expenditures consisted primarily of computer equipment, furniture and fixtures, and leasehold improvements.

In the three months ended March 31, 2013, the Company paid \$1.2 million for other investments. These outflows were offset by \$3.1 million of profit distributions from affiliates.

*Financing Activities*

During the three months ended March 31, 2014, cash flows used in financing activities amounted to \$0.5 million, and consisted of \$10.7 million of acquisition related payments, payment of dividends of \$9.7 million, cash overdraft of \$6.9 million, the purchase of treasury shares for income tax withholding requirements of \$3.1 million, distributions to noncontrolling partners of \$2.3 million, and repayments of long term debt of \$0.1 million, offset by \$32.3 million borrowed under the credit agreement.

During the three months ended March 31, 2013, cash flows provided by financing activities amounted to \$45.1 million, and consisted primarily of proceeds from the issuance of the 6.75% Notes of \$550.0 million offset by the repayment of the 11% Notes of \$425.0 million, premium paid on redemption of notes of \$50.4 million, and deferred financing costs of \$16.0 million. In addition, there was cash overdrafts of \$5.8 million, \$2.2 million of acquisition related payments, the purchase of treasury shares for income tax withholding requirements of \$3.4 million, \$1.4 million of distributions to noncontrolling partners, repayments of long term debt of \$0.6 million and \$0.2 million of dividend payments.

*Total Debt*

***6.75% Senior Notes Due 2020***

On March 20, 2013, MDC Partners Inc. (“MDC”) entered into an indenture (the “Indenture”) among MDC, its existing and future restricted subsidiaries that guarantee, or are co-borrowers under or grant liens to secure, MDC’s senior secured revolving credit agreement (the “Credit Agreement”), as guarantors (the “Guarantors”) and The Bank of New York Mellon, as trustee, relating to the issuance by MDC of its 6.75% Senior Notes due 2020 (the “6.75% Notes”). The 6.75% Notes bear interest at a rate of 6.75% per annum, accruing from March 20, 2013. Interest is payable semiannually in arrears in cash on April 1 and October 1 of each year, beginning on October 1, 2013. The 6.75% Notes will mature on April 1, 2020, unless earlier redeemed or repurchased. The Company received net proceeds from the offering of the 6.75% Notes equal to approximately \$537.6 million. The Company used the net proceeds to redeem all of the existing 11% Notes, together with accrued interest, related premiums, fees and expenses and recorded a charge during the nine months ended September 30, 2013, for loss on redemption of notes of \$55.6 million, including write offs of unamortized original issue premium and debt issuance costs. Remaining proceeds were used for general corporate purposes.

On November 15, 2013, the Company issued an additional \$110 million aggregate principal amount of its 6.75% Notes. The additional notes were issued under the Indenture governing the 6.75% Notes and treated as a single series with the original 6.75% Notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of \$111.9 million, which included an original issue premium of \$4.1 million, and underwriter fees of \$2.2 million. The Company used the net proceeds of the offering for general corporate purposes.

The 6.75% Notes are guaranteed on a senior unsecured basis by all of MDC’s existing and future restricted subsidiaries that guarantee, or are co-borrowers under or grant liens to secure, the Credit Agreement. The 6.75% Notes are unsecured and unsubordinated obligations of MDC and rank (i) equally in right of payment with all of MDC’s or any Guarantor’s existing and future senior indebtedness, (ii) senior in right of payment to MDC’s or any Guarantor’s existing and future subordinated indebtedness, (iii) effectively subordinated to all of MDC’s or any Guarantor’s existing and future secured indebtedness to the extent of the collateral securing such indebtedness, including the Credit Agreement, and (iv) structurally subordinated to all existing and future liabilities of MDC’s subsidiaries that are not Guarantors.

MDC may, at its option, redeem the 6.75% Notes in whole at any time or in part from time to time, on and after April 1, 2016 at a redemption price of 103.375% of the principal amount thereof if redeemed during the twelve-month period beginning on April 1, 2016, at a redemption price of 101.688% of the principal amount thereof if redeemed during the twelve-month period beginning on April 1, 2017 and at a redemption price of 100% of the principal amount thereof if redeemed on April 1, 2018 and thereafter.

