MDC PARTNERS INC
Form 10-K
March 18, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2018
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to ______
Commission File Number 001-13718

MDC PARTNERS INC.
(Exact Name of Registrant as Specified in Its Charter)

Canada	98-0364441
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

745 Fifth Avenue, 19th Floor, New York, New York, 10151
(646) 429-1800
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Subordinate Voting Shares, no par value	NASDAQ

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.Yes o No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.Yes o No ý
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 ý No o
Indicate by check mark whether the registrant has submitted electronically and every Interactive Data File required to be submitted 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 such files).Yes ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,”and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer ý Non-accelerated filer o Smaller reporting company o Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).Yes o No ý
The aggregate market value of the shares of all classes of voting and non-voting common stock of the registrant held by non-affiliates as of June 29, 2018, the last business day of the Registrant’s most recently completed second fiscal quarter, was approximately $223.8 million, computed upon the basis of the closing sales price $4.60 of the Class A subordinate voting shares on that date.
As of February 28, 2019, there were 57,577,825 outstanding shares of Class A subordinate voting shares without par value, and 3,755 outstanding shares of Class B multiple voting shares without par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s Proxy Statement relating to the 2019 Annual General Meeting of Stockholders are incorporated by reference in Part III of this report.

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References in this Annual Report on Form 10-K to “MDC Partners,” “MDC,” the “Company,” “we,” “us” and “our” refer to M
Partners Inc. and, unless the context otherwise requires or otherwise is expressly stated, its subsidiaries. References in the Annual Report on Form 10-K to “Partner Firms” generally refer to the Company’s subsidiary agencies.

All dollar amounts are stated in U.S. dollars unless otherwise stated.

DOCUMENTS INCORPORATED BY REFERENCE

The following sections of the Proxy Statement for the Annual Meeting of Stockholders to be held on June 4, 2019, are incorporated by reference in Parts I and III: “Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Executive Compensation,” “Report of the Human Resources and Compensation Committee on Executive Compensation,” “Outstanding Shares,” “Appointment of Auditors,” and “Certain Relationships and Related Transactions.”

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FORWARD-LOOKING STATEMENTS

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, recent business and economic trends, potential acquisitions, and estimates of amounts for redeemable noncontrolling interests and deferred acquisition consideration, 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 achieve the full amount of its stated cost saving initiatives;
- 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 redeemable noncontrolling interests and deferred acquisition consideration;
- the successful completion and integration of acquisitions which complement and expand the Company's business capabilities; and
- foreign currency fluctuations.

Investors should carefully consider these risk factors and the additional risk factors outlined in more detail in this Annual Report on Form 10-K under Item 1A, under the caption "Risk Factors" and in the Company's other SEC filings.

SUPPLEMENTARY FINANCIAL INFORMATION

The Company reports its financial results in accordance with generally accepted accounting principles of the United States of America ("U.S. GAAP"). However, the Company has included certain non-U.S. 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. These measures do not have a standardized meaning prescribed by U.S. 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 U.S. GAAP.

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PART I

Item 1. Business

MDC PARTNERS INC.

MDC was formed by Certificate of Amalgamation effective December 19, 1986, pursuant to the Business Corporations Act (Ontario). Effective December 19, 1986, MDC amalgamated with Branbury Explorations Limited, and thereby became a public company operating under the name of MDC Corporation. On January 1, 2004, MDC changed its name to its current name, MDC Partners Inc., and on June 28, 2004, MDC was continued under Section 187 of the Canada Business Corporations Act. MDC's registered address is located at 33 Draper Street, Toronto, Ontario, M5V 2M3, and its head office address is located at 745 Fifth Avenue, 19th Floor, New York, New York 10151.

About Us

MDC is a leading global provider of marketing, advertising, activation, communications and strategic consulting solutions. Through its network of Partner Firms (as defined below), MDC delivers a broad range of customized services, including (1) global advertising and marketing, (2) media buying, planning and optimization, (3) interactive and mobile marketing, (4) direct marketing, (5) database and customer relationship management, (6) sales promotion, (7) corporate communications, (8) market research, (9) data analytics and insights, (10) corporate identity, design and branding services, (11) social media communications, (12) product and service innovation, (13) e-commerce management, and (14) technology services.

Market Strategy

MDC's strategy is to build, grow and acquire market-leading businesses that deliver innovative, value-added marketing, activation, communications and strategic consulting services to their clients. By doing so, MDC strives to be a partnership of marketing communications and consulting companies (or "Partner Firms") whose strategic, creative and innovative solutions are media-agnostic, challenge the status quo, achieve measurable superior returns on investment, and drive transformative growth and business performance for its clients and stakeholders.

The MDC model is driven by three key elements:

Perpetual Partnership. The perpetual partnership model creates ongoing alignment of interests between MDC and its Partner Firms to drive the Company's overall performance by (1) identifying the "right" Partner Firms with a sustainable differentiated position in the marketplace, (2) creating the "right" partnership structure by taking a majority ownership position and leaving a substantial noncontrolling equity or economic ownership position in the hands of operating management to incentivize long-term growth, (3) providing succession planning support and compensation models to incentivize future leaders and second-generation executives, (4) leveraging the network's scale to provide access to strategic resources and best practices and (5) focusing on delivering financial results.

Entrepreneurialism. The entrepreneurial spirit of both MDC and its Partner Firms is optimized through (1) its unique perpetual partnership model that incentivizes senior-level involvement and ambition, (2) access to shared resources within the Corporate Group that allow individual firms to focus on client business and company growth and (3) MDC's collaborative creation of customized solutions to support and grow Partner Firm businesses.

Human and Financial Capital. The perpetual partnership model balances accountability with financial flexibility and meaningful incentives to support growth.

Reporting Segments

MDC has four reportable segments, plus an All Other category, all of which form the Advertising and Communications Group. The Partner Firms provide a wide range of service offerings both domestically and globally. While in some cases the firms provide the same or similar service offerings, the core or principal service offering is the key factor that distinguishes the Partner Firms from one another.

The following discussion provides additional detailed disclosure for the four reportable segments and the All Other category:

Global Integrated Agencies - This segment is comprised of the Company’s five global, integrated Partner Firms serving multinational clients around the world. The operating segments within the Global Integrated Agencies reportable segment provides a range of different services for its clients, including strategy, creative and production for advertising campaigns across a variety of platforms (print, digital, social media, television broadcast).
Domestic Creative Agencies - This segment is comprised of five Partner Firms that are national advertising agencies leveraging creative capabilities at their core.

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Specialist Communications - This segment is comprised of five Partner Firms that are each communications agencies with core service offerings in public relations and related communications services.

Media Services - This segment is comprised of two operating segments with media buying and planning as its core competency.

All Other - This category consists of the Company's remaining Partner Firms that provide a range of diverse marketing communication services but are not eligible for aggregation with the reportable segments. Each of the Partner Firms in the All Other category represent less than 10% of consolidated revenue and do not meet the criteria to be a separate reportable segment.

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

For further information relating to the Company's segments, including financial information, see Note 16 of the Notes to the Consolidated Financial Statements and "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations."

Ownership Information

MDC maintains a majority or 100% ownership position in substantially all of its Partner Firms with management of the partner companies owning the remaining equity. MDC generally has rights to increase ownership of non-wholly owned subsidiaries to 100% over a defined period of time. MDC's effective economic interest in each Partner Firm may vary from its voting ownership interest due to certain factors, such as the existence of contingent deferred acquisition payments and/or cash distribution hurdles related to noncontrolling interest holders.

The table below sets forth MDC's voting ownership percentage of each listed Partner Firm as of December 31, 2018. The table does not display all agencies or components within each Partner Firm for which MDC may or may not maintain the same ownership percentage.

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MDC PARTNERS INC.
SCHEDULE OF ADVERTISING AND COMMUNICATIONS COMPANIES

Company	Year of Initial Investment	Locations	Ownership %	
Consolidated:				
Global Integrated Agencies:				
72andSunny	2010	Los Angeles, New York, Netherlands, UK, Australia, Singapore	100.0	%
Anomaly	2011	New York, Los Angeles, Netherlands, Canada, UK, China, Germany	100.0	%
Crispin Porter Bogusky	2001	Boulder, Los Angeles, UK, Brazil, China	100.0	%
Doner	2012	Detroit, Cleveland, Los Angeles, UK	100.0	%
Forsman & Bodenfors	2004	Sweden, New York, Canada, China, UK, Los Angeles, Singapore	100.0	%
Attention	2009	New York, Los Angeles	100.0	%
The Media Kitchen	2004	New York, Canada, UK	100.0	%
Domestic Creative Agencies:				
Colle + McVoy	1999	Minneapolis	100.0	%
Laird + Partners	2011	New York	65.0	%
Mono Advertising	2004	Minneapolis, San Francisco	70.0	%
Union	2013	Canada	75.0	%
Yamamoto	2000	Minneapolis	100.0	%
Civilian	2000	Chicago	100.0	%
Specialist Communications:				
Allison & Partners	2010	San Francisco, Los Angeles, New York and other US Locations, China, France, Singapore, UK, Japan, Germany	100.0	%
Luntz Global	2014	Washington, D.C.	100.0	%
Sloane & Company	2010	New York	100.0	%
HL Group Partners	2007	New York, Los Angeles, China	100.0	%
Hunter PR	2014	New York, UK	65.0	%
KWT Global	2010	New York, UK, Canada	77.5	%
Veritas	1993	Canada	90.0	%
Media Services:				
MDC Media Partners	2010	New York		
Assembly	2010	New York, Detroit, Atlanta, Los Angeles	100.0	%
EnPlay	2015	New York	100.0	%
Trade X	2011	New York	90.0	%
Unique Influence	2015	Austin	100.0	%
Yes & Company	2018	New York		

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Bruce Mau Design	2004	Canada, New York	100.0%
Northstar Research Partners	1998	Canada, New York, UK, Indonesia	100.0%
Varick Media Management 2	2010	New York	100.0%
All Other:			
6degrees Communications	1993	Canada	74.9 %
Concentric Partners	2011	New York, UK	72.3 %
Gale Partners	2014	Canada, New York, India, Singapore	60.0 %
Instrument	2018	Portland	51.0 %
Kenna	2010	Canada	100.0%
Kingsdale	2014	Canada, New York	65.0 %
Redscout	2007	New York, San Francisco, UK	100.0%
Relevent	2010	New York	100.0%
TEAM	2010	Ft. Lauderdale	100.0%
Vitro	2004	San Diego, Austin	81.6 %
Y Media Labs	2015	Redwood City, New York, India,	60.0 %

Competition

MDC operates in a highly competitive and fragmented industry. Our Partner Firms compete for business and talent with the operating subsidiaries of large global holding companies such as Omnicom Group Inc., Interpublic Group of Companies, Inc., WPP plc, Publicis Groupe SA, Dentsu Inc. and Havas SA, as well as with numerous independent agencies that operate in multiple markets. Our firms also face competition from consultancies, tech platforms, media companies and other services firms that have begun to offer related services. MDC's Partner Firms must compete with all of these other companies to maintain existing client relationships and to obtain new clients and assignments. MDC's Partner Firms compete at this level by providing clients with progressive advertising and marketing ideas and solutions that are focused on increasing clients' revenues and profits. MDC also benefits from cooperation among its entrepreneurial Partner Firms through referrals and the sharing of both services and expertise, which enables MDC to service clients' varied marketing needs around the world by crafting custom integrated solutions. Additionally, MDC's consistent maintenance of separate, independent operating companies enables MDC to effectively manage potential conflicts of interest by representing competing clients across its network.

Industry Trends

There are several recent economic and industry trends that affect or may be expected to affect the Company's results of operations. Historically, advertising has been the primary service provided by the marketing communications industry. However, as clients aim to establish one-to-one relationships with customers, and more accurately measure the effectiveness of their marketing expenditures, specialized and digital communications services and database marketing and analytics are consuming a growing portion of marketing dollars. The Company believes these changes in the way consumers interact with media is increasing the demand for a broader range of non-advertising marketing communications services (i.e., direct marketing, sales promotion, interactive, mobile, strategic communications and public relations), which we expect could have a positive impact on our results of operations. In addition, the rise of technology and data solutions have rendered scale less crucial as it once was in areas such as media buying, creating significant opportunities for agile and modern players. Global marketers now demand breakthrough and integrated creative ideas, and no longer require traditional brick-and-mortar communications partners in every market to optimize the effectiveness of their marketing efforts. Combined with the fragmentation of the media landscape, these factors provide new opportunities for small to mid-sized communications companies like those in the MDC network. In addition, marketers now require ever greater speed-to-market to drive financial returns on their marketing and media investment, causing them to turn to more nimble, entrepreneurial and collaborative communications firms like MDC Partner Firms.

As client procurement departments have focused increasingly on marketing services company fees in recent years, the Company has invested in resources to work with client procurement departments to ensure that we are able to deliver against client goals in a mutually beneficial way. For example, the Company has explored new compensation models, such as performance-based incentive payments and equity, in order to greater align our success with our clients. These incentive payments may offset negative pricing pressure from client procurement departments.

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Clients

MDC serves a large base of clients across the full spectrum of industry verticals. In many cases, we serve the same clients in various geographic locations, across multiple disciplines, and through multiple Partner Firms. Representation of a client rarely means that MDC handles marketing communications for all brands or product lines of the client in every geographical location. During 2018, 2017 and 2016, the Company did not have a client that accounted for 5% or more of revenues. In addition, MDC's ten largest clients (measured by revenue generated) accounted for 23% of revenue for the three year period ended December 31, 2018.

MDC's agencies have written contracts with many of their clients. As is customary in the industry, these contracts generally provide for termination by either party on relatively short notice, usually 90 days. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Executive Overview" for a further discussion of MDC's arrangements with its clients.

Employees

As of December 31, 2018, we employed approximately 6,024 people worldwide. The following table provides a breakdown of full time employees across MDC's four reportable segments, the All Other category, and Corporate:

Segment	Total
Global Integrated Agencies	2,719
Domestic Creative Agencies	482
Specialist Communications	705
Media Services	535
All Other	1,513
Corporate	70
Total	6,024

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the effect of cost of services sold on MDC's historical results of operations. Because of the personal service character of the marketing communications businesses, the quality of personnel is of crucial importance to MDC's continuing success. MDC considers its relations with its employees to be satisfactory.

Effect of Environmental Laws

MDC believes it is substantially in compliance with all regulations concerning the discharge of materials into the environment, and such regulations have not had a material effect on the capital expenditures or operations of MDC.

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. See Note 22 of the Notes to the Consolidated Financial Statements for information relating to the Company's quarterly results.

Available Information

Information regarding the Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports, will be made available, free of charge, at the Company's website at http://www.mdc-partners.com, as soon as reasonably practicable after the Company electronically files such reports with or furnishes them to the Securities and Exchange Commission (the "SEC"). The information found on, or otherwise accessible through, the Company's website is not incorporated into, and does not form a part of, this Annual Report or Form 10-K. The Company's filings are also available to the public from the SEC's website at http://www.sec.gov.

The Company's Code of Conduct (Whistleblower Policy) and each of the charters for the Audit Committee, Human Resources and Compensation Committee and Nominating and Corporate Governance Committee, are available free of charge on the Company's website at http://www.mdc-partners.com or by writing to MDC Partners Inc., 745 Fifth Avenue, 19th Floor, New York, New York 10151, Attention: Investor Relations.

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Item 1A. Risk Factors

The following factors could adversely affect the Company's revenues, results of operations or financial condition. See also "Forward-Looking Statements."

Future economic and financial conditions could adversely impact our financial condition and results.

Advertising, marketing and communications expenditures are sensitive to global, national and regional macroeconomic conditions, as well as specific budgeting levels and buying patterns. Adverse developments including heightened uncertainty could reduce the demand for our services, which could adversely affect our revenue, results of operations, and financial position in 2019.

a. As a marketing services company, our revenues are highly susceptible to declines as a result of unfavorable economic conditions.

Global economic conditions affect the advertising and marketing services industry more severely than other industries. In the past, some clients have responded to weakening economic conditions with reductions to their marketing budgets, which include discretionary components that are easier to reduce in the short term than other operating expenses. This pattern may recur in the future. Decreases in our revenue would negatively affect our financial results, including a reduction of our estimates of free cash flow from operations.

b. If our clients experience financial distress, their weakened financial position could negatively affect our own financial position and results.

We have a diverse client base, and at any given time, one or more of our clients may experience financial difficulty, file for bankruptcy protection or go out of business. The unfavorable economic and financial conditions that have impacted many sectors of the global economy could result in an increase in client financial difficulties that affect us. The direct impact on us could include reduced revenues and write offs of accounts receivable. If these effects were severe, the indirect impact could include impairments of goodwill, covenant violations relating to MDC's senior secured revolving credit agreement (as amended, the "Credit Agreement") or the $900 million aggregate principal amount of 6.50% notes due 2024 (the "6.50% Notes"), or reduced liquidity. Our ten largest clients (measured by revenue generated) accounted for 23% of our revenue in 2018.

c. Conditions in the credit markets could adversely impact our results of operations and financial position.

Turmoil in the credit markets or a contraction in the availability of credit would make it more difficult for businesses to meet their capital requirements and could lead clients to change their financial relationship with their vendors, including us. If that were to occur, it could materially adversely impact our results of operations and financial position.

MDC competes for clients in highly competitive industries.

The Company operates in a highly competitive environment in an industry characterized by numerous firms of varying sizes, with no single firm or group of firms having a dominant position in the marketplace. MDC is, however, smaller than several of its larger industry competitors. Competitive factors include creative reputation, management, personal relationships, quality and reliability of service and expertise in particular niche areas of the marketplace. In addition, because a firm's principal asset is its people, barriers to entry are minimal, and relatively small firms are, on occasion, able to take all or some portion of a client's business from a larger competitor.

While many of MDC's client relationships are long-standing, companies put their advertising and marketing services businesses up for competitive review from time to time, including at times when clients enter into strategic transactions or experienced senior management changes. From year to year, the identities of MDC's ten largest customers may change, as a result of client losses and additions and other factors. To the extent that the Company fails to maintain existing clients or attract new clients, MDC's business, financial condition and operating results may be affected in a materially adverse manner.

The loss of lines of credit under the Credit Agreement could adversely affect MDC's liquidity and our ability to implement MDC's acquisition strategy and fund any put options if exercised.

MDC uses amounts available under the Credit Agreement, together with cash flow from operations, to fund its working capital needs, to fund the exercise of put option obligations and to fund our strategy of making selective

acquisitions of ownership interests in entities in the marketing communications services industry, including through contingent deferred acquisition payments.
On March 12, 2019, in connection with an amendment to the Credit Agreement, we reduced the maximum amount of revolving commitments provided by the lenders to $250 million from $325 million.
The Company is currently in compliance with all of the terms and conditions of the Credit Agreement. If, however, events were to occur, which result in MDC losing all or a substantial portion of its available credit under the Credit Agreement, or if MDC was prevented from accessing such lines of credit due to other restrictions such as those in the indenture governing the 6.50% Notes, MDC could be required to seek other sources of liquidity. In addition, if MDC were unable to replace these sources

of liquidity, then MDC's ability to fund its working capital needs and any contingent obligations with respect to put options or contingent deferred acquisition payments would be materially adversely affected.

We have significant contingent obligations related to deferred acquisition consideration and noncontrolling interests in our subsidiaries, which will require us to utilize our cash flow and/or to incur additional debt to satisfy.

The Company has made a number of acquisitions for which it has deferred payment of a portion of the purchase price, usually for a period between one to five years after the acquisition. The deferred acquisition consideration is generally payable based on achievement of certain thresholds of future earnings of the acquired company and, in certain cases, also based on the rate of growth of those earnings. Once any contingency is resolved, the Company may pay the contingent consideration over time.

The Company records liabilities on its balance sheet for deferred acquisition payments at their estimated value based on the current performance of the business, which are remeasured each quarter. At December 31, 2018, these aggregate liabilities were $83.7 million, of which $32.9 million, $29.5 million and $21.3 million would be payable in 2019, 2020 and 2021.

In addition to the Company's obligations for deferred acquisition consideration, managers of certain of the Company's acquired subsidiaries hold noncontrolling interests in such subsidiaries. In the case of certain noncontrolling interests related to acquisitions, such managers are entitled to a proportionate distribution of earnings from the relevant subsidiary, which is recognized on the Company's consolidated income statement under "Net income attributable to the noncontrolling interests."

Noncontrolling shareholders often have the right to require the Company to purchase all or part of its interest, either at specified dates or upon the termination of such shareholder's employment with the subsidiary or death (put rights). In addition, the Company usually has rights to call noncontrolling shareholders' interests at a specified date. The purchase price for both puts and calls is typically calculated based on specified formulas tied to the financial performance of the subsidiary.

The Company recorded $51.5 million on its December 31, 2018 balance sheet as redeemable noncontrolling interests for its estimated obligations in respect of noncontrolling shareholder put and call rights based on the current performance of the subsidiaries, $20.0 million of which related to put rights for which, if exercised, the payments are due at specified dates, with the remainder of redeemable noncontrolling interests attributable to put or call rights exercisable only upon termination of employment or death. No estimated obligation is recorded on the balance sheet for noncontrolling interests for which the Company has a call right but the noncontrolling holder has no put right.

Payments to be made by the Company in respect of deferred acquisition consideration and noncontrolling shareholder put rights may be significantly higher than the estimated amounts described above because the actual obligation adjusts based on the performance of the acquired businesses over time, including future growth in earnings from the calculations made at December 31, 2018. Similarly, the payments made by the Company under call rights would increase with growth in earnings of the acquired businesses. The Company expects that deferred contingent consideration and noncontrolling interests for managers may be features of future acquisitions that it may undertake and that it may also grant similar noncontrolling interests to managers of its subsidiaries unrelated to acquisitions.

The Company expects that its obligations in respect of deferred acquisition consideration and payments to noncontrolling shareholders under put and call rights will be a significant use of the Company's liquidity in the foreseeable future, whether in the form of free cash flow or borrowings under the Company's revolving credit agreement or from other funding sources. For further information, see the disclosure under the heading "Business — Ownership Information" and the heading "Liquidity and Capital Resources."

MDC may not realize the benefits it expects from past acquisitions or acquisitions MDC may make in the future.

MDC's business strategy includes ongoing efforts to engage in acquisitions of ownership interests in entities in the marketing communications services industry. MDC intends to finance these acquisitions by using available cash from operations and through incurrence of debt or bridge financing, either of which may increase its leverage ratios, or by issuing equity, which may have a dilutive impact on its existing shareholders. At any given time, MDC 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 MDC. 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 its securities.

Our expenses have, in certain periods, increased at a greater rate than revenues, which in part reflects both the increase in expenses for deferred acquisition consideration and from our investment in headcount for certain growth initiatives. Should our acquisitions continue to outperform current expectations, expenses for deferred acquisition consideration could increase as well in future periods. If our growth initiatives do not provide sufficient revenue to offset the incremental costs in future periods, profits could be reduced and severance expense could be incurred in order to return to targeted profit margins over time.

The success of acquisitions or strategic investments depends on the effective integration of newly acquired businesses into MDC's current operations. Such integration is subject to risks and uncertainties, including realization of anticipated synergies and cost savings, the ability to retain and attract personnel and clients, the diversion of management's attention from other business concerns, and undisclosed or potential legal liabilities of the acquired company. MDC may not realize the strategic and financial benefits that it expects from any of its past acquisitions, or any future acquisitions.

MDC's business could be adversely affected if it loses key clients or executives.

MDC's strategy has been to acquire ownership stakes in diverse marketing communications businesses to minimize the effects that might arise from the loss of any one client or executive. The loss of one or more clients could materially affect the results of the individual Partner Firms and the Company as a whole. Management succession at our operating units is very important to the ongoing results of the Company because, as in any service business, the success of a particular agency is dependent upon the leadership of key executives and management personnel. If key executives were to leave our operating units, the relationships that MDC has with its clients could be adversely affected.

MDC's ability to generate new business from new and existing clients may be limited.

To increase its revenues, MDC needs to obtain additional clients or generate demand for additional services from existing clients. MDC's ability to generate initial demand for its services from new clients and additional demand from existing clients is subject to such clients' and potential clients' requirements, pre-existing vendor relationships, financial conditions, strategic plans and internal resources, as well as the quality of MDC's employees, services and reputation and the breadth of its services. To the extent MDC cannot generate new business from new and existing clients due to these limitations, MDC's ability to grow its business and to increase its revenues will be limited.

MDC's business could be adversely affected if it loses or fails to attract key employees.

Employees, including creative, research, analytics, media, technology development, account and practice group specialists, and their skills and relationships with clients, are among MDC's most important assets. An important aspect of MDC's competitiveness is its ability to retain key employee and management personnel. Compensation for these key employees is an essential factor in attracting and retaining them, and MDC may not offer a level of compensation sufficient to attract and retain these key employees. If MDC fails to hire and retain a sufficient number of these key employees, it may not be able to compete effectively. If key executives were to leave our operating units, the relationships that MDC has with its clients could be adversely affected.

MDC is exposed to the risk of client defaults.

MDC's agencies often incur expenses on behalf of their clients for productions in order to secure a variety of media time and space, in exchange for which they receive a fee. The difference between the gross cost of the production and media and the net revenue earned by us can be significant. While MDC takes precautions against default on payment for these services (such as credit analysis and advance billing of clients) and has historically had a very low incidence of default, MDC is still exposed to the risk of significant uncollectible receivables from our clients. The risk of a material loss could significantly increase in periods of severe economic downturn. Such a loss could have a material adverse effect on our results of operations and financial position.

MDC's results of operations are subject to currency fluctuation risks.

Although MDC's financial results are reported in U.S. dollars, a portion of its revenues and operating costs are denominated in currencies other than the U.S. dollar. As a result, fluctuations in the exchange rate between the U.S. dollar and other currencies, particularly the Canadian dollar, may affect MDC's financial results and competitive position.

Goodwill and intangible assets may become impaired.

We have recorded a significant amount of goodwill and intangible assets in our consolidated financial statements in accordance with U.S. GAAP resulting from our acquisition activities, which principally represents the specialized know-how of the workforce at the agencies we have acquired. We test, at least annually, the carrying value of goodwill for impairment, as discussed in Note 2 of the Notes to the Consolidated Financial Statements included herein. The estimates and assumptions about future results of operations and cash flows made in connection with the impairment testing could differ from future actual results of operations and cash flows.

The Company recognized an impairment of goodwill and other assets of $80.1 million for the twelve months ended December 31, 2018. The impairment primarily consists of the write-down of goodwill equal to the excess carrying value above the fair value of a reporting unit one in each of the Global Integrated Agencies reportable segment, the Media Services reportable segment and within the All Other category and the full write-down of a trademark for a reporting unit also within the Global Integrated Agencies reportable segment. The trademark is no longer in active use following the merger of the underlying agency with another reporting unit in the third quarter of 2018. See Note 10 of the Notes to the Consolidated Financial Statements for information related to the merger.

MDC is subject to regulations and litigation risk that could restrict our activities or negatively impact our revenues.

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Advertising and marketing communications businesses are subject to government regulation, both domestic and foreign. There has been an increasing tendency in the United States on the part of advertisers to resort to litigation and self-regulatory bodies to challenge comparative advertising on the grounds that the advertising is false and deceptive. Moreover, there has recently been an expansion of specific rules, prohibitions, media restrictions, labeling disclosures, and warning requirements with respect to advertising for certain products and the usage of personally identifiable information. Representatives within government bodies, both domestic and foreign, continue to initiate proposals to ban the advertising of specific products and to impose taxes on or deny deductions for advertising which, if successful, may have an adverse effect on advertising expenditures and consequently MDC’s revenues.

Certain of MDC’s agencies produce software and e-commerce tools for their clients, and these product offerings have become increasingly subject to litigation based on allegations of patent infringement or other violations of intellectual property rights. As we expand these product offerings, the possibility of an intellectual property claim against us grows. Any such claim, with or without merit, could result in costly litigation and distract management from day-to-day operations and may result in us deciding to enter into license agreements to avoid ongoing patent litigation costs. If we are not successful in defending such claims, we could be required to stop offering these services, pay monetary amounts as damages, enter into royalty or licensing arrangements, or satisfy indemnification obligations that we have with some of our clients. Such arrangements may cause our operating margins to decline.

In addition, laws and regulations related to user privacy, use of personal information and Internet tracking technologies have been proposed or enacted in the United States and certain international markets (including the European Union’s recently enacted General Data Protection Regulation, or “GDPR”). These laws and regulations could affect the acceptance of the Internet as an advertising medium. These actions could affect our business and reduce demand for certain of our services, which could have a material adverse effect on our results of operations and financial position.

We rely extensively on information technology systems and cybersecurity incidents could adversely affect us.

We rely on information technologies and infrastructure to manage our business, including digital storage of client marketing and advertising information and developing new business opportunities. Increased cybersecurity threats and attacks, which are becoming more sophisticated, pose a risk to our systems and networks. Security breaches, improper use of our systems and unauthorized access to our data and information by employees and others may pose a risk that sensitive data may be exposed to unauthorized persons or to the public. We also have access to sensitive or personal data or information that is subject to privacy laws and regulations. Our systems and processes to protect against, detect, prevent, respond to and mitigate cybersecurity incidents and our organizational training for employees to develop an understanding of cybersecurity risks and threats may be unable to prevent material security breaches, theft, modification or loss of data, employee malfeasance and additional known and unknown threats. In addition, we use third-party service providers, including cloud providers, to store, transmit and process data. Any breakdown or breach in our systems or data-protection policies, or those of our third-party service providers, could adversely affect our reputation or business.

Future issuances of equity securities, which may include securities that would rank senior to our Class A shares, may cause dilution to our existing shareholders and adversely affect the market price of our Class A shares.

The market price of our Class A shares could decline as a result of sales of a large number of our Class A shares in the market, or the sale of securities convertible into a large number of our Class A shares. The perception that these sales could occur may also depress the market price of our Class A shares. On March 4, 2017, we issued 95,000 Series 4 convertible preference shares (the “Series 4 Preference Shares”) with an initial aggregate liquidation preference of $95.0 million, which will be convertible into Class A shares or our Series 5 convertible preference shares at a current conversion price of $7.42 per share. On March, 15, 2019, we issued 50,000 Series 6 convertible preference shares (the “Series 6 Preference Shares” and, together with the Series 4 Preference Shares, the “Preference Shares”) with an initial aggregate liquidation preference of $50.0 million, which will be convertible into Class A shares or our Series 7 convertible preference shares at an initial conversion price of $5.00 per share. The terms of the Preference Shares provide that the conversion price may be reduced, which would result in the Preference Shares being convertible into additional Class A shares, upon certain events including distributions on our Class A shares or issuances of additional Class A shares or equity-linked securities at a price less than the then-applicable conversion price. The issuance of Class A Shares upon conversion of the Preference Shares may result in immediate and substantial dilution to the interests of our Class A Shares holders since the holders of the Preference Shares may ultimately receive and sell all of shares issuable in connection with the conversion of such Preference Shares. The market price of our Class A shares may also be affected by factors, such as whether the market price is near or above the conversion price, that could make conversion of the Preference Shares more likely.

Further, the Preference Shares will rank senior to the Class A shares, which could affect the value of the Class A shares on liquidation or, as a result of contractual provisions, on a change in control transaction. For example, pursuant to the related purchase agreements, the Company has agreed, with certain exceptions, not to become party to certain change in control transactions that are approved by the Board other than a qualifying transaction in which holders of Preference Shares are entitled to receive cash or qualifying listed securities with a value equal to the then-applicable liquidation preference plus accrued and unpaid dividends.

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See Note 14 and 23 of the Notes to the Consolidated Financial Statements for more information regarding the Series 4 Preference Shares and the Series 6 Preference Shares, respectively.

Additionally, any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our Class A shares, and may result in dilution to owners of our Class A shares. Because our decision to issue additional debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future issuances. Also, we cannot predict the effect, if any, of future issuances of our Class A shares on the market price of our Class A shares.

The indenture governing the 6.50% Notes and the Credit Agreement governing our secured line of credit contain various covenants that limit our discretion in the operation of our business.

The indenture governing the 6.50% Notes and the Credit Agreement governing our lines of credit contain various provisions that limit our discretion in the operation of our business by restricting our ability to:

- sell assets;
- pay dividends and make other distributions;
- redeem or repurchase our capital stock;
- incur additional debt and issue capital stock;
- create liens;
- consolidate, merge or sell substantially all of our assets;
- enter into certain transactions with our affiliates;
- make loans, investments or advances;
- repay subordinated indebtedness;
- undergo a change in control;
- enter into certain transactions with our affiliates;
- engage in new lines of business; and
- enter into sale and leaseback transactions.

These restrictions on our ability to operate our business in our discretion could seriously harm our business by, among other things, limiting our ability to take advantage of financing, mergers and acquisitions and other corporate opportunities. The Credit Agreement is subject to various additional covenants, including a senior leverage ratio, a total leverage ratio, a fixed charge coverage ratio, and a minimum EBITDA level (as defined). Events beyond our control could affect our ability to meet these financial tests, and we cannot assure you that they will be met.

Our substantial indebtedness could adversely affect our cash flow and prevent us from fulfilling our obligations, including the 6.50% Notes.

As of December 31, 2018, MDC had $954.6 million, net of debt issuance costs, of indebtedness. In addition, we expect to make additional drawings under the Credit Agreement from time to time. Our ability to pay principal and interest on our indebtedness is dependent on the generation of cash flow by our subsidiaries. Our subsidiaries' business may not generate sufficient cash flow from operations to meet MDC's debt service and other obligations. If we are unable to meet our expenses and debt service obligations, we may need to obtain additional debt, refinance all or a portion of our indebtedness on or before maturity, sell assets or raise equity. We may not be able to obtain additional debt, refinance any of our indebtedness, sell assets or raise equity on commercially reasonable terms or at all, which could cause us to default on our obligations and impair our liquidity. Our inability to generate sufficient cash flow to satisfy our debt obligations, to obtain additional debt or to refinance our obligations on commercially reasonable terms would have a material adverse effect on our business, financial condition and results of operations.

Further, we currently receive senior unsecured and long-term debt and corporate quality ratings from Standard & Poor's and Moody's. Our ratings are subject to periodic review, and we cannot assure you that we will be able to retain our current or any future ratings. If our ratings are reduced from their current levels, this could further adversely affect our liquidity and our business, financial condition and results of operation.

If we cannot make scheduled payments on our debt, we will be in default and, as a result, our debt holders could declare all outstanding principal and interest to be due and payable; the lenders under the Credit Agreement could terminate their commitments to loan us money and foreclose against the assets securing our borrowings; and we could be forced into bankruptcy or liquidation. Our level of indebtedness could have important consequences. For example, it could:

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- make it more difficult for us to satisfy our obligations with respect to the 6.50% Notes;
- make it difficult for us to meet our obligations with respect to our contingent deferred acquisition payments;
- limit our ability to increase our ownership stake in our Partner Firms;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital and other activities;
- limit our flexibility in planning for, or reacting to, changes in our business and the advertising industry, which may place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit, particularly in concert with the financial and other restrictive covenants in our indebtedness, our ability to borrow additional funds or take other actions.

Despite our current debt levels, we may be able to incur substantially more indebtedness, which could further increase the risks associated with our leverage.

We may incur substantial additional indebtedness in the future. The terms of our Credit Agreement and the indenture governing the 6.50% Notes permit us and our subsidiaries to incur additional indebtedness subject to certain limitations. If we or our subsidiaries incur additional indebtedness, the related risks that we face could increase.

We may be subject to adverse tax consequences such as those related to changes in tax laws or tax rates or their interpretations, and the related application of judgment in determining our global provision for income taxes, deferred tax assets or liabilities or other tax liabilities given the ultimate tax determination is uncertain.