Prior to April 1, 2016, MDC may, at its option, redeem some or all of the 6.75% Notes at a price equal to 100% of the principal amount of the 6.75% Notes plus a “make whole” premium and accrued and unpaid interest. MDC may also redeem, at its option, prior to April 1, 2016, up to 35% of the 6.75% Notes with the proceeds from one or more equity offerings at a redemption price of 106.750% of the principal amount thereof.

If MDC experiences certain kinds of changes of control (as defined in the Indenture), holders of the 6.75% Notes may require MDC to repurchase any 6.75% Notes held by them at a price equal to 101% of the principal amount of the 6.75% Notes plus accrued and unpaid interest. In addition, if MDC sells assets under certain circumstances, it must offer to repurchase the 6.75% Notes at a price equal to 100% of the principal amount of the 6.75% Notes plus accrued and unpaid interest.

The Indenture includes covenants that, among other things, restrict MDC’s ability and the ability of its restricted subsidiaries (as defined in the Indenture) to incur or guarantee additional indebtedness; pay dividends on or redeem or repurchase the capital stock of MDC; make certain types of investments; create restrictions on the payment of dividends or other amounts from MDC’s restricted subsidiaries; sell assets; enter into transactions with affiliates; create liens; enter into sale and leaseback transactions; and consolidate or merge with or into, or sell substantially all of MDC’s assets to, another person. These covenants are subject to a number of important limitations and exceptions. The 6.75% Notes are also subject to customary events of default, including cross-payment default and cross-acceleration provisions.

#### ***Redemption of 11% Senior Notes Due 2016***

On March 20, 2013, the Company redeemed all of the 11% Senior Notes due 2016.

*Revolving Credit Agreement*

On March 20, 2013, MDC, Maxxcom Inc. (a subsidiary of MDC) and each of their subsidiaries party thereto entered into an amended and restated, \$225 million senior secured revolving credit agreement due 2018 (the "Credit Agreement") with Wells Fargo Capital Finance, LLC, as agent, and the lenders from time to time party thereto. Advances under the Credit Agreement will be used for working capital and general corporate purposes, in each case pursuant to the terms of the Credit Agreement. Capitalized terms used in this section and not otherwise defined have the meanings set forth in the Credit Agreement .

Advances under the Credit Agreement bear interest as follows: (a)(i) LIBOR Rate Loans bear interest at the LIBOR Rate and (ii) Base Rate Loans bear interest at the Base Rate, plus (b) an applicable margin. The initial applicable margin for borrowing is 1.25% in the case of Base Rate Loans and 2.00% in the case of LIBOR Rate Loans. In addition to paying interest on outstanding principal under the Credit Agreement, MDC is required to pay an unused revolver fee to lenders under the Credit Agreement in respect of unused commitments thereunder.

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

The foregoing descriptions of the Indenture and the Credit Agreement do not purport to be complete and are qualified in their entirety by reference to the full text of the agreements.

Debt as of March 31, 2014 was \$697.2 million, an increase of \$32.1 million, compared with \$665.1 million outstanding at December 31, 2013. This increase in debt was a result of the Company's borrowing on the Credit Agreement. At March 31, 2014, approximately \$187.5 million was available under the Credit Agreement.

The Company is currently in compliance with all of the terms and conditions of the 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 Credit Agreement, or if the Company uses the maximum available amount under the 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 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, in each case as such term is specifically defined in the Credit Agreement. For the period ended March 31, 2014, the Company's calculation of each of these covenants, and the specific requirements under the Credit Agreement, respectively, were as follows:

	March 31, 2014
Total Senior Leverage Ratio	0.20
Maximum per covenant	2.00
Total Leverage Ratio	3.74
Maximum per covenant	5.50
Fixed Charges Ratio	5.89
Minimum per covenant	1.00
Earnings before interest, taxes, depreciation and amortization	\$ 186,926
Minimum per covenant	\$ 105,000