We are a Canada-domiciled multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Significant judgment is required in determining our global provision for income taxes, deferred tax assets or liabilities and in evaluating our tax positions on a worldwide basis. While we believe our tax positions are consistent with the tax laws in the jurisdictions in which we conduct our business, it is possible that these positions may be overturned by jurisdictional tax authorities, which may have a significant impact on our global provision for income taxes.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. The U.S. recently enacted significant tax reform, and certain provisions of the new law may adversely affect us. In addition, governmental tax authorities are increasingly scrutinizing the tax positions of companies. Many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, are actively considering changes to existing tax laws that, if enacted, could increase our tax obligations in countries where we do business. If U.S. or other foreign tax authorities change applicable tax laws, our overall taxes could increase, and our business, financial condition or results of operations may be adversely impacted.

We are a holding company dependent on our subsidiaries for our ability to service our debt.

MDC is a holding company with no operations of our own. Consequently, our ability to service our debt is dependent upon the earnings from the businesses conducted by our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Although our operating subsidiaries have generally agreed to allow us to consolidate and “sweep” cash, subject to the timing of payments due to noncontrolling interest holders, any distribution of earnings to us from our subsidiaries is contingent upon the subsidiaries’ earnings and various other business considerations. Also, our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of the holders of common stock to participate in those assets, will be structurally subordinated to the claims of that subsidiary’s creditors. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

See Note 18 of the Consolidated Financial Statements included in this Annual Report for a discussion of the Company's lease commitments and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the impact of occupancy costs on the Company's operating expenses.

The Company maintains office space in many cities in the United States, Canada, Europe, Asia and South America. This space is primarily used for office and administrative purposes by the Company's employees in performing professional services. This office space is in suitable and well-maintained condition for MDC's current operations. All of the Company's materially important office space is leased from third parties with varying expiration dates. Certain of these leases are subject to rent reviews or contain various escalation clauses and certain of our leases require our payment of various operating expenses, which may also be subject to escalation. In addition, leases related to the Company's non-U.S. businesses are denominated in currencies other than U.S. dollars and are therefore subject to changes in foreign exchange rates.

The table below provides a brief description of all locations in which office space is maintained and the related reportable segment.

Reportable Segment	Office Locations
Global Integrated Agencies	Los Angeles, New York, Boulder, Detroit, Cleveland, Canada, Sweden, UK, Netherlands, China, Australia, Singapore, Germany, and Brazil.
Domestic Creative Agencies	New York, Minneapolis, San Francisco, and Canada.
Specialist Communications	San Francisco, Los Angeles, New York, Washington D.C., Canada, UK, China, France, Singapore, Japan, Germany and Thailand.
Media Services	New York, Detroit, Atlanta, Los Angeles, and Austin.
All Other	New York, Portland, San Francisco, Ft. Lauderdale, San Diego, Austin, Redwood City, Canada, India, Singapore, UK.
Corporate	New York

Item 3. Legal Proceedings

Dismissal of Class Action Litigation

On August 7, 2015, Roberto Paniccia issued a Statement of Claim in the Ontario Superior Court of Justice in the City of Brantford, Ontario seeking to certify a class action suit naming the following as defendants: MDC, former CEO Miles S. Nadal, former CAO Michael C. Sabatino, CFO David Doft and BDO U.S.A. LLP. The Plaintiff alleged violations of section 138.1 of the Ontario Securities Act (and equivalent legislation in other Canadian provinces and territories) as well as common law misrepresentation based on allegedly materially false and misleading statements in the Company's public statements, as well as omitting to disclose material facts with respect to the SEC investigation. The Company vigorously defended this suit. On June 1, 2018, the Ontario Superior Court of Justice dismissed the plaintiff's motion to proceed with the class action. Plaintiff agreed not to appeal this dismissal decision, and in July 2018 the Court entered a final order approving the dismissal of this claim.

Closing of Antitrust Investigation

In June 2016, one of the Company's subsidiaries received a subpoena from the U.S. Department of Justice Antitrust Division (the "DOJ") concerning the DOJ's ongoing investigation of production practices in the advertising industry. The Company and its subsidiary fully cooperated with this confidential investigation. By letter dated November 5, 2018 (received by the Company's counsel on November 12, 2018), the DOJ confirmed that the foregoing investigation had been closed. The DOJ did not bring any charges against the Company, its subsidiary or any of their respective employees.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders of Class A Subordinate Voting Shares

The principal market on which the Company's Class A subordinate voting shares are traded is the NASDAQ National Market ("NASDAQ") (symbol: "MDCA"). There is no established public trading market for our Class B voting shares. As of February 28, 2019, the approximate number of registered holders of our Class A subordinate voting shares and Class B voting shares, including those whose shares are held in nominee name, was 220 and 87, respectively.

Dividend Practice

On November 3, 2016, the Company announced that it was suspending its quarterly dividend indefinitely.

The payment of any future dividends will be at the discretion of MDC's board of directors and will depend upon limitations contained in our Credit Agreement and the indenture governing the 6.50% Notes, future earnings, capital requirements, our general financial condition and general business conditions.

Securities Authorized for Issuance Under Equity Compensation Plans

As of December 31, 2018, the total number of securities remaining available for future issuance is 2,766,602, including 111,866 securities to be issued upon exercise of outstanding options.

Equity Compensation Plans Not Approved by Security Holders

In connection with an employment agreement with a Senior Vice President, the Company awarded an inducement grant of 25,000 restricted shares of the Company's Class A subordinated voting stock. The restricted stock award will vest on June 11, 2021, subject to continued employment.

See Note 13 of the Notes to the Consolidated Financial Statements included herein for further information on our equity compensation plans.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

For the twelve months ended December 31, 2018, the Company made no open market purchases of its Class A shares or its Class B shares. Pursuant to its Credit Agreement and the indenture governing the 6.50% Notes, the Company is currently limited from repurchasing its shares in the open market.

During 2018, the Company's employees surrendered Class A shares in connection with the required tax withholding resulting from the vesting of restricted stock. The Company paid these withholding taxes on behalf of the related employees. These Class A shares were subsequently retired and no longer remain outstanding as of December 31, 2018. The following table details those shares withheld during the fourth quarter of 2018:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased Under the Program
10/1/2018 - 10/31/2018	116	$ 2.47	—	—
11/1/2018 - 11/30/2018	—	—	—	—
12/1/2018 - 12/31/2018	—	—	—	—
Total	116	$ 2.47	—	—

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Item 6. Selected Financial Data

The following selected financial data should be read in connection with Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related Notes that are included in this Form 10-K.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands, Except per Share Data)				
Operating Data					
Revenues	$1,476,203	$1,513,779	$1,385,785	$1,326,256	$1,223,512
Operating income	$9,696	$131,959	$48,431	$72,110	$87,749
Net income (loss)	$(111,948)	$257,223	$(40,621)	$(20,119)	$6,739
Stock-based compensation included in income (loss)	$18,416	$24,350	$21,003	$17,796	$17,696
Net income (loss) per Share					
Basic					
Net income (loss) attributable to MDC Partners Inc. common shareholders	$(2.31)	$3.72	$(0.89)	$(0.58)	$(0.06)
Diluted					
Net income (loss) attributable to MDC Partners Inc. common shareholders	$(2.31)	$3.71	$(0.89)	$(0.58)	$(0.06)
Cash dividends declared per share	$—	$—	$0.63	$0.84	$0.74
Financial Position Data					
Total assets	$1,611,573	$1,698,892	$1,577,378	$1,577,625	$1,633,751
Total debt	$954,585	$883,119	$936,436	$728,883	$727,988
Redeemable noncontrolling interests	$51,546	$62,886	$60,180	$69,471	$194,951
Deferred acquisition consideration	$83,695	$122,426	$229,564	$347,104	$205,368

Effective January 1, 2018, the Company adopted Financial Accounting Standards Board (the "FASB") ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"). As a result of the adoption of ASC 606, in 2018 revenue declined $51.6 million and operating income increased $10.7 million. See Notes 3 and 19 of the Notes to the Consolidated Financial Statements for additional information regarding the adoption of ASC 606.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Unless otherwise indicated, 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 year 2018 means the period beginning January 1, 2018, and ending December 31, 2018).

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

Two such non-U.S. GAAP measures are "organic revenue growth" or "organic revenue decline" that refer to the positive or negative results, respectively, of subtracting both the foreign exchange and acquisition (disposition) components from total revenue growth, excluding the impact of adoption of Financial Accounting Standards Board (the "FASB") Accounting Standards Codification Topic 606 ("ASC 606"). The acquisition (disposition) component is calculated by aggregating the prior period revenue for any acquired businesses, less the prior period revenue of any businesses that were disposed of in the current period. The organic revenue growth (decline) component reflects the constant currency impact (a) of the change in revenue of the Partner Firms which the Company has held throughout each of the comparable periods presented and (b) “non-GAAP acquisitions (dispositions), net.” Non-GAAP acquisitions (dispositions), net consists of (i) for acquisitions during the current year, the revenue effect from such acquisition as if the acquisition had been owned during the equivalent period in the prior year and (ii) for acquisitions during the previous year, the revenue effect from such acquisitions as if they had been owned during that entire year or same period as the current reportable period, taking into account their respective pre-acquisition revenues for the applicable periods and (iii) for dispositions, the revenue effect from such disposition as if they had been disposed of during the equivalent period in the prior year. The Company believes that isolating the impact of acquisition activity, foreign currency impacts and changes in accounting standards is an important and informative component to understand the overall change in the Company's consolidated revenue. The change in the consolidated revenue that remains after these adjustments illustrates the underlying financial performance of the Company's businesses. Specifically, it represents the impact of the Company's management oversight, investments and resources dedicated to supporting the businesses' growth strategy and operations. In addition, it reflects the network benefit of inclusion in the broader portfolio of firms that includes, but is not limited to, cross-selling and sharing of best practices. This approach isolates changes in performance of the business that take place under the Company's stewardship, whether favorable or unfavorable, and thereby reflects the potential benefits and risks associated with owning and managing a talent-driven services business.

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

While the Company believes that the methodology used in the calculation of organic revenue change is consistent with our closest U.S. competitors, the calculations may not be comparable to similarly titled measures presented by other publicly traded companies in other industries. Additional information regarding the Company's acquisition activity as it relates to potential revenue growth is provided in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under "Certain Factors Affecting our Business."

All amounts are in dollars unless otherwise stated. Amounts reported in millions herein are computed based on the amounts in thousands. As a result, the sum of the components, and related calculations, reported in millions may not equal the total amounts due to rounding.

Recent Developments

Strategic Review Process and Successor CEO Search

On September 20, 2018, the Company announced its evaluation of potential strategic alternatives, which included, among other things, the possible sale of the Company. On September 12, 2018, the Company announced that Scott Kauffman's employment as the Company's Chief Executive Officer would terminate, which it did effective December 31, 2018. The strategic review process proceeded in parallel with the Company's search to identify a successor CEO.

During the interim period in which the Company was evaluating strategic alternatives and assessing potential new CEO candidates, the Board of Directors has established an executive committee comprised of David Doft (EVP, Chief Financial Officer), Mitchell Gendel (EVP, General Counsel), Stephanie Nerlich (EVP, Partner Development and Talent), and David Ross (EVP, Strategy & Corporate Development) (collectively, the "Executive Committee"). Effective January 1, 2019, the Executive Committee assumed the role and responsibilities of the Chief Executive Officer until the appointment of a successor. The Board of Directors' Strategic Alternatives Committee, comprised of three independent directors of the Board (Irwin Simon, Larry Kramer and Anne Marie O'Donovan), have provided oversight for the Executive Committee during the interim period.

The Company has completed the strategic review process and search for a new CEO. On March 14, 2019, the Company entered into a securities purchase agreement with Stagwell Agency Holdings LLC ("Stagwell Holdings"), an affiliate of Stagwell Group LLC ("Stagwell"), pursuant to which Stagwell Holdings agreed to purchase, (i) 14,285,714 newly authorized Class A shares for $3.50 per share for an aggregate purchase price of $50 million and (ii) 50,000 newly authorized Series 6 convertible preference shares for an aggregate purchase price of $50 million. See Note 23 of the Notes to the Consolidated Financial Statements included herein for additional information.

Effective March 18, 2019, the Company's Board of the Directors appointed Mark Penn as the Chief Executive Officer (succeeding the Executive Committee) and as a director of the Board. Mr. Penn is manager of Stagwell.

Amendment to Credit Agreement

On March 12, 2019 (the "Amendment Effective Date"), the Company, Maxxcom Inc. (a subsidiary of the Company) ("Maxxcom") and each of their subsidiaries party thereto entered into an amendment (the "Amendment") to the existing senior secured revolving credit facility, dated as of May 3, 2016 (as amended, the "Credit Agreement"), among the Company, Maxxcom Inc., a Delaware corporation, each of their subsidiaries party thereto, Wells Fargo Capital Finance, LLC, as agent ("Wells Fargo"), and the lenders from time to time party thereto.

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The Amendment provides financial covenant relief by increasing the total leverage ratio applicable on each testing date after the Amendment Effective Date through the period ending December 31, 2020 from 5.5:1.0 to 6.25:1.0. The total leverage ratio applicable on each testing date after December 31, 2020 will revert to 5.5:1.0.

In addition, the Company is permitted to apply a portion of the net cash proceeds of the Kingsdale Sale (as defined below) to the prepayment, redemption, defeasement, purchase or other acquisition of the Company's senior unsecured debt.

In connection with the Amendment, the Company reduced the aggregate maximum amount of revolving commitments provided by the lenders under the Credit Agreement to $250.0 million from $325.0 million. The foregoing summary description of the Amendment to the Credit Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the agreement. The Amendment is filed as an exhibit to this Form 10-K.

Sale of Kingsdale

On March 8, 2019, the Company consummated the sale of its Kingsdale business (the "Kingsdale Sale"), including operations in Toronto and New York City, back to the Kingsdale Founder and CEO. As consideration for the sale, the Company was paid cash plus the assumption of certain liabilities totaling approximately $50 million in the aggregate.

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Executive Summary

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

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

The Company aggregates operating segments into one of the four reportable segments and combines and discloses those operating segments that do not meet the aggregation criteria in the All Other category. Due to changes in the Company's internal management and reporting structure during 2018, reportable segment results for 2017 and prior periods presented have been recast to reflect the reclassification of certain businesses between segments. Prior period segment information included herein has been adjusted to reflect this change. See Note 16 of the Notes to the Consolidated Financial Statements included herein for a description of each of our reportable segments and All Other category and further information regarding the reclassification of certain business between segments.

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

Certain Factors Affecting Our Business

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

Acquisitions and Dispositions. The Company's strategy includes acquiring ownership stakes in well-managed businesses with world class expertise and strong reputations in the industry. The Company provides post-acquisition support to Partner Firms in order to help accelerate growth, including in areas such as business and client development (including cross-selling), corporate communications, corporate development, talent recruitment and training, procurement, legal services, human resources, financial management and reporting, and real estate utilization, among other areas. As most of the Company's acquisitions remain as stand-alone entities post acquisition, integration is typically implemented promptly, and new Partner Firms can begin to tap into the full range of MDC's resources immediately. Often the acquired businesses may begin to tap into certain MDC resources in the pre-acquisition period, such as talent recruitment or real estate. The Company engaged in a number of acquisition and disposition transactions during the 2009 to 2018 period, which affected revenues, expenses, operating income and net income. Additional information regarding acquisitions and dispositions is provided in Note 5 of the Notes to the Consolidated Financial Statements included herein for further information.

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Foreign Exchange Fluctuation. Our financial results and competitive position are affected by fluctuations in the exchange rate between the U.S. dollar and non-U.S. dollar, primarily the Canadian dollar. See also "Item 7A - 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. See Note 22 of the Notes to the Consolidated Financial Statements for information relating to the Company's quarterly results.

Results of Operations for the Years Ended December 31, 2018, 2017 and 2016:

	Years Ended December 31,		
	2018	2017	2016
	(Dollars in Thousands)		
Revenue:			
Global Integrated Agencies	$698,872	$797,347	$712,793
Domestic Creative Agencies	102,063	104,417	97,199
Specialist Communications	179,065	172,565	170,285
Media Services	140,753	166,216	157,696
All Other	355,450	273,234	247,812
Total	$1,476,203	$1,513,779	$1,385,785
Segment operating income (loss):			
Global Integrated Agencies*	$44,868	$71,857	$59,193
Domestic Creative Agencies	18,552	19,333	18,089
Specialist Communications	18,629	20,728	1,940
Media Services*	(51,196)	13,126	5,554
All Other*	34,000	47,771	7,773
Corporate	(55,157)	(40,856)	(44,118)
Total	$9,696	$131,959	$48,431
Other Income (Expense):			
Interest expense and finance charges, net	$(67,075)	$(64,364)	$(65,050)
Foreign exchange transaction gain (loss)	(23,258)	18,137	(213)
Loss on redemption of Notes	—	—	(33,298)
Other, net	230	1,346	414
Income (loss) before income taxes and equity in earnings (losses) of non-consolidated affiliates	(80,407)	87,078	(49,716)
Income tax expense (benefit)	31,603	(168,064)	(9,404)
Income (loss) before equity in earnings (losses) of non-consolidated affiliates	(112,010)	255,142	(40,312)
Equity in earnings of non-consolidated affiliates	62	2,081	(309)
Net income (loss)	(111,948)	257,223	(40,621)
Net income attributable to the noncontrolling interest	(11,785)	(15,375)	(5,218)
Net income (loss) attributable to MDC Partners Inc.	$(123,733)	$241,848	$(45,839)

* An impairment charge primarily for goodwill and other intangible assets was recognized within the Global Integrated Agencies for $21,008, within Media Services for $52,041 and within the All Other category for $4,691 for the twelve months ended December 31, 2018. See Note 10 of the Notes to the Consolidated Financial Statements for

information related to the impairment.

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	Years Ended December 31,		
	2018	2017	2016
	(Dollars in Thousands)		
Depreciation and amortization:			
Global Integrated Agencies	$23,571	$23,831	$21,555
Domestic Creative Agencies	1,583	1,582	1,811
Specialist Communications	4,252	4,714	6,637
Media Services	3,119	4,052	6,091
All Other	12,909	8,197	8,768
Corporate	762	1,098	1,584
Total	$46,196	$43,474	$46,446
Stock-based compensation:			
Global Integrated Agencies	$8,521	$15,225	$12,177
Domestic Creative Agencies	1,100	887	651
Specialist Communications	714	2,954	3,629
Media Services	318	656	318
All Other	3,104	2,494	1,703
Corporate	4,659	2,134	2,525
Total	$18,416	$24,350	$21,003
Capital expenditures:			
Global Integrated Agencies	$10,088	$20,760	$16,486
Domestic Creative Agencies	951	1,168	1,153
Specialist Communications	3,618	1,288	2,741
Media Services	966	3,842	5,266
All Other	4,574	5,877	3,753
Corporate	67	23	33
Total	$20,264	$32,958	$29,432

YEAR ENDED DECEMBER 31, 2018 COMPARED TO YEAR ENDED DECEMBER 31, 2017

Consolidated Results of Operations

Revenues

Revenue was $1.48 billion for the twelve months ended December 31, 2018, compared to revenue of $1.51 billion for the twelve months ended December 31, 2017. See the Advertising and Communications Group section below for a discussion regarding consolidated revenues.

Operating Income

Operating income for the twelve months ended December 31, 2018 was $9.7 million, compared to $132.0 million for the twelve months ended December 31, 2017, representing a decrease of $122.3 million, or 92.7%. Operating income decreased by $108.0 million, or 62.5% in the Advertisement and Communication Group, while Corporate operating expenses increased by $14.3 million, or 35.0%. The decrease in operating income was largely due to an increase in the goodwill and other assets impairment charge and a decrease in revenue. The impact of adoption of ASC 606 increased operating income by $10.7 million. Adjusted to exclude the impact of the adoption of ASC 606, operating loss would have been $1.0 million, representing a decrease of $133.0 million compared to 2017.

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Interest Expense and Finance Charges, Net

Interest expense and finance charges, net, for the twelve months ended December 31, 2018 was $67.1 million compared to $64.4 million for the twelve months ended December 31, 2017, representing an increase of $2.7 million. The increase was primarily due to higher interest rates in the current year as well as increased borrowings under the Company's revolving Credit Agreement in comparison to the prior period. See Note 12 of the Notes to the Consolidated Financial Statements for additional information on the Credit Agreement.

Foreign Exchange Transaction Gain (Loss)

Foreign exchange loss was $23.3 million for the twelve months ended December 31, 2018 compared to a foreign exchange gain of $18.1 million for the twelve months ended December 31, 2017. The foreign exchange loss is primarily attributable to the weakening of the Canadian dollar against the U.S. dollar in 2018. In 2017, foreign exchange gain was primarily attributable to the Canadian dollar strengthening against the U.S. dollar. The change primarily related to U.S. dollar denominated indebtedness that is an obligation of our Canadian parent company.

Goodwill and Other Asset Impairment

The Company recognized an impairment of goodwill and other assets of $80.1 million in the twelve months ended December 31, 2018. The impairment primarily consists of the write-down of goodwill equal to the excess carrying value above the fair value of a reporting unit one in each of the Global Integrated Agencies reportable segment, the Media Services reportable segment and within the All Other category and the full write-down of a trademark for a reporting unit also within the Global Integrated Agencies reportable segment. The trademark is no longer in active use given its merger with another reporting unit in the third quarter of 2018. See Note 10 of the Notes to the Consolidated Financial Statements for information related to the merger.

Other, Net

Other income, net was $0.2 million for the twelve months ended December 31, 2018 compared to $1.3 million for the twelve months ended December 31, 2017.

Income Tax Expense (Benefit)

Income tax expense for the twelve months ended December 31, 2018 was $31.6 million (associated with a pretax loss of $80.4 million) compared to an income tax benefit of $168.1 million (associated with pretax income of $87.1 million) for the twelve months ended December 31, 2017. Income tax expense in 2018 included the impact of establishing a valuation allowance of $49.4 million primarily associated with Canadian deferred tax assets and the income tax benefit in 2017 included the impact of a release of a valuation allowance of $232.6 million in certain jurisdictions as well as the incremental tax benefit associated with the Tax Cuts and Jobs Act of 2017.

Equity in Earnings (Losses) of Non-Consolidated Affiliates

Equity in earnings (losses) of non-consolidated affiliates was income of $0.1 million for the twelve months ended December 31, 2018 compared to $2.1 million for the twelve months ended December 31, 2017.

Noncontrolling Interests

Net income attributable to noncontrolling interests was $11.8 million for the twelve months ended December 31, 2018, compared to $15.4 million for the twelve months ended December 31, 2017, representing a decrease of $3.6 million. This decrease was attributable to a reduction in operating results at Partner Firms with a noncontrolling interest.

Net Income (Loss) Attributable to MDC Partners Inc. Common Shareholders

As a result of the foregoing, net loss attributable to MDC Partners Inc. common shareholders for the twelve months ended December 31, 2018 was $132.1 million or $2.31 per diluted share, compared to a net income of $205.6 million, or $3.71 per diluted share reported for the twelve months ended December 31, 2017.

Advertising and Communications Group

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

Revenue in the Advertising and Communications Group was $1.48 billion for the twelve months ended December 31, 2018, compared to revenue of $1.51 billion for the twelve months ended December 31, 2017, representing a decrease of $37.6 million, or 2.5%. The impact of the adoption of ASC 606 reduced revenue by $51.6 million, or 3.4%, primarily due to the shift in treatment of third-party costs from principal to agent for various client arrangements of certain Partner Firms and timing of revenue recognition. The other components of the change in revenue included a negative foreign exchange impact of $0.5 million, and an adverse impact from dispositions of $14.7 million, or 1.0%, offset by revenue from acquisitions of $28.3 million, or 1.9%, and an increase in revenue from existing Partner Firms of $0.9 million. Excluding the impact of the adoption of ASC 606, the change in revenue was attributable

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to contribution from new client wins that was partially offset by client losses and reduction in spending by some clients. Additionally, the change in revenue was driven by growth in categories including transportation, consumer products, financials and healthcare offset by declines in automotive, and retail.

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The components of the change in revenues in the Advertising and Communications Group for the twelve months ended December 31, 2018 were as follows:

	Total		United States		Canada		Other	
	$	%	$	%	$	%	$	%
	(Dollars in Thousands)							
December 31, 2017	$1,513,779		$1,172,364		$123,093		$218,322	
Components of revenue change:								
Foreign exchange impact	(463)	— %	—	— %	(301)	(0.2)%	(162)	(0.1)%
Non-GAAP acquisitions (dispositions), net	13,644	0.9 %	14,466	1.2 %	—	— %	(822)	(0.4)%
Impact of adoption of ASC 606	(51,636)	(3.4)%	(20,699)	(1.8)%	1,288	1.0 %	(32,225)	(14.8)%
Organic revenue growth (decline)	879	0.1 %	(12,940)	(1.1)%	(79)	(0.1)%	13,898	6.4 %
Total Change	$(37,576)	(2.5)%	$(19,173)	(1.6)%	$908	0.7 %	$(19,311)	(8.8)%
December 31, 2018	$1,476,203		$1,153,191		$124,001		$199,011	

The Company also utilizes a non-GAAP metric called organic revenue growth (decline), as defined above. For the twelve months ended December 31, 2018, organic revenue growth was $0.9 million, or 0.1%, of which growth of $7.6 million, or 0.5% was generated through acquired Partner Firms and decline of $6.7 million or 0.4% was related to Partner Firms which the Company has held throughout each of the comparable periods presented.

The table below provides a reconciliation between the revenue in the Advertising and Communications Group from acquired businesses in the statement of operations to non-GAAP acquisitions (dispositions), net for the twelve months ended December 31, 2018:

Acquisition Revenue Reconciliation	Global Integrated	Specialist Communications	Media Services	All Other	Total
GAAP revenue from 2018 acquisitions [1]	$—	$ 1,276	$—	$34,841	$36,117
Impact of adoption of ASC 606 from 2018 acquisition	—	—	—	(168)	(168)
Contribution to non-GAAP organic revenue (growth)	—	—	—	(7,606)	(7,606)
Prior year revenue from dispositions	(1,910)	—	(11,569)	(1,220)	(14,699)
Non-GAAP acquisitions (dispositions), net	$(1,910)	$ 1,276	$(11,569)	$25,847	$13,644

(1) Operating segments not impacted by revenue from acquired Partner Firms in the 2018 and 2017 were excluded. See Note 5 of the Notes to the Consolidated Financial Statements included herein for further information pertaining to the acquisitions and dispositions.

(2) Contributions to organic revenue growth (decline) represents the change in revenue, measured on a constant currency basis, relative to the comparable pre-acquisition period for acquired businesses that is included in the Company's organic revenue growth (decline) calculation.

The geographic mix in revenues in the Advertising and Communications Group for the years ended December 31, 2018 and 2017 was as follows:

	2018	2017
United States	78.1%	77.5%
Canada	8.4 %	8.1 %
Other	13.5%	14.4%

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The impact of the adoption of ASC 606 decreased revenue in the United States by $20.7 million or 1.8%, and $32.2 million or 14.8% in other regions outside of North America with a minimal impact in Canada.

Organic revenue performance was attributable to a contribution from net client wins and additional spending by some clients. The United States had organic revenue decline of $12.9 million, or 1.1%. In Canada, organic revenue declined $0.1 million, or 0.1%. Organic revenue growth outside of North America was $13.9 million, or 6.4%, consisting of contributions from existing Partner Firms due to net new client wins.

The negative foreign exchange impact of $0.5 million was primarily due to the fluctuation of the U.S. dollar against British Pound, Euro, Canadian dollar and Swedish Króna.

The change in expenses and operating profit as a percentage of revenue in the Advertising and Communications Group for the years ended December 31, 2018 and 2017 was as follows:

	2018		2017		Change	
Advertising and Communications Group	$	% of Revenue	$	% of Revenue	$	%
	(Dollars in Thousands)					
Revenue	$1,476,203		$1,513,779		$(37,576)	(2.5)%
Operating expenses						
Cost of services sold	991,215	67.1 %	1,023,476	67.6 %	(32,261)	(3.2)%
Office and general expenses	296,961	20.1 %	271,874	18.0 %	25,087	9.2 %
Depreciation and amortization	45,434	3.1 %	42,376	2.8 %	3,058	7.2 %
Goodwill and other asset impairment	77,740	5.3 %	3,238	0.2 %	74,502	NM
	$1,411,350	95.6 %	$1,340,964	88.6 %	$70,386	5.2 %
Operating profit	$64,853	4.4 %	$172,815	11.4 %	$(107,962)	(62.5)%

The decrease in operating profit was largely due to an increase in the goodwill and other asset impairment charge, and a decrease in revenue. The impact of the adoption of ASC 606 increased operating profit by $10.7 million. Excluding the impact of the adoption of ASC 606, operating profit would have been $54.1 million, representing a decrease of $118.7 million compared to 2017.

The change in the categories of expenses as a percentage of revenue in the Advertising and Communications Group for the years ended December 31, 2018 and 2017 was as follows:

	2018		2017		Change	
Advertising and Communications Group	$	% of Revenue	$	% of Revenue	$	%
	(Dollars in Thousands)					
Direct costs [1]	$213,354	14.5 %	$260,776	17.2 %	$(47,422)	(18.2)%
Staff costs [2]	872,459	59.1 %	829,568	54.8 %	42,891	5.2 %
Administrative costs	189,063	12.8 %	187,687	12.4 %	1,376	0.7 %
Deferred acquisition consideration	(457)	— %	(4,898)	(0.3)%	4,441	(90.7)%
Stock-based compensation	13,757	0.9 %	22,217	1.5 %	(8,460)	(38.1)%
Depreciation and amortization	45,434	3.1 %	42,376	2.8 %	3,058	7.2 %
Goodwill and other asset impairment	77,740	5.3 %	3,238	0.2 %	74,502	NM
Total operating expenses	$1,411,350	95.6 %	$1,340,964	88.6 %	$70,386	5.2 %

(1) Excludes staff costs.

(2) Excludes stock-based compensation and is comprised of amounts reported in both cost of services sold and office and general expenses.

The decrease in direct costs was primarily attributed to the adoption of ASC 606 in which various client arrangements of certain Partner Firms previously accounted for as principal are now accounted for as agent under ASC 606. The change resulted in a decrease in third-party costs included in revenue of approximately $62.4 million. This decrease was partially offset by revenue of an acquisition during the year.

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The increase in staff costs was primarily attributed to contributions from an acquired Partner Firm, and higher costs to support the growth of certain Partner Firms, partially offset by staffing reductions at other Partner Firms.
Deferred acquisition consideration change for the twelve months ended December 31, 2018 and 2017 was primarily due to the aggregate performance of certain Partner Firms in the respective years relative to the previously projected expectations.

Stock-based compensation change for the twelve months ended December 31, 2018 was primarily due to the aggregate performance of certain Partner Firms in 2018 relative to the previously projected expectations.
The goodwill and other asset impairment in 2018 primarily consists of the write-down of goodwill equal to the excess carrying value above the fair value of a reporting unit one in each of the Global Integrated Agencies reportable segment, the Media Services reportable segment and within the All Other category and the full write-down of a trademark for a reporting unit also within the Global Integrated Agencies reportable segment in comparison to a partial impairment in 2017. For more information see Note 10 of the Notes to the Consolidated Financial Statements included herein.
Global Integrated Agencies
The change in revenue and expenses as a percentage of revenue in the Global Integrated Agencies reportable segment for the twelve months ended December 31, 2018 and 2017 was as follows:

	2018		2017		Change	
Global Integrated Agencies	$	% of Revenue	$	% of Revenue	$	%
	(Dollars in Thousands)					
Revenue	$698,872		$797,347		$(98,475)	(12.4)%
Operating expenses						
Cost of services sold	464,304	66.4 %	549,443	68.9 %	(85,139)	(15.5)%
Office and general expenses	145,121	20.8 %	149,475	18.7 %	(4,354)	(2.9)%
Depreciation and amortization	23,571	3.4 %	23,831	3.0 %	(260)	(1.1)%
Goodwill and other asset impairment	21,008	0.3 %	2,741	0.3 %	18,267	NM
	$654,004	93.6 %	$725,490	91.0 %	$(71,486)	(9.9)%
Operating profit	$44,868	6.4 %	$71,857	9.0 %	$(26,989)	(37.6)%

The impact of the adoption of ASC 606 reduced the Global Integrated Agencies reportable segment revenue by $56.3 million or 7.1%. The other components of the change included a decline in revenue from existing Partner Firms of $39.5 million, or 5.0%, due to cutbacks and spending delays from several existing clients and a slower pace of conversion of new business, partially offset by client wins, and a negative impact from dispositions of $1.9 million or 0.2%, as well as a negative foreign exchange impact of $0.8 million, or 0.1%.
The decrease in operating profit was primarily attributed to the goodwill and other asset impairment recognized in 2018. In addition, lower revenues were mostly offset by a decline in expenses, as outlined below. The impact of the adoption of ASC 606 increased operating profit by $7.4 million. Excluding the impact of the adoption of ASC 606, operating profit would have been $37.5 million in 2018, representing a decrease of $34.4 million compared to 2017.

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The change in the categories of expenses as a percentage of revenue in the Global Integrated Agencies reportable segment for the years ended December 31, 2018 and 2017 was as follows:

Global Integrated Agencies	2018 $	2018 % of Revenue	2017 $	2017 % of Revenue	Change $	Change %
	(Dollars in Thousands)					
Direct costs [1]	$44,358	6.3 %	$108,688	13.6 %	$(64,330)	(59.2)%
Staff costs [2]	461,286	66.0 %	465,522	58.4 %	(4,236)	(0.9)%
Administrative	100,604	14.4 %	104,879	13.2 %	(4,275)	(4.1)%
Deferred acquisition consideration	(5,344)	(0.8)%	4,604	0.6 %	(9,948)	(216.1)%
Stock-based compensation	8,521	1.2 %	15,225	1.9 %	(6,704)	(44.0)%
Depreciation and amortization	23,571	3.4 %	23,831	3.0 %	(260)	(1.1)%
Goodwill and other asset impairment	21,008	0.3 %	2,741	— %	18,267	— %
Total operating expenses	$654,004	93.6 %	$725,490	91.0 %	$(71,486)	(9.9)%

(1) Excludes staff costs.

(2) Excludes stock-based compensation and is comprised of amounts reported in both cost of services sold and office and general expenses.

The decrease in direct costs was primarily attributed to the adoption of ASC 606 in which various client arrangements of certain Partner Firms previously accounted for as principal are now accounted for as agent under ASC 606. The change resulted in a decrease in third-party costs included in revenue of $62.4 million.

The decrease in staff costs was attributed to staffing reductions at certain Partner Firms.

Deferred acquisition consideration change for the twelve months ended December 31, 2018 was primarily due to the aggregate performance of certain Partner Firms in 2018 relative to the previously projected expectations.

Stock-based compensation change for the twelve months ended December 31, 2018 was primarily due to the aggregate performance of certain Partner Firms in 2018 relative to the previously projected expectations.

The goodwill and other asset impairment in 2018 primarily consist of the write-down of goodwill equal to the excess carrying value above the fair value of a reporting unit and the full write-down of a trademark for a reporting unit in comparison to a partial impairment in 2017. For more information see Note 10 of the Notes to the Consolidated Financial Statements included herein.

Domestic Creative Agencies

The change in revenue and expenses as a percentage of revenue in the Domestic Creative Agencies reportable segment for the twelve months ended December 31, 2018 and 2017 was as follows:

Domestic Creative Agencies	2018 $	2018 % of Revenue	2017 $	2017 % of Revenue	Change $	Change %
	(Dollars in Thousands)					
Revenue	$102,063		$104,417		$(2,354)	(2.3)%
Operating expenses						
Cost of services sold	59,888	58.7 %	61,623	59.0 %	(1,735)	(2.8)%
Office and general expenses	22,040	21.6 %	21,879	21.0 %	161	0.7 %
Depreciation and amortization	1,583	1.6 %	1,582	1.5 %	1	0.1 %
	$83,511	81.8 %	$85,084	81.5 %	$(1,573)	(1.8)%
Operating profit	$18,552	18.2 %	$19,333	18.5 %	$(781)	(4.0)%

The impact of the adoption of ASC 606 increased revenue in the Domestic Creative Agencies reportable segment by $1.2 million or 1.2%. In addition, revenue from existing Partner Firms declined $3.6 million or 3.5%.