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 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 five-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 at March 31, 2014. The actual amount that the Company pays in connection with the obligations may differ materially from this estimate. At March 31, 2014, there was \$218.8 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 remainder of 2014 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 March 31, 2014, 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 \$16.4 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 \$1.0 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 \$139.4 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 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 \$2.2 million of the estimated \$16.4 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 \$4.6 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)	2014	2015	2016	2017	2018 & Thereafter	Total
	(\$ Millions)					
Cash	\$1.8	\$3.7	\$3.7	\$4.1	\$ 2.1	\$15.4
Shares	0.3	0.3	0.4	0.0	0.0	1.0
	\$2.1	\$4.0	\$4.1	\$4.1	\$ 2.1	\$16.4(1)
Operating income before depreciation and amortization to be received(2)	\$1.7	\$1.9	\$0.1	\$0.9	\$ —	\$4.6
Cumulative operating income before depreciation and amortization(3)	\$1.7	\$3.6	\$3.7	\$4.6	\$ 4.6	(5)

This amount is in addition to put options only exercisable upon termination not within the control of the Company, (1) or death, of \$139.5 million, has been recognized in Redeemable Noncontrolling Interests on the Company's balance sheet.

(2)



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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 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 sales and other 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 after 2009 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 Credit Agreement, and the Senior Notes. The Company amortizes deferred financing costs using the effective interest method over the life of the Senior Notes and straight line over the life of the revolving Credit Agreement.

*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 amounts paid by shareholders to employees as a stock based compensation charge with a corresponding credit to additional paid-in capital.

### **New Accounting Pronouncements**

In April 2014, the FASB issued Standards Update No 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment. This update changes the requirements for reporting discontinued operations and requires additional disclosures. This guidance is effective for the Company beginning January 1, 2015. The implementation of the amended accounting guidance is not expected to have a material impact on our consolidated financial position or results of operations.

## 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 conditions;
  - 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 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 2013 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 March 31, 2014, the Company's debt obligations consisted of amounts outstanding under its Credit Agreement and Senior Notes. The Senior Notes bear a fixed 6.75% interest rate. The 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 that there were \$32.3 million borrowings under the Credit Agreement, as of March 31, 2014, a 1.0% increase or decrease in the weighted average interest rate, which was 4.5% at March 31, 2014, would have a \$0.3 million interest impact.

**Foreign Exchange:** The Company conducts business in several currencies around the world. 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 incur a \$2.0 million 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(e) and 15(d)-15(e) of the Exchange Act. Based on that evaluation, our CEO and CFO concluded that, as of March 31, 2014, 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 March 31, 2014 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 first quarter of 2014 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

The certifications of our Chief Executive Officer and our Chief Financial Officer that are Exhibits 31.1 and 31.2, respectively, should be read in conjunction with the foregoing information for a more complete understanding of the references in those Exhibits to disclosure controls and procedures and 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, 2013.

### **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*

April 29, 2014

**EXHIBIT INDEX**

**Exhibit No. Description**

- 4.1 Fourth Supplemental Indenture, dated as of March 14, 2014, to the Indenture, dated as of March 20, 2013, among the Company, the Note Guarantors and The Bank of New York Mellon, as trustee, including the form of 6.75% Senior Notes due 2020.\*
- 4.2 Fifth Supplemental Indenture, dated as of April 2, 2014, to the Indenture, dated as of March 20, 2013, among the Company, the Note Guarantors and The Bank of New York Mellon, as trustee, including the form of 6.75% Senior Notes due 2020 (incorporated by reference to the Company's Current Report on Form 8-K filed on April 2, 2014).
- 10.1 Consent and Third Amendment, with an effective date of March 27, 2014, to Amended and Restated Credit Agreement, dated as of March 20, 2013, among the Company, Maxxcom Inc., a Delaware corporation, each of their subsidiaries party thereto, Wells Fargo Capital Finance, LLC, as agent, and the lenders from time to time party thereto (incorporated by reference to the Company's Current Report on Form 8-K filed on March 28, 2014).
- 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.\*
- 101 Interactive data file.\*

\* Filed electronically herewith.