The adoption of ASC 606 did not have a significant impact on operating profit.

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The change in the categories of expenses as a percentage of revenue in the Domestic Creative Agencies reportable segment for the twelve months ended December 31, 2018 and 2017 was as follows:

Domestic Creative Agencies	2018 $	% of Revenue	2017 $	% of Revenue	Change $	%
	(Dollars in Thousands)					
Direct costs [1]	$2,888	2.8 %	$4,362	4.2 %	$(1,474)	(33.8)%
Staff costs [2]	66,020	64.7 %	65,814	63.0 %	206	0.3 %
Administrative	11,920	11.7 %	12,080	11.6 %	(160)	(1.3)%
Deferred acquisition consideration	—	— %	359	0.3 %	(359)	(100.0)%
Stock-based compensation	1,100	1.1 %	887	0.8 %	213	24.0 %
Depreciation and amortization	1,583	1.6 %	1,582	1.5 %	1	0.1 %
Total operating expenses	$83,511	81.8 %	$85,084	81.5 %	$(1,573)	(1.8)%

(1) Excludes staff costs.

(2) Excludes stock-based compensation and is comprised of amounts reported in both cost of services sold and office and general expenses.

The decrease in direct costs was primarily attributed to lower costs to support the decline in revenue of certain Partner Firms.

Specialist Communications

The change in revenue and expenses as a percentage of revenue in the Specialist Communications reportable segment for the twelve months ended December 31, 2018 and 2017 was as follows:

Specialist Communications	2018 $	% of Revenue	2017 $	% of Revenue	Change $	%
	(Dollars in Thousands)					
Revenue	$179,065		$172,565		$6,500	3.8 %
Operating expenses						
Cost of services sold	122,710	68.5 %	117,195	67.9 %	5,515	4.7 %
Office and general expenses	33,474	18.7 %	29,928	17.3 %	3,546	11.8 %
Depreciation and amortization	4,252	2.4 %	4,714	2.7 %	(462)	(9.8)%
	$160,436	89.6 %	$151,837	88.0 %	$8,599	5.7 %
Operating profit	$18,629	10.4 %	$20,728	12.0 %	$(2,099)	(10.1)%

The impact of the adoption of ASC 606 increased revenue in the Specialist Communications reportable segment by $1.2 million or 0.7%. The other components of the change included growth in revenue from existing Partner Firms of $3.8 million or 2.2%, revenue contributions of $1.3 million or 0.7% from an acquired Partner Firm.

The decrease in operating profit was due to the increase in revenues, offset by higher operating expenses, as outlined below.

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The change in the categories of expenses as a percentage of revenue in the Specialist Communications reportable segment for the twelve months ended December 31, 2018 and 2017 was as follows:

Specialist Communications	2018 $	2018 % of Revenue	2017 $	2017 % of Revenue	Change $	Change %
	(Dollars in Thousands)					
Direct costs (1)	$45,627	25.5 %	$42,754	24.8 %	$2,873	6.7 %
Staff costs (2)	85,767	47.9 %	79,873	46.3 %	5,894	7.4 %
Administrative	22,969	12.8 %	21,961	12.7 %	1,008	4.6 %
Deferred acquisition consideration	1,107	0.6 %	(419)	(0.2)%	1,526	(364.2)%
Stock-based compensation	714	0.4 %	2,954	1.7 %	(2,240)	(75.8)%
Depreciation and amortization	4,252	2.4 %	4,714	2.7 %	(462)	(9.8)%
Total operating expenses	$160,436	89.6 %	$151,837	88.0 %	$8,599	5.7 %

(1) Excludes staff costs.

(2) Excludes stock-based compensation and is comprised of amounts reported in both cost of services sold and office and general expenses.

The increase in direct and staff costs were primarily attributed to supporting the growth in revenue of certain Partner Firms, and contributions from an acquired Partner Firm.

The change in the deferred acquisition consideration adjustment was due to the aggregate performance of certain Partner Firms in 2018 as compared to their performance in 2017.

Stock-based compensation declined for the twelve months ended December 31, 2018 primarily due to the aggregate performance of certain Partner Firms in 2018 relative to the previously projected expectations.

Media Services

The change in revenues and expenses as a percentage of revenue in the Media Services reportable segment for the twelve months ended December 31, 2018 and 2017 was as follows:

Media Services	2018 $	2018 % of Revenue	2017 $	2017 % of Revenue	Change $	Change %
	(Dollars in Thousands)					
Revenue	$140,753		$166,216		$(25,463)	(15.3)%
Operating expenses						
Cost of services sold	102,117	72.6 %	111,850	67.3 %	(9,733)	(8.7)%
Office and general expenses	34,672	24.6 %	36,691	22.1 %	(2,019)	(5.5)%
Depreciation and amortization	3,119	2.2 %	4,549	2.7 %	(1,430)	(31.4)%
Goodwill impairment	52,041	37.0 %	—	— %	52,041	100.0 %
	$191,949	136.4 %	$153,090	92.1 %	$38,859	25.4 %
Operating profit (loss)	$(51,196)	(36.4)%	$13,126	7.9 %	$(64,322)	(490.0)%

The impact of the adoption of ASC 606 increased revenue in the Media Services reportable segment by $1.1 million or 0.7%. The other components of the change included a negative impact from the disposition of a Partner Firm in the third quarter of 2017 of $11.6 million, or 7.0%, and a decline in revenue from existing Partner Firms of $15.4 million or 9.3%.

The operating loss in 2018 was driven by the goodwill impairment. The change in operating profit was also due to a decline in revenue, partially offset by a decrease in operating expenses, as outlined below.

The adoption of ASC 606 did not have a significant impact on operating profit.

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The change in the categories of expenses as a percentage of revenue in the Media Services reportable segment for the twelve months ended December 31, 2018 and 2017 was as follows:

Media Services	2018 $	2018 % of Revenue	2017 $	2017 % of Revenue	Change $	Change %
	(Dollars in Thousands)					
Direct costs [1]	$38,834	27.6 %	$46,411	27.9 %	$(7,577)	(16.3)%
Staff costs [2]	76,510	54.4 %	80,234	48.3 %	(3,724)	(4.6)%
Administrative	20,809	14.8 %	22,059	13.3 %	(1,250)	(5.7)%
Deferred acquisition consideration	318	0.2 %	(819)	(0.5)%	1,137	(138.8)%
Stock-based compensation	318	0.2 %	656	0.4 %	(338)	(51.5)%
Depreciation and amortization	3,119	2.2 %	4,549	2.7 %	(1,430)	(31.4)%
Goodwill impairment	52,041	37.0 %	—	— %	52,041	100.0 %
Total operating expenses	$191,949	136.4 %	$153,090	92.1 %	$38,859	25.4 %

(1) Excludes staff costs.

(2) Excludes stock-based compensation and is comprised of amounts reported in both cost of services sold and office and general expenses.

The decline in direct costs was primarily attributed to costs incurred in the prior year for a disposed Partner Firm.

The decline in staff costs was primarily attributed to staffing reductions at certain Partner Firms due to declines in revenue and costs incurred in the prior year for a disposed Partner Firm.

The goodwill impairment in 2018 primarily consist of the write-down of goodwill equal to the excess carrying value above the fair value of a reporting unit. For more information see Note 10 of the Notes to the Consolidated Financial Statements included herein.

All Other

The change in revenue and expenses as a percentage of revenue in the All Other category for the years ended December 31, 2018 and 2017 was as follows:

All Other	2018 $	2018 % of Revenue	2017 $	2017 % of Revenue	Change $	Change %
	(Dollars in Thousands)					
Revenue	$355,450		$273,234		$82,216	30.1 %
Operating expenses						
Cost of services sold	242,197	68.1 %	183,366	67.1 %	58,831	32.1 %
Office and general expenses	61,653	17.3 %	33,901	12.4 %	27,752	81.9 %
Depreciation and amortization	12,909	3.6 %	8,197	3.0 %	4,712	57.5 %
Goodwill impairment	4,691	1.3 %	$—	— %	4,691	100.0 %
	$321,450	90.4 %	$225,464	82.5 %	$95,986	42.6 %
Operating profit	$34,000	9.6 %	$47,771	17.5 %	$(13,770)	(28.8)%

The impact of the adoption of ASC 606 increased revenue in the All Other category by $1.0 million or 0.4%. The other components of the change included revenue growth from existing Partner Firms of $55.6 million or 20.3%, revenue contributions of $25.8 million or 9.5% from an acquired Partner Firm net of dispositions, offset by an immaterial negative foreign exchange impact.

These decrease in operating profit was primarily due to higher revenue, being more than offset by an increase in operating expenses, as outlined below. The impact of the adoption of ASC 606 increased operating profit by $1.0 million or 0.4%.

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The change in the categories of expenses as a percentage of revenue in the All Other category for the years ended December 31, 2018 and 2017 was as follows:

	2018		2017		Change	
All Other	$	% of Revenue	$	% of Revenue	$	%
	(Dollars in Thousands)					
Direct costs [1]	$81,647	23.0 %	$58,561	21.4 %	$23,086	39.4 %
Staff costs [2]	182,878	51.4 %	138,127	50.6 %	44,751	32.4 %
Administrative	32,758	9.2 %	26,707	9.8 %	6,051	22.7 %
Deferred acquisition consideration	3,463	1.0 %	(8,623)	(3.2)%	12,086	(140.2)%
Stock-based compensation	3,104	0.9 %	2,495	0.9 %	609	24.4 %
Depreciation and amortization	12,909	3.6 %	8,197	3.0 %	4,712	57.5 %
Goodwill impairment	4,691	1.3 %	$—	— %	4,691	100.0 %
Total operating expenses	$321,450	90.4 %	$225,464	82.5 %	$95,986	42.6 %

(1) Excludes staff costs.

(2) Excludes stock-based compensation and is comprised of amounts reported in both cost of services sold and office and general expenses.

These increase in direct and staff costs were primarily due to contributions from an acquired Partner Firm and an expansion in workforce in certain Partner Firms to support revenue growth.

The change in deferred acquisition consideration was primarily due to aggregate higher performance of certain Partner Firms as compared to forecasted expectations in the current period.

The goodwill impairment in 2018 was comprised of a partial impairment relating to a Partner Firm that was classified as Held For Sale as of December 31, 2018. For more information see Note 5 and 10 of the Notes to the Consolidated Financial Statements included herein.

Corporate

The change in operating expenses for Corporate for the years ended December 31, 2018 and 2017 was as follows:

	2018	2017	Change	
Corporate	$	$	$	%
	(Dollars in Thousands)			
Staff costs [1]	$30,179	$20,926	$9,253	44.2 %
Administrative	17,240	15,521	1,719	11.1 %
Stock-based compensation	4,659	2,134	2,525	118.3 %
Depreciation and amortization	762	1,098	(336)	(30.6)%
Other asset impairment	2,317	1,177	1,140	96.9 %
Total operating expenses	$55,157	$40,856	$14,301	35.0 %

(1) Excludes stock-based compensation.

The increase in staff costs for Corporate was primarily attributed to severance expense related to certain corporate actions taken in 2018 in comparison to 2017.

The increase in administrative costs was primarily related to an increase in professional fees of $5.4 million, primarily related to fees for the implementation of ASC 606, which was adopted effective January 1, 2018.

YEAR ENDED DECEMBER 31, 2017 COMPARED TO YEAR ENDED DECEMBER 31, 2016
Consolidated Results of Operations
Revenues
Revenue was $1.51 billion for the twelve months ended December 31, 2017, compared to revenue of $1.39 billion the twelve months ended December 31, 2016. See the Advertising and Communications Group section below for a discussion regarding consolidated revenues.
Operating Income
Operating income for twelve months ended December 31, 2017 was $132.0 million, compared to $48.4 million for the twelve months ended December 31, 2016, representing an increase of $83.6 million, or 172.5%. Operating income increased by $80.3 million, or 86.7% in the Advertisement and Communication Group, while Corporate operating expenses decreased by $3.3 million, or 7.4%.
Interest Expense and Finance Charges, Net
Interest expense and finance charges, net, for the twelve months ended December 31, 2017 was $64.4 million compared to $65.1 million for the twelve months ended December 31, 2016, representing a decrease of $0.7 million. The decrease was primarily due to lower borrowings under the Company’s revolving Credit Agreement in comparison to the prior period. See Note 12 of the Notes to the Consolidated Financial Statements for additional information on the Wells Fargo Credit Agreement.
Foreign Exchange Transaction Gain (Loss)
Foreign exchange gain was $18.1 million for the twelve months ended December 31, 2017 compared to a foreign exchange loss of $0.2 million for the twelve months ended December 31, 2016. The foreign exchange gain in 2017 was primarily related to the U.S. dollar denominated indebtedness that was an obligation of the Company’s Canadian parent company and was driven by the appreciation of the Canadian dollar against the U.S. dollar in the period.
Goodwill and Other Asset Impairment
The Company recognized an impairment of goodwill and other assets of $4.4 million from two operating units in the Global Integrated Agencies reportable segment and the Media Services reportable segment and other assets in the Corporate segment for twelve months ended December 31, 2017 as compared to $48.5 million from partial impairment of goodwill relating to one of the Company’s reporting units and for the twelve months ended December 31, 2016. The impairment primarily consists of the write-down of goodwill equal to the excess carrying value above the fair value of a reporting unit.
Other, Net
Other income, net was $1.3 million for the twelve months ended December 31, 2017 compared to $0.4 million for the twelve months ended December 31, 2016.
Income Tax Expense (Benefit)
Income tax benefit for the twelve months ended December 31, 2017 was $168.1 million (associated with pretax income of $87.1 million) compared to an income tax benefit of $9.4 million (associated with a pretax loss of $49.7 million) for the twelve months ended December 31, 2016. The change in tax benefit year over year was primarily driven by the release of a valuation allowance in certain jurisdictions as well as the incremental tax benefit associated with the Tax Cuts and Jobs Act of 2017.
Equity in Earnings (Losses) of Non-Consolidated Affiliates
Equity in earnings (losses) of non-consolidated affiliates was income of $2.1 million for the twelve months ended December 31, 2017 compared to loss of $0.3 million for the twelve months ended December 31, 2016.
Noncontrolling Interests
Net income attributable to noncontrolling interests was $15.4 million for the twelve months ended December 31, 2017, compared to $5.2 million for the twelve months ended December 31, 2016, representing an increase of $10.2 million. This increase was attributable to an increase in operating results at Partner Firms with a noncontrolling

interest.

Net Income (Loss) Attributable to MDC Partners Inc. Common Shareholders

As a result of the foregoing, net income attributable to MDC Partners Inc. common shareholders for the twelve months ended December 31, 2017 was $205.6 million, or $3.71 per diluted share, compared to a net loss of $45.8 million, or $0.89 per diluted share reported for the twelve months ended December 31, 2016.

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Advertising and Communications Group

The following discussion provides additional detailed disclosure for each of the Company’s four reportable segments, plus the “All Other” category, within the Advertising and Communications Group.

Revenue in the Advertising and Communications Group was $1.51 billion for the twelve months ended December 31, 2017, compared to revenue of $1.39 billion for the twelve months ended December 31, 2016, representing an increase of $128.0 million, or 9.2%. The change in revenue was driven by revenue growth from existing Partner Firms of $91.5 million, or 6.6%, and a positive foreign exchange impact of $3.6 million, or 0.3%. Revenue from acquired Partner Firms was $43.5 million, or 3.1%, including growth of $4.9 million from organic revenue growth, partially offset by a negative impact from dispositions of $10.6 million. Revenue growth was attributable to net new client wins, increased spending as well as expanded scopes of services by existing clients, and increased pass-through costs. There was broad based growth by client sector, with particular strength in communications, food & beverage, financials, and consumer products, partially offset by declines within technology and retail.

The components of the change in revenues in the Advertising and Communications Group for the twelve months ended December 31, 2017 were as follows:

	Total		United States		Canada		Other	
	$	%	$	%	$	%	$	%
	(Dollars in Thousands)							
December 31, 2016	$1,385,786		$1,103,712		$124,102		$157,972	
Components of revenue change:								
Foreign exchange impact	1,227	0.1%	—	— %	2,208	1.8 %	(981)	(0.6)%
Non-GAAP acquisitions (dispositions), net	30,385	2.2%	(5,609)	(0.5)%	(1,499)	(1.2)%	37,493	23.7 %
Organic revenue growth (decline)	96,381	7.0%	74,261	6.7 %	(1,718)	(1.4)%	23,838	15.1 %
Total Change	$127,993	9.2%	$68,652	6.2 %	$(1,009)	(0.8)%	$60,350	38.2 %
December 31, 2017	$1,513,779		$1,172,364		$123,093		$218,322	

The Company also utilizes a non-GAAP metric called organic revenue growth (decline), as defined above. For the twelve months ended December 31, 2017, organic revenue growth was $96.4 million, or 7.0%, of which $91.5 million, or 6.6% pertained to Partner Firms which the Company has held throughout each of the comparable periods presented. The remaining $4.9 million, or 0.4%, was generated through acquired Partner Firms. The other components of non-GAAP activity include non-GAAP acquisitions (dispositions), net adjustments of $30.4 million, or 2.2%, and a positive foreign exchange impact of $1.2 million, or 0.1%.

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The below is a reconciliation between the revenue in the Advertising and Communications Group from acquired businesses in the statement of operations to non-GAAP acquisitions (dispositions), net for the twelve months ended December 31, 2017:

Acquisition Revenue Reconciliation	Global Integrated Agencies	Media Services	All Other	Total
	(Dollars in Thousands)			
GAAP revenue from prior year acquisitions [1]	$43,536	$—	$—	$43,536
Foreign exchange impact	2,387	—	—	2,387
Contribution to non-GAAP organic revenue growth (decline) [2]	(4,930)	—	—	(4,930)
Prior year revenue from dispositions	(3,500)	(5,609)	(1,499)	(10,608)
Non-GAAP acquisitions (dispositions), net	$37,493	$(5,609)	$(1,499)	$30,385

(1) Operating segments not impacted by revenue from acquired Partner Firms in the 2017 and 2016 were excluded. See Note 5 of the Notes to the Consolidated Financial Statements included herein for further information pertaining to the acquisitions and dispositions.

(2) Contributions to organic revenue growth (decline) represents the change in revenue, measured on a constant currency basis, relative to the comparable pre-acquisition period for acquired businesses that is included in the Company's organic revenue growth (decline) calculation.

The geographic mix in revenues in the Advertising and Communications Group for the twelve months ended December 31, 2017 and 2016 was as follows:

	2017	2016
United States	77.5%	79.6%
Canada	8.1 %	9.0 %
Other	14.4%	11.4%

Organic revenue growth in the Advertising and Communications Group was driven by the Company's business in the United States with growth of $74.3 million, or 6.7%, due to net new client wins, increased spending as well as expanded scopes of services by existing clients, and higher pass-through costs. In Canada, organic revenue declined $1.7 million, or 1.4%, due to a decrease in pass-through costs. Organic revenue growth from outside of North America was $23.8 million, or 15.1%, consisting of contributions from existing Partner Firms due to net new client wins, partially offset by an organic revenue decline of $4.9 million from acquired Partner Firms.

The positive foreign exchange impact of $1.2 million, or 0.1%, was primarily due to the strengthening of the Canadian dollar and the European Euro against the U.S. dollar, partially offset by the weakening of the British Pound against the U.S. dollar.

The change in revenue and expenses as a percentage of revenue in the Advertising and Communications Group for the twelve months ended December 31, 2017 and 2016 was as follows:

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Advertising and Communications Group	2017 $	% of Revenue	2016 $	% of Revenue	Change $	%
	(Dollars in Thousands)					
Revenue	$1,513,779		$1,385,785		$127,994	9.2 %
Operating expenses						
Cost of services sold	1,023,476	67.6 %	936,133	67.6 %	87,343	9.3 %
Office and general expenses	271,874	18.0 %	263,717	19.0 %	8,157	3.1 %
Depreciation and amortization	42,376	2.8 %	44,861	3.2 %	(2,485)	(5.5)%
Goodwill and other asset impairment	3,238	0.2 %	48,524	3.5 %	(45,286)	(93.3)%
	$1,340,964	88.6 %	$1,293,235	93.3 %	$47,729	3.7 %
Operating profit	$172,815	11.4 %	$92,550	6.7 %	$80,265	86.7 %

Operating profit in the Advertising and Communications Group for the twelve months ended December 31, 2017 was $172.8 million, compared to $92.6 million for the twelve months ended December 31, 2016, representing an increase of $80.3 million, or 86.7%. Operating margins improved by 470 basis points from 6.7% in 2016, to 11.4% in 2017. These improvements were largely due to a decline in the goodwill impairment charge, a decrease in staff costs as a percentage of revenue, and a change in the deferred acquisition consideration adjustment, partially offset by an increase in direct costs.

The change in the categories of expenses as a percentage of revenue in the Advertising and Communications Group for the twelve months ended December 31, 2017 and 2016 was as follows:

Advertising and Communications Group	2017 $	% of Revenue	2016 $	% of Revenue	Change $	%
	(Dollars in Thousands)					
Direct costs (1)	$260,776	17.2 %	$212,259	15.3 %	$48,517	22.9 %
Staff costs (2)	829,568	54.8 %	781,947	56.4 %	47,621	6.1 %
Administrative costs	187,687	12.4 %	179,199	12.9 %	8,488	4.7 %
Deferred acquisition consideration	(4,898)	(0.3)%	7,968	0.6 %	(12,866)	(161.5)%
Stock-based compensation	22,217	1.5 %	18,478	1.3 %	3,739	20.2 %
Depreciation and amortization	42,376	2.8 %	44,861	3.2 %	(2,485)	(5.5)%
Goodwill and other asset impairment	3,238	0.2 %	48,524	3.5 %	(45,286)	(93.3)%
Total operating expenses	$1,340,964	88.6 %	$1,293,236	93.3 %	$47,728	3.7 %

(1) Excludes staff costs.

(2) Excludes stock-based compensation and is comprised of amounts reported in both cost of services sold and office and general expenses.

Direct costs in the Advertising and Communications Group for the twelve months ended December 31, 2017 were $260.8 million, compared to $212.3 million for the twelve months ended December 31, 2016, representing an increase of $48.5 million, or 22.9%. As a percentage of revenue, direct costs increased from 15.3% in 2016 to 17.2% in 2017. The increase in direct costs and as a percentage of revenue was primarily due to contributions from an acquired Partner Firm which has a higher direct cost to revenue ratio, in addition to an increase in costs incurred on the client's behalf from some of our existing Partner Firms acting as principal.

Staff costs for the twelve months ended December 31, 2017 were $829.6 million, compared to $781.9 million for the twelve months ended December 31, 2016, representing an increase of $47.6 million, or 6.1%. The increase in staff costs was due to increased headcount driven by certain Partner Firms to support the growth of their businesses as well as additional contributions from acquired Partner Firms. Staff costs as a percentage of revenue in the Advertising and Communications Group decreased from 56.4% in 2016 to 54.8% in 2017, which was primarily driven by revenue growth as well improvements in staffing relative to the prior period.

Goodwill impairment in the Advertising and Communications Group for the twelve months ended December 31, 2017 was $3.2 million, compared to $48.5 million for the twelve months ended December 31, 2016, representing a decrease of $45.3 million, or 93.3%. The decrease was due to a partial impairment in 2017 of $3.2 million relating to the Global Integrated Agencies reportable

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segment and the Media Services reportable segment in comparison to a partial impairment in 2016 of $48.5 million relating to the All Other, Specialist Communications and Media Services reportable segments. For more information see Note 10 of the Notes to the Consolidated Financial Statements included herein.

Deferred acquisition consideration in the Advertising and Communications Group for the twelve months ended December 31, 2017 resulted in income of $4.9 million compared to an expense of $8.0 million for the twelve months ended December 31, 2016, representing a change of $12.9 million, or 161.5%. The change in the deferred acquisition consideration adjustment was primarily due to the higher than estimated liability in the prior period driven by the decrease in the Company's estimated future stock price, pertaining to an equity funded acquisition, increased expenses pertaining to amendments to purchase agreements of previously acquired incremental ownership interest entered into during 2016, and the aggregate under-performance of certain Partner Firms in 2017 relative to the previously forecasted expectations.

Stock-based compensation in the Advertising and Communications Group was $22.2 million for the twelve months ended December 31, 2017, compared to $18.5 million for the twelve months ended December 31, 2016, representing an increase of $3.7 million, or 20.2%. As a percentage of revenue, stock-based compensation increased from 1.3% in 2016 to 1.5% in 2017.

Depreciation and amortization expense in the Advertising and Communications Group for the twelve months ended December 31, 2017 was $42.4 million compared to $44.9 million for the twelve months ended December 31, 2016, representing a decrease of $2.5 million, or 5.5%. The decrease was primarily due to lower amortization from intangibles related to prior period acquisitions.

Global Integrated Agencies

The change in revenue and expenses as a percentage of revenue in the Global Integrated Agencies reportable segment for twelve months ended December 31, 2017 and 2016 was as follows:

	2017			2016			Change		
Global Integrated Agencies	$	% of Revenue		$	% of Revenue		$	%	
	(Dollars in Thousands)								
Revenue	$797,347			$712,793			$84,554	11.9	%
Operating expenses									
Cost of services sold	549,443	68.9	%	485,081	68.1	%	64,362	13.3	%
Office and general expenses	149,475	18.7	%	146,964	20.6	%	2,511	1.7	%
Depreciation and amortization	23,831	3.0	%	21,555	3.0	%	2,276	10.6	%
Goodwill and other asset impairment	2,741	0.3	%	—	—	%	2,741	100.0	%
	$725,490	91.0	%	$653,600	91.7	%	$71,890	11.0	%
Operating profit	$71,857	9.0	%	$59,193	8.3	%	$12,664	21.4	%

Revenue in the Global Integrated Agencies reportable segment for the twelve months ended December 31, 2017 was $797.3 million, compared to $712.8 million for the twelve months ended December 31, 2016, representing an increase of $84.6 million, or 11.9%. The change in revenue included contributions from existing Partner Firms consisting of revenue growth of $45.9 million, or 6.4%, and a positive foreign exchange impact of $0.2 million. Revenue growth was primarily driven by net new client wins, increased spending as well as expanded scopes of services by existing clients, and increased pass-through costs. Revenue from acquired Partner Firms was $42.0 million, or 5.9%, partially offset by a negative impact from dispositions of $3.5 million, or 0.5%.

Operating profit in the Global Integrated Agencies reportable segment in 2017 was $71.9 million, compared to $59.2 million in 2016. Operating margins declined by 70 basis points from 9.0% in 2017 to 8.3% in 2016. The increases in operating profit and margin were largely due to improvements in staff costs as a percentage of revenue and a reduction in the deferred acquisition consideration expense, partially offset by an increase in direct costs.

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The change in the categories of expenses as a percentage of revenue in the Global Integrated Agencies reportable segment for the twelve months ended December 31, 2017 and 2016 was as follows:

	2017		2016		Change	
Global Integrated Agencies	$	% of Revenue	$	% of Revenue	$	%
	(Dollars in Thousands)					
Direct costs (1)	$108,688	13.6 %	$72,995	10.2 %	$35,693	48.9 %
Staff costs (2)	465,522	58.4 %	440,723	61.8 %	24,799	5.6 %
Administrative costs	104,879	13.2 %	94,595	13.3 %	10,284	10.9 %
Deferred acquisition consideration	4,604	0.6 %	11,555	1.6 %	(6,951)	(60.2)%
Stock-based compensation	15,225	1.9 %	12,177	1.7 %	3,048	25.0 %
Depreciation and amortization	23,831	3.0 %	21,555	3.0 %	2,276	10.6 %
Goodwill and other asset impairment	2,741	0.3 %	—	— %	2,741	100.0 %
Total operating expenses	$725,490	91.0 %	$653,600	91.7 %	$71,890	11.0 %

(1) Excludes staff costs.

(2) Excludes stock-based compensation and is comprised of amounts reported in both cost of services sold and office and general expenses.

Direct costs in the Global Integrated Agencies reportable segment for the twelve months ended December 31, 2017 were $108.7 million compared to $73.0 million for the twelve months ended December 31, 2016, representing an increase of $35.7 million, or 48.9%. As a percentage of revenue, direct costs increased from 10.2% in 2016 to 13.6% in 2017. These increases were primarily due to contributions from an acquired Partner Firm which has a higher direct cost to revenue ratio, in addition to an increase in costs incurred on certain clients' behalf from some of our existing Partner Firms acting as principal.

Staff costs in the Global Integrated Agencies reportable segment for the twelve months ended December 31, 2017 were $465.5 million compared to $440.7 million for the twelve months ended December 31, 2016, representing an increase of $24.8 million, or 5.6%. The increase in staff costs was due to increased headcount driven by certain Partner Firms to support the growth of their businesses as well as additional contributions from acquired Partner Firms. As a percentage of revenue, staff costs decreased from 61.8% in 2016 to 58.4% in 2017, primarily driven by revenue growth as well improvements in staffing relative to the prior period.

Deferred acquisition consideration in the Global Integrated Agencies reportable segment resulted in an expense of $4.6 million in 2017, compared to $11.6 million in 2016, representing a decrease of $7.0 million, or 60.2%. The change in the deferred acquisition consideration adjustment was primarily due to the increased estimated liability in the prior period driven by the decrease in the Company's estimated future stock price, pertaining to an equity funded acquisition completed in 2016 as well as increased expenses pertaining to amendments to purchase agreements of previously acquired incremental ownership interest entered into during 2016.

Domestic Creative Agencies

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The change in expenses as a percentage of revenue in the Domestic Creative Agencies reportable segment for the twelve months ended December 31, 2017 and 2016 was as follows:

	2017		2016		Change	
Domestic Creative Agencies	$	% of Revenue	$	% of Revenue	$	%
	(Dollars in Thousands)					
Revenue	$104,417		$97,199		$7,218	7.4 %
Operating expenses						
Cost of services sold	61,623	59.0 %	56,588	58.2 %	5,035	8.9 %
Office and general expenses	21,879	21.0 %	20,712	21.3 %	1,167	5.6 %
Depreciation and amortization	1,582	1.5 %	1,811	1.9 %	(229)	(12.6)%
	$85,084	81.5 %	$79,111	81.4 %	$5,973	7.6 %
Operating profit	$19,333	18.5 %	$18,088	18.6 %	$1,245	6.9 %

Revenue in the Domestic Creative Agencies reportable segment was $104.4 million for the twelve months ended December 31, 2017, compared to $97.2 million for the twelve months ended December 31, 2016, representing an increase of $7.2 million, or 7.4%. The change in revenue was due to revenue growth from Partner Firms of $7.0 million, or 7.2%, and a positive foreign exchange impact of $0.2 million, or 0.2%.

Operating profit in the Domestic Creative Agencies reportable segment for the twelve months ended December 31, 2017 was $19.3 million compared to $18.1 million for the twelve months ended December 31, 2016, representing an increase of $1.2 million, or 6.9%. Operating margins declined by 10 basis points from 18.6% in 2016 to 18.5% in 2017. The increase in operating profit was largely due to revenue growth, partially offset by an increase in staff costs.

The change in the categories of expenses as a percentage of revenue in the Domestic Creative Agencies reportable segment for the twelve months ended December 31, 2017 and 2016 was as follows:

	2017		2016		Change	
Domestic Creative Agencies	$	% of Revenue	$	% of Revenue	$	%
	(Dollars in Millions)					
Direct costs (1)	$4,362	4.2 %	$3,852	4.0 %	$510	13.2 %
Staff costs (2)	65,814	63.0 %	60,803	62.6 %	5,011	8.2 %
Administrative costs	12,080	11.6 %	12,275	12.6 %	(195)	(1.6)%
Deferred acquisition consideration	359	0.3 %	(281)	(0.3)%	640	(227.8)%
Stock-based compensation	887	0.8 %	651	0.7 %	236	36.3 %
Depreciation and amortization	1,582	1.5 %	1,811	1.9 %	(229)	(12.6)%
Total operating expenses	$85,084	81.5 %	$79,111	81.4 %	$5,973	7.6 %

(1) Excludes staff costs.

(2) Excludes stock-based compensation and is comprised of amounts reported in both cost of services sold and office and general expenses.

Staff costs in the Domestic Creative Agencies reportable segment for the twelve months ended December 31, 2017 were $65.8 million compared to $60.8 million for the twelve months ended December 31, 2016, representing an increase of $5.0 million, or 8.2%. As a percentage of revenue, staff costs increased from 62.6% in 2016 to 63.0% in 2017. These increases were primarily due to increases in workforces at certain Partner Firms to support revenue growth and new business wins.

Specialist Communications

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The change in revenue and expenses as a percentage of revenue in the Specialist Communications reportable segment for the twelve months ended December 31, 2017 and 2016 was as follows:

	2017		2016		Change	
Specialist Communications	$	% of Revenue	$	% of Revenue	$	%
	(Dollars in Thousands)					
Revenue	$172,565		$170,285		$2,280	1.3 %
Operating expenses						
Cost of services sold	117,195	67.9 %	118,136	69.4 %	(941)	(0.8)%
Office and general expenses	29,928	17.3 %	24,679	14.5 %	5,249	21.3 %
Depreciation and amortization	4,714	2.7 %	6,637	3.9 %	(1,923)	(29.0)%
Goodwill impairment	—	— %	18,893	11.1 %	(18,893)	(100.0)%
	$151,837	88.0 %	$168,345	98.9 %	$(16,508)	(9.8)%
Operating profit	$20,728	12.0 %	$1,940	1.1 %	$18,788	968.5 %

Revenue in the Specialist Communications reportable segment was $172.6 million for the twelve months ended December 31, 2017, compared to revenue of $170.3 million for the twelve months ended December 31, 2016, representing an increase of $2.3 million, or 1.3%. The increase in revenue was attributable to revenue growth of $2.2 million, or 1.3%, from existing Partner Firms and a positive foreign exchange impact of $0.1 million.

Operating profit in the Specialist Communications reportable segment for the twelve months ended December 31, 2017 was $20.7 million compared to $1.9 million in for the twelve months ended December 31, 2016, representing an increase of $18.8 million, or 968.5%. Operating margins improved by 1,090 basis points from 1.1% in 2016 to 12.0% in 2017. These increases were largely due to a goodwill impairment recognized in the prior period and lower income from deferred acquisition consideration.

The change in the categories of expenses as a percentage of revenue in the Specialist Communications reportable segment for the twelve months ended December 31, 2017 and 2016 was as follows:

	2017		2016		Change	
Specialist Communications	$	% of Revenue	$	% of Revenue	$	%
	(Dollars in Thousands)					
Direct costs (1)	$42,754	24.8 %	$41,914	24.6 %	$840	2.0 %
Staff costs (2)	79,873	46.3 %	80,818	47.5 %	(945)	(1.2)%
Administrative costs	21,961	12.7 %	21,670	12.7 %	291	1.3 %
Deferred acquisition consideration	(419)	(0.2)%	(5,216)	(3.1)%	4,797	(92.0)%
Stock-based compensation	2,954	1.7 %	3,629	2.1 %	(675)	(18.6)%
Depreciation and amortization	4,714	2.7 %	6,637	3.9 %	(1,923)	(29.0)%
Goodwill impairment	—	— %	18,893	11.1 %	(18,893)	(100.0)%
Total operating expenses	$151,837	88.0 %	$168,345	98.9 %	$(16,508)	(9.8)%

(1) Excludes staff costs.

(2) Excludes stock-based compensation and is comprised of amounts reported in both cost of services sold and office and general expenses.

Deferred acquisition consideration in the Specialist Communications reportable segment for the year ended twelve months ended December 31, 2017 resulted in income of $0.4 million compared to income of $5.2 million in for the twelve months ended December 31, 2016, representing a decrease in income of $4.8 million, or 92.0%. The change in the deferred acquisition consideration adjustment was due to the aggregate under-performance of certain Partner Firms in 2016 as compared to forecasted expectations.

Goodwill impairment in the Specialist Communications reportable segment was $18.9 million for the twelve months ended December 31, 2016 pertaining to a partial impairment of goodwill relating to one of the Company's strategic communications

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reporting units. For more information see Note 10 of the Notes to the Consolidated Financial Statements included herein for further information.

Media Services

The change in expenses as a percentage of revenue in the Media Services reportable segment for the twelve months ended December 31, 2017 and 2016 was as follows:

Media Services	2017 $	% of Revenue		2016 $	% of Revenue		Change $	%	
	(Dollars in Thousands)								
Revenue	$166,216			$157,696			$8,520	5.4	%
Operating expenses									
Cost of services sold	111,850	67.3	%	115,820	73.4	%	(3,970)	(3.4	)%
Office and general expenses	36,691	22.1	%	28,493	18.1	%	8,198	28.8	%
Depreciation and amortization	4,052	2.4	%	7,829	5.0	%	(3,777)	(48.2	)%
Goodwill and other asset amortization	497	0.3	%	—	—	%	497	100.0	%
	$153,090	92.1	%	$152,142	96.5	%	$948	0.6	%
Operating profit	$13,126	7.9	%	$5,554	3.5	%	$7,572	136.3	%

Revenue in the Media Services reportable segment was $166.2 million for the twelve months ended December 31, 2017, compared to revenue of $157.7 million for the twelve months ended December 31, 2016, representing an increase of $8.5 million, or 5.4%. The increase in revenue was driven by revenue growth of $8.3 million, or 5.3%, primarily due to new business wins and an increase in pass-through costs, and positive foreign exchange impact of $5.8 million, or 3.7%, partially offset by a negative disposition impact of $5.6 million, or 3.6%.

Operating profit in the Media Services reportable segment for the twelve months ended December 31, 2017 was $13.1 million compared to $5.6 million for the twelve months ended December 31, 2016, representing an increase of $7.6 million, 136.3%. Operating margins improved by 440 basis points from 3.5% in 2016 to 7.9% in 2017. These increases were largely due to revenue growth and a decrease in office and general expenses as well as depreciation and amortization expense, partially offset by an increase in direct costs.

The change in the categories of expenses as a percentage of revenue in the Media Services reportable segment for the twelve months ended December 31, 2017 and 2016 was as follows:

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Media Services	2017 $	% of Revenue	2016 $	% of Revenue	Change $	%
	(Dollars in Thousands)					
Direct costs [1]	$46,411	27.9 %	$39,791	25.2 %	$6,620	16.6 %
Staff costs [2]	80,234	48.3 %	77,677	49.3 %	2,557	3.3 %
Administrative	22,059	13.3 %	25,954	16.5 %	(3,895)	(15.0)%
Deferred acquisition consideration	(819)	(0.5)%	573	0.4 %	(1,392)	(242.9)%
Stock-based compensation	656	0.4 %	318	0.2 %	338	106.3 %
Depreciation and amortization	4,052	2.4 %	7,829	5.0 %	(3,777)	(48.2)%
Goodwill and other asset amortization	497	0.3 %	—	— %	497	100.0 %
Total operating expenses	$153,090	92.1 %	$152,142	96.5 %	$948	0.6 %

(1) Excludes staff costs.

(2) Excludes stock-based compensation and is comprised of amounts reported in both cost of services sold and office and general expenses.

Direct costs in the Media Services reportable segment for the twelve months ended December 31, 2017 were $46.4 million compared to $39.8 million for the twelve months ended December 31, 2016, representing an increase of $6.6 million, or 16.6%. As a percentage of revenue, direct costs increased from 25.2% in 2016 to 27.9% in 2017. The increase in direct costs is primarily due to increases in pass-through costs incurred on clients' behalf, from one of the Company's Partner Firms acting as Principal versus Agent.

Administrative costs in the Media Services reportable segment for the twelve months ended December 31, 2017 were $22.1 million compared to $26.0 million for the twelve months ended December 31, 2016, representing a decrease of $3.9 million, or 15.0%. As a percentage of revenue, administrative costs decreased from 16.5% in 2016 to 13.3% in 2017. The decrease in administrative costs was due to a reduction in outside professional services fees as well as occupancy cost savings realized from real estate consolidation initiatives.

Depreciation and amortization expense in the Media Services reportable segment for the twelve months ended December 31, 2017 was $4.1 million compared to $7.8 million for the twelve months ended December 31, 2016, representing a decrease of $3.8 million or 48.2%. The decrease was primarily due to lower amortization from intangibles related to prior period acquisitions.

The goodwill impairment in 2017 was comprised of an impairment on a non-material reporting unit. For more information see Note 10 of the Notes to the Consolidated Financial Statements included herein for further information.

All Other

The change in expenses as a percentage of revenue in the All Other category for the twelve months ended December 31, 2017 and 2016 was as follows:

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All Other	2017 $	% of Revenue	2016 $	% of Revenue	Change $	%
	(Dollars in Thousands)					
Revenue	$273,234		$247,812		$25,422	10.3 %
Operating expenses						
Cost of services sold	183,366	67.1 %	160,508	64.8 %	22,858	14.2 %
Office and general expenses	33,901	12.4 %	42,870	17.3 %	(8,969)	(20.9)%
Depreciation and amortization	8,197	3.0 %	8,768	3.5 %	(571)	(6.5)%
Goodwill impairment	—	— %	27,893	11.3 %	(27,893)	(100.0)%
	$225,464	82.5 %	$240,039	96.9 %	$(14,575)	(6.1)%
Operating profit	$47,771	17.5 %	$7,773	3.1 %	$39,997	514.6 %

Revenue in the All Other category was $273.2 million for the twelve months ended December 31, 2017 compared to revenue of $247.8 million for the twelve months ended December 31, 2016, representing an increase of $25.4 million, or 10.3%. The increase was driven by revenue growth from existing Partner Firm of $25.9 million, or 10.4%, and a positive foreign exchange impact of $1.0 million, or 0.4%, partially offset by a negative impact from dispositions of $1.5 million, or 0.6%.

Operating profit in the All Other category for the twelve months ended December 31, 2017 was $47.8 million compared to $7.8 million for the twelve months ended December 31, 2016, representing an increase of $40.0 million, or 514.6%. These increases were largely due to a decline in the goodwill impairment charge and the change in the deferred acquisition consideration adjustment, partially offset by an increase in staff costs as a percentage of revenue.

The change in the categories of expenses as a percentage of revenue in the All Other category for the twelve months ended December 31, 2017 and 2016 was as follows:

All Other	2017 $	% of Revenue	2016 $	% of Revenue	Change $	%
	(Dollars in Thousands)					
Direct costs (1)	$58,561	21.4 %	$53,705	21.7 %	$4,856	9.0 %
Staff costs (2)	138,127	50.6 %	121,925	49.2 %	16,202	13.3 %
Administrative	26,707	9.8 %	24,707	10.0 %	2,000	8.1 %
Deferred acquisition consideration	(8,623)	(3.2)%	1,337	0.5 %	(9,960)	NM
Stock-based compensation	2,495	0.9 %	1,703	0.7 %	792	46.5 %
Depreciation and amortization	8,197	3.0 %	8,768	3.5 %	(571)	(6.5)%
Goodwill impairment	—	— %	27,893	11.3 %	(27,893)	(100.0)%
Total operating expenses	$225,464	82.5 %	$240,038	96.9 %	$(14,574)	(6.1)%

(1) Excludes staff costs.

(2) Excludes stock-based compensation and is comprised of amounts reported in both cost of services sold and office and general expenses.

Staff costs in the All Other category for the twelve months ended December 31, 2017 were $138.1 million compared to $121.9 million for the twelve months ended December 31, 2016, representing an increase of $16.2 million, or 13.3%. As a percentage of revenue, staff costs increased from 49.2% in 2016 to 50.6% in 2017. These increases were primarily due to higher headcount at certain Partner Firms to support growth of the business.

Deferred acquisition consideration in the All Other category resulted in income of $8.6 million for the twelve months ended December 31, 2017 compared to an expense of $1.3 million for the twelve months ended December 31, 2016, representing a change of $10.0 million. The change was primarily due to aggregate under performance of certain Partner Firms as compared to forecasted expectations in the current period.

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The goodwill impairment in 2016 was comprised of a partial impairment of goodwill relating to an All Other reporting unit. For more information see Note 10 of the Notes to the Consolidated Financial Statements included herein for further information.

Corporate

The change in operating expenses for Corporate for the twelve months ended December 31, 2017 and 2016 was as follows:

Corporate	2017	2016	Change $	%
	(Dollars in Thousands)			
Staff costs (1)	$20,926	$26,048	$(5,122)	(19.7)%
Administrative costs	15,521	13,960	1,561	11.2 %
Stock-based compensation	2,134	2,525	(391)	(15.5)%
Depreciation and amortization	1,098	1,585	(487)	(30.7)%
Stock-based compensation	1,177	—	1,177	100.0 %
Total operating expenses	$40,856	$44,118	$(3,262)	(7.4)%

(1) Excludes stock-based compensation.

Total operating expenses for Corporate decreased by $3.3 million to $40.9 million in 2017, compared to $44.1 million in 2016.

Staff costs for Corporate decreased by $5.1 million, or 19.7%. The decrease was primarily due to reductions in executive compensation expense and severance expense.

Administrative costs for Corporate increased by $1.6 million, or 11.2%. This increase was primarily due to an increase in professional fees of $2.4 million relating to the implementation of ASC 606, Revenue from Contracts with Customers, which is effective January 1, 2018. Additionally, there was a reduction in insurance proceeds of $4.8 million received by the Company in 2016 compared to 2017, relating to the class action litigation and the completed SEC investigation, offset by reductions in legal fees in 2017 relating to the class action litigation and the completed SEC investigation. In addition, for the year ended December 31, 2016, the Company paid a one-time SEC civil penalty payment of $1.5 million.

Liquidity and Capital Resources

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

Liquidity	2018	2017	2016
	(In Thousands, Except for Long-Term Debt to Shareholders’ Equity Ratio)		
Cash and cash equivalents	$30,873	$46,179	$27,921
Working capital (deficit)	$(152,682)	$(232,859)	$(313,239)
Cash provided by (used in) operating activities	$17,280	$71,786	$(45,907)
Cash used in investing activities	$(50,431)	$(20,884)	$(25,196)
Cash provided by (used in) financing activities	$21,434	$(32,599)	$35,657

Ratio of long-term debt to shareholders' deficit	(3.87)	(5.68)	(1.84)

As of December 31, 2018, 2017 and 2016, $3.9 million (classified within Assets held for sale in the Consolidated Balance Sheet), $4.6 million, and $5.3 million, respectively, of the Company's consolidated cash position was held by subsidiaries in trust, and was available for use against the trust liability. This amount does not represent cash that is distributable as earnings to MDC for use to reduce its indebtedness.

The Company intends to maintain sufficient cash and/or available borrowings to fund operations for the next twelve months. The Company has historically been able to maintain and expand its business using cash generated from operating activities, funds available under its Credit Agreement, and other initiatives, such as obtaining additional debt and equity financing. At December

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31, 2018, there were $68.1 million borrowings under the Credit Agreement and $4.7 million of undrawn outstanding letters of credit resulting in $152.3 million available borrowings under the Credit Agreement. 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. See the Recent Developments section above for information regarding the Company's amendment to the Credit Agreement, including the reduction of the maximum revolving commitment amount under the Credit Agreement to $250 million from $325 million.

The Company's obligations extending beyond twelve months primarily consist of deferred acquisition payments, capital expenditures, scheduled lease obligation payments, and the principal and interest payments on borrowings under the Company's 6.50% Senior Notes due 2024 (the "Senior Notes"). Based on the current outlook, the Company believes future cash flows from operations, together with the Company's existing cash balance and availability of funds under the Company's Credit Agreement, will be sufficient to meet the Company's anticipated cash needs for the next twelve months. The Company's ability to make scheduled deferred acquisition payments, principal and interest payments, to refinance indebtedness or to fund planned capital expenditures will depend on future performance, which is subject to general economic conditions, the competitive environment and other factors, including those described in Item 1A of Part I of this Annual Report on Form 10-K and in the Company's other SEC filings.

As market conditions warrant, the Company may from time to time seek to purchase its notes, in privately negotiated or open market transactions, by tender offer or otherwise. Subject to any applicable limitations contained in the agreements governing its indebtedness, any purchase made by the Company may be funded by the net proceeds from any asset dispositions or the use of cash on its balance sheet. The amounts involved in any such purchase transactions, individually or in the aggregate, may be material.

Working Capital

At December 31, 2018, the Company had a working capital deficit of $152.7 million compared to a deficit of $232.9 million at December 31, 2017. The working capital deficit decreased by $80.2 million primarily due to the timing of media payments, partially offset by net borrowings on the Company's credit agreement. The Company's working capital is impacted by seasonality in media buying, amounts spent by clients, and timing of amounts received from clients and subsequently paid to suppliers. Media buying is impacted by the timing of certain events, such as major sporting competitions and national holidays, and there can be a quarter to quarter lag between the time amounts received from clients for the media buying are subsequently paid to suppliers. The Company intends to maintain sufficient cash or availability of funds under the Credit Agreement at any particular time to adequately fund working capital should there be a need to do so from time to time.

Operating Activities

Cash flows provided by operating activities for the twelve months ended December 31, 2018 was $17.3 million, primarily reflecting unfavorable working capital requirements, driven by media and other supplier payments, as well as acquisition related contingent consideration payments, being more than offset by the net loss adjusted to reconcile to net cash provided by operating activities.

Cash flows provided by operating activities for the twelve months ended December 31, 2017 was $71.8 million, primarily reflecting unfavorable working capital requirements, driven by timing of accounts receivable, as well as acquisition related contingent consideration payments, being more than offset by the net income adjusted to reconcile to net cash provided by operating activities.

Cash flows used in operating activities for the twelve months ended December 31, 2016 was $45.9 million, primarily reflecting unfavorable working capital requirements, driven by timing of accounts receivable, and media and other supplier payments, as well as acquisition related contingent consideration payments, partially offset by the net loss adjusted to reconcile to net cash used in operating activities.

Investing Activities

During the twelve months ended December 31, 2018, cash flows used in investing activities was $50.4 million, primarily consisting of cash paid of $32.7 million for acquisitions (see Note 5 of the Notes to the Consolidated Financial Statements for additional information) and capital expenditures related primarily to computer equipment, furniture and fixtures, and leasehold improvements of $20.3 million.

During the twelve months ended December 31, 2017, cash flows used in investing activities was $20.9 million, primarily consisting of capital expenditures related primarily to computer equipment, furniture and fixtures, and leasehold improvements of $33.0 million, partially offset by net proceeds from sale of three subsidiaries of $10.6 million.

During the twelve months ended December 31, 2016, cash flows used in investing activities was $25.2 million, primarily consisting of capital expenditures related primarily to computer equipment, furniture and fixtures, and leasehold improvements of $29.4 million, partially offset by $7.4 million of distributions from non-consolidated affiliates.

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Financing Activities

During the twelve months ended December 31, 2018, cash flows provided by financing activities was $21.4 million, primarily driven by $68.1 million in net borrowings under the Credit Agreement, partially offset by $32.2 million of acquisition related payments and distributions to noncontrolling partners of $13.4 million.

During the twelve months ended December 31, 2017, cash flows used in financing activities was $32.6 million, primarily driven by $54.4 million in net repayments under the Credit Agreement, $57.1 million of acquisition related payments and distributions to noncontrolling partners of $8.9 million. These amounts were partially offset by $95.0 million of gross proceeds from the issuance of convertible preference shares.

During the twelve months ended December 31, 2016, cash flows provided by financing activities was $35.7 million, primarily driven by redemption of the 6.75% Notes of $735.0 million, a premium paid in connection with such redemption of $26.9 million including accrued interest through the settlement date, $90.8 million of acquisition related payments, payment of dividends of $32.9 million, $21.6 million of debt issuance costs paid in connection with the issuance of the 6.50% Notes, and distributions to noncontrolling partners of $7.8 million. These amounts were partially offset by $900.0 million in proceeds from the issuance of the 6.50% Notes and $54.4 million in net borrowings under the Credit Agreement.

Total Debt

Debt, net of debt issuance costs, as of December 31, 2018 was $954.6 million, an increase of $71.5 million, compared with $883.1 million outstanding at December 31, 2017. This increase in debt was primarily a result of the Company’s net borrowings under the Credit Agreement. See Note 12 of the Notes to the Consolidated Financial Statements for information regarding the Company’s $900 million Senior Notes.

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 (see below and each as more fully described in the Credit Agreement). 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 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, access to the capital markets or asset sales, the Company’s ability to fund its working capital needs and any contingent obligations with respect to acquisitions and redeemable noncontrolling interests 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 December 31, 2018, the Company’s calculation of each of these covenants, and the specific requirements under the Credit Agreement, respectively, were calculated based on the trailing twelve months as follows:

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	December 31, 2018
Senior Leverage Ratio	0.3
Maximum per covenant	2.0
Total Leverage Ratio	5.2
Maximum per covenant	5.5
Fixed Charges Ratio	2.4
Minimum per covenant	1.1
Earnings before interest, taxes, depreciation and amortization	$183.1 million
Minimum per covenant	$105.0 million

These ratios and measures are not based on generally accepted accounting principles and are not presented as alternative measures of operating performance or liquidity. Some of these ratios and measures include, among other things, pro forma adjustments for acquisitions, one-time charges, and other items, as defined in the Credit Agreement. They are presented here to demonstrate compliance with the covenants in the Credit Agreement, as non-compliance with such covenants could have a material adverse effect on the Company.

Contractual Obligations and Other Commercial Commitments

The following table provides a payment schedule of present and future obligations. Management anticipates that the obligations outstanding at December 31, 2018 will be repaid with new financing, equity offerings, asset sales and/or cash flow from operations :

(in thousands)	Payments Due by Period				
Contractual Obligations	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years
	(Dollars in Thousands)				
Indebtedness (1)	$968,143	$—	$68,143	$—	$900,000
Capital lease obligations	478	356	122	—	—
Operating leases	345,910	58,015	101,185	78,735	107,975
Interest on debt	312,000	58,500	117,000	117,000	19,500
Deferred acquisition consideration (2)	83,695	32,928	29,517	21,250	—
Other long-term liabilities	5,133	2,788	2,345	—	—
Total contractual obligations (3)	$1,715,359	$152,587	$318,312	$216,985	$1,027,475

(1) Indebtedness includes $68.1 million borrowings under the Credit Agreement due in 2021.

(2) Deferred acquisition consideration excludes future payments with an estimated fair value of $17.5 million that are contingent upon employment terms as well as financial performance and will be expensed as stock-based compensation over the required retention period. Of this amount, the Company estimates $1.8 million will be paid in less than one year and $15.7 million will be paid in one to three years.

(3) Pension obligations of $14.8 million are not included since the timing of payments are not known.

Other-Balance Sheet Commitments

Media and Production

The Company’s agencies enter into contractual commitments with media providers and agreements with production companies on behalf of our clients at levels that exceed the revenue from services. Some of our agencies purchase media for clients and act as an agent for a disclosed principal. These commitments are included in accounts payable when the media services are delivered by the media providers. MDC takes precautions against default on payment for these services and has historically had a very low

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incidence of default. MDC is still exposed to the risk of significant uncollectible receivables from our clients. The risk of a material loss could significantly increase in periods of severe economic downturn.

Deferred Acquisition Consideration

Deferred acquisition consideration on the balance sheet consists of deferred obligations related to contingent and fixed purchase price payments, and to a lesser extent, contingent and fixed retention payments tied to continued employment of specific personnel. See Notes 2 and 6 of the Notes to the Consolidated Financial Statements included herein for further information.

The following table presents the Company’s obligation by segment for deferred acquisition consideration and the changes for the year ended December 31, 2018:

	December 31, 2018					
	Global Integrated Agencies	Domestic Creative Agencies	Specialist Communications	Media Services	All Other	Total
	(Dollars in Thousands)					
Beginning Balance of contingent payments	$81,411	$ —	$ 5,467	$3,735	$28,473	$119,086
Payments	(32,792)	—	(5,355)	(1,325)	(15,475)	(54,947)
Additions - acquisition and step-up transactions	3,092	—	11,851	—	—	14,943
Redemption value adjustments	(84)	—	1,226	279	2,091	3,512
Foreign translation adjustment	—	—	4	—	—	4
Ending Balance of contingent payments	51,627	—	13,193	2,689	15,089	82,598
Fixed payments	1,096	—	—	—	1	1,097
	$52,723	$ —	$ 13,193	$2,689	$15,090	$83,695

Redemption value adjustments are fair value changes from the Company’s initial estimates of deferred acquisition payments, including the accretion of present value and stock-based compensation charges relating to acquisition payments that are tied to continued employment.

Redeemable Noncontrolling Interest

When acquiring less than 100% ownership of an entity, the Company may enter into agreements that give the Company an option to purchase, or require the Company to purchase, the incremental ownership interests under certain circumstances. Where the option to purchase the incremental ownership is within the Company’s control, the amounts are recorded as noncontrolling interests in the equity section of the Company’s balance sheet. Where the incremental purchase may be required of the Company, the amounts are recorded as redeemable noncontrolling interests in mezzanine equity. See Notes 2 and 8 of the Notes to the Consolidated Financial Statements included herein for further information.

Upon the settlement of the total amount of such options to purchase, the Company estimates that it would receive incremental annual operating income before depreciation and amortization of $4.4 million. The following table summarizes the potential timing of the consideration and incremental operating income before depreciation and amortization.

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Consideration[4]	2019	2020	2021	2022	2023 & Thereafter	Total
	(Dollars in Thousands)					
Cash	$4,696	$2,320	$4,053	$2,881	$ 3,264	$17,214
Shares	19	35	53	34	18	159
	$4,715	$2,355	$4,106	$2,915	$ 3,282	$17,373[1]
Operating income before depreciation and amortization to be received [2]	$2,378	$—	$1,778	$—	$ 237	$4,393
Cumulative operating income before depreciation and amortization [3]	$2,378	$2,378	$4,156	$4,156	$ 4,393	[5]

(1) This amount is in addition to (i) $31.5 million of options to purchase only exercisable upon termination not within the control of the Company, or death, and (ii) $2.6 million excess of the initial redemption value recorded in redeemable noncontrolling interests over the amount the Company would be required to pay to the holders should the Company acquire the remaining ownership interests.
(2) This financial measure is presented because it is the basis of the calculation used in the underlying agreements relating to the put rights and is based on actual 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.

Guarantees

Generally, the Company has indemnified the purchasers of certain of its assets in the event that a third party asserts a claim against the purchaser that relates to a liability retained by the Company. These types of indemnification guarantees typically extend for several years. Historically, the Company has not made any significant indemnification payments under such agreements and no provision 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.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements have been prepared in accordance with U.S. GAAP. Preparation of the Consolidated Financial Statements and related disclosures requires us to make judgments, assumptions and estimates that affect the amounts reported and disclosed in the accompanying financial statements and footnotes. Our significant accounting policies are discussed in Note 2 of the Consolidated Financial Statements. Our critical accounting policies are those that are considered by management to require significant judgment and use of estimates and that could have a significant impact on our financial statements. An understanding of our critical accounting policies is necessary to analyze our financial results.

Our critical accounting policies include our accounting for revenue recognition, business combinations, deferred acquisition consideration, redeemable noncontrolling interests, goodwill and intangible assets, income taxes and stock-based compensation. The financial 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. Effective January 1, 2018, the Company adopted ASC 606. The Company’s revenue is recognized when control of the promised goods or services is transferred to our clients, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. See Note 3 of the Notes to the Consolidated Financial Statements included herein for further information.

Business Combinations. 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.

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For each of the Company's acquisitions, a detailed review is undertaken 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 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.

Deferred Acquisition Consideration. Consistent with our acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions include an initial payment at the time of closing and provide for future additional contingent purchase price payments. Contingent purchase price obligations for these transactions is recorded as a deferred acquisition consideration liability and are derived from the performance of the acquired entity and are based on predetermined formulas. These various contractual valuation formulas 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 on the date of payment. The liability is adjusted quarterly based on changes in current information affecting each subsidiary's current operating results and the impact this information will have on future results included in the calculation of the estimated liability. In addition, changes in various contractual valuation formulas as well as adjustments to present value impact quarterly adjustments. These adjustments are recorded in results of operations.

Redeemable Noncontrolling Interests. Many of the Company's acquisitions include contractual arrangements where the noncontrolling shareholders have an option to purchase, or may require the Company to purchase, such noncontrolling shareholders' incremental ownership interests under certain circumstances and the Company has similar call options under the same contractual terms. The amount of consideration under these contractual arrangements is not a fixed amount, but rather is dependent upon various valuation formulas, such as the average earnings of the relevant subsidiary through the date of exercise or the growth rate of the earnings of the relevant subsidiary during that period. In the event that an incremental purchase may be required of the Company, the amounts are recorded as redeemable noncontrolling interests in mezzanine equity on the balance sheet at their acquisition date fair value and adjusted for changes to their estimated redemption value through additional paid-in capital (but not less than their initial redemption value), except for foreign currency translation adjustments. These adjustments will not impact the calculation of earnings (loss) per share if the redemption values are less than the estimated fair values. There was no impact on the Company's earnings (loss) per share calculation in any period.

Goodwill and Other Intangibles. The Company reviews goodwill and other intangible assets with indefinite lives not subject to amortization for impairment annually as of October 1st of each year or more frequently if indicators of potential impairment exist. The Company performs its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value provided the loss recognized does not exceed the total amount of goodwill allocated to that reporting unit.

For the annual impairment testing the Company has the option of assessing qualitative factors to determine whether it is more likely than not that the carrying amount of a reporting unit exceeds its fair value or performing a quantitative goodwill impairment test. Qualitative factors considered in the assessment include industry and market considerations, the competitive environment, overall financial performance, changing cost factors such as labor costs, and other factors specific to each reporting unit such as change in management or key personnel.

If the Company elects to perform the qualitative assessment and concludes that it is more likely than not that the fair value of the reporting unit is more than its carrying amount, then goodwill is not considered impaired and the quantitative impairment test is not necessary. For reporting units for which the qualitative assessment concludes that it is more likely than not that the fair value of the reporting unit is less than its carrying amount and for reporting units for which the qualitative assessment is not performed, the Company will perform the quantitative impairment test, which compares the fair value of the reporting unit to its carrying amount. If the fair value of the reporting unit exceeds the carrying amount of the net assets assigned to that reporting unit, goodwill is not considered impaired and additional analysis is not required. However, if the carrying amount of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the recognition of an impairment charge is required.

Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. For the 2018 annual impairment test, the Company used an income approach, which incorporates the use of the discounted cash flow ("DCF") method. The income approach requires the exercise of significant judgment, including judgment about the amount and timing of expected future cash flows, assumed terminal value and appropriate discount rates.

The DCF estimates incorporate expected cash flows that represent a spectrum of the amount and timing of possible cash flows of each reporting unit from a market participant perspective. The expected cash flows are developed from the Company's long-range planning process using projections of operating results and related cash flows based on assumed long-term growth rates and

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demand trends and appropriate discount rates based on a reporting units weighted average cost of capital (“WACC”) as determined by considering the observable WACC of comparable companies and factors specific to the reporting unit. The terminal value is estimated using a constant growth method which requires an assumption about the expected long-term growth rate. The estimates are based on historical data and experience, industry projections, economic conditions, and the Company’s expectations. We performed the quantitative impairment test in 2018. See Note 10 of the Consolidated Financial Statements for additional information regarding the Company’s impairment test and impairment charges recognized.

The assumptions used for the long-term growth rate and WACC in the annual goodwill impairment test are as follows:

	October 1, 2018
Long-term growth rate	3.0%
WACC	9.13% - 11.05%

For the 2018 annual goodwill impairment test, the Company had 28 reporting units, all of which were subject to the quantitative goodwill impairment test and the carrying amount of three of the Company’s reporting units exceeded their fair value. The range of the excess of fair value over the carrying amount for the Company’s reporting units was from 3% to over 100%. The Company performed a sensitivity analysis which included a 1% increase to the WACC. Based on the results of that analysis, one additional reporting unit with goodwill of approximately $131.2 million would fail the quantitative impairment test.

The Company believes the estimates and assumptions used in the calculations are reasonable. However, if there was an adverse change in the facts and circumstances, then an impairment charge may be necessary in the future. Specifically, as mentioned above, the fair value of one reporting unit, with goodwill of approximately $131.2 million, exceeded its carrying value by 3% and therefore is highly sensitive to adverse changes in the facts and circumstances that could result in a possible future impairment. Should the fair value of any of the Company’s reporting units fall below its carrying amount because of reduced operating performance, market declines, changes in the discount rate, or other conditions, charges for impairment may be necessary. The Company monitors its reporting units to determine if there is an indicator of potential impairment.

Indefinite-lived intangible assets are primarily evaluated on an annual basis, generally in conjunction with the Company’s evaluation of goodwill balances. See Note 10 of the Consolidated Financial Statements for additional information regarding the Company’s impairment of a trademark.

Income Taxes. 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 evaluates on a quarterly basis all available positive and negative evidence considering 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. The periodic assessment of the net carrying value of the Company’s deferred tax assets under the applicable accounting rules requires significant management judgment. A change to any of these factors could impact the estimated valuation allowance and income tax expense.

See Note 11 of the Notes to the Consolidated Financial Statements included herein for information related to the 2017 Tax Cuts and Jobs Act (the “Tax Act”) enacted into law on December 22, 2017, and Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”) issued by the SEC in December 2017.

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. Awards based on performance conditions are recorded as compensation expense when the performance conditions are expected to be met.

From time to time, certain acquisitions and step-up transactions include an element of compensation related payments. The Company accounts for those payments as stock-based compensation. See Note 13 of the Notes to the

Consolidated Financial Statements for further information.

New Accounting Pronouncements

Information regarding new accounting guidance can be found in Note 19 of the Notes to the Consolidated Financial Statements included herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Debt Instruments: At December 31, 2018, the Company's debt obligations consisted of amounts outstanding under its Credit Agreement and the Senior Notes. The Senior Notes bear a fixed 6.50% interest rate. The Credit Agreement bears interest at variable rates based upon the Eurodollar rate, U.S. bank prime rate and U.S. 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 $68.1 million of borrowings under the Credit Agreement, as of December 31, 2018, a 1% increase or decrease in the weighted average interest rate, which was 4.16% at December 31, 2018, would have an immaterial interest impact.

Foreign Exchange: While the Company primarily conducts business in markets that use the U.S. dollar, the Canadian dollar, the Euro and the British Pound, its non-U.S. operations transact business in numerous different currencies. The Company's results of operations are subject to risk from the translation to the U.S. dollar of the revenue and expenses of its non-U.S. operations. The effects of currency exchange rate fluctuations on the translation of the Company's results of operations are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 2 of the Notes to the Consolidated Financial Statements included herein. For the most part, revenues and expenses incurred related to the non-U.S. operations are denominated in their functional currency. This minimizes the impact that fluctuations in exchange rates will have on profit margins. Intercompany debt which is not intended to be repaid is included in cumulative translation adjustments. Translation of intercompany debt, which is not intended to be repaid, is included in cumulative translation adjustments. Translation of current intercompany balances are included in net earnings. The Company generally 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 U.S. and Canada. For every one cent change in the foreign exchange rate between the U.S. and Canada, the impact to the Company's Consolidated Statements of Operations would be approximately $3 million.

Impairment Risk: At December 31, 2018, the Company had goodwill of $741.0 million and other intangible assets of $67.8 million. The Company reviews goodwill and other intangible assets with indefinite lives not subject to amortization for impairment annually as of October 1st of each year or more frequently if indicators of potential impairment exist. See the Critical Accounting Policy and Estimates section above and Note 10 of the Notes to the Consolidated Financial Statements for further information.

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Item 8. Financial Statements and Supplementary Data
MDC PARTNERS INC.
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Report of Independent Registered Public Accounting Firm
Board of Directors and Shareholders
MDC Partners Inc.
New York, New York

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of MDC Partners Inc. (the “Company”) and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), shareholders’ deficit, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and schedules presented in Item 15 (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated March 18, 2019 expressed an unqualified opinion thereon.

Change in Accounting Principles

On January 1, 2018, the Company adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). The effects of adoption are described in Note 3 to the consolidated financial statements.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP
We have served as the Company’s auditor since 2006.

New York, New York
March 18, 2019

MDC PARTNERS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Thousands of United States Dollars, Except per Share Amounts)

	Years Ended December 31,		
	2018	2017	2016
Revenue:			
Services	$1,476,203	$1,513,779	$1,385,785
Operating Expenses:			
Cost of services sold	991,198	1,023,476	936,133
Office and general expenses	349,056	310,455	306,251
Depreciation and amortization	46,196	43,474	46,446
Goodwill and other asset impairment	80,057	4,415	48,524
	1,466,507	1,381,820	1,337,354
Operating income	9,696	131,959	48,431
Other Income (Expenses):			
Interest expense and finance charges, net	(67,075)	(64,364)	(65,050)
Foreign exchange gain (loss)	(23,258)	18,137	(213)
Other income, net	230	1,346	414
Loss on redemption of Notes	—	—	(33,298)
	(90,103)	(44,881)	(98,147)
Income (loss) before income taxes and equity in earnings of non-consolidated affiliates	(80,407)	87,078	(49,716)
Income tax expense (benefit)	31,603	(168,064)	(9,404)
Income (loss) before equity in earnings of non-consolidated affiliates	(112,010)	255,142	(40,312)
Equity in earnings (losses) of non-consolidated affiliates	62	2,081	(309)
Net income (loss)	(111,948)	257,223	(40,621)
Net income attributable to the noncontrolling interests	(11,785)	(15,375)	(5,218)
Net income (loss) attributable to MDC Partners Inc.	(123,733)	241,848	(45,839)
Accretion on and net income allocated to convertible preference shares	(8,355)	(36,254)	—
Net income (loss) attributable to MDC Partners Inc. common shareholders	$(132,088)	$205,594	$(45,839)
Income (Loss) Per Common Share:			
Basic			
Net income (loss) attributable to MDC Partners Inc. common shareholders	$(2.31)	$3.72	$(0.89)
Diluted			
Net income (loss) attributable to MDC Partners Inc. common shareholders	$(2.31)	$3.71	$(0.89)
Weighted Average Number of Common Shares Outstanding:			
Basic	57,218,994	55,255,797	51,345,807
Diluted	57,218,994	55,481,786	51,345,807
Stock-based compensation expense is included in the following line items above:			
Cost of services sold	$12,513	$19,015	$14,237
Office and general expenses	5,903	5,335	6,766
Total	$18,416	$24,350	$21,003

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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MDC PARTNERS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Thousands of United States Dollars)

	Years Ended December 31,		
	2018	2017	2016
Comprehensive Income (Loss)			
Net income (loss)	$(111,948)	$257,223	$(40,621)
Other comprehensive income (loss), net of applicable tax:			
Foreign currency translation adjustment	3,158	3,611	(4,586)
Benefit plan adjustment, net of income tax expense of $223 in 2018 and nil for 2017 and 2016	555	(1,336)	(3,101)
Other comprehensive income (loss)	3,713	2,275	(7,687)
Comprehensive income (loss) for the year	(108,235)	259,498	(48,308)
Comprehensive income attributable to the noncontrolling interests	(8,824)	(17,780)	(5,612)
Comprehensive income (loss) attributable to MDC Partners Inc.	$(117,059)	$241,718	$(53,920)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

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