MDC PARTNERS INC
Form 10-Q
May 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from ______________ to ______________

Commission file number: 001-13178

MDC Partners Inc.

(Exact name of registrant as specified in its charter)

Canada	98-0364441
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
745 Fifth Avenue New York, New York	10151
(Address of principal executive offices)	(Zip Code)

(646) 429-1800

Registrant's telephone number, including area code:

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

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

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

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

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

Yes ¨ No x

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

Website Access to Company Reports

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

MDC PARTNERS INC.

QUARTERLY REPORT ON FORM 10-Q

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Item 1. Financial Statements

MDC PARTNERS INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

Non cash stock-based compensation expense is included in the following line items above:		
Cost of services sold	$ —	$ 1,040
Office and general expenses	5,884	3,234
Total	$ 5,884	$ 4,274

See notes to the unaudited condensed consolidated financial statements.

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MDC PARTNERS INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(thousands of United States dollars)

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

See notes to the unaudited condensed consolidated financial statements.

MDC PARTNERS INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(thousands of United States dollars)

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

Class B Shares, no par value, unlimited authorized, 2,503 shares issued and outstanding in 2012 and 2011, each convertible into one Class A share		
Shares to be issued 28,000 shares	424	424
Charges in excess of capital	(62,393)	(45,102)
Accumulated deficit	(257,555)	(231,274)
Stock subscription receivable	(55)	(55)
Accumulated other comprehensive loss	(2,796)	(4,658)
MDC Partners Inc. Shareholders' Equity (Deficit)	(83,657)	(52,456)
Noncontrolling Interests	77,151	39,515
Total Equity (Deficit)	(6,506)	(12,941)
Total Liabilities, Redeemable Noncontrolling Interests and Equity (Deficit)	$ 1,338,610	$ 1,055,745

See notes to the unaudited condensed consolidated financial statements.

MDC PARTNERS INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of United States dollars)

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

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

See notes to the unaudited condensed consolidated financial statements.

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MDC PARTNERS INC. AND SUBSIDIARIES

UNAUDITED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(thousands of United States dollars)

	Common Stock				Share Capital			Charges in		Stock	Accumulated Other	MI Pa Inc
	Class A		Class B		to be issued		Additional	Excess of	Accumulated	Subscription	Comprehensive	Sh
	Shares	Amount	Shares	Amount	Shares	Amount	Paid in Capital	Capital	Deficit	Receivable	Income	Eq
Balance at December 31, 2011	29,277,408	$228,208	2,503	$1	28,000	$424	$-	$(45,102)	$(231,274)	$(55)	$(4,658)	$(
Net loss attributable to MDC Partners	-	-	-	-	-	-	-	-	(26,281)	-	-	(
Foreign currency translation adjustments	-	-	-	-	-	-	-	-	-	-	1,862	1
Stock Appreciation Rights Exercised	26,426	100	-	-	-	-	(100)	-	-	-	-	-
Shares acquired and cancelled	(133,217)	(2,146)	-	-	-	-	-	-	-	-	-	(
Issuance of restricted stock	893,320	12,555	-	-	-	-	(12,555)	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	5,539	-	-	-	-	5
Changes in redemption value of redeemable noncontrolling interests	-	-	-	-	-	-	50	-	-	-	-	5
Increase in redeemable noncontrolling interests from	-	-	-	-	-	-	(1,263)	-	-	-	-	(

acquisition												
Increase in noncontrolling interests from acquisition	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid and to be paid	-	-	-	-	-	-	(8,962)	-	-	-	-	(
Transfer to charges in excess of capital	-	-	-	-	-	-	17,291	(17,291)	-	-	-	-
Balance at March 31, 2012	30,063,937	$238,717	2,503	$1	28,000	$424	$-	$(62,393)	$(257,555)	$(55)	$(2,796)	$(

See notes to the unaudited condensed consolidated financial statements.

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MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(thousands of United States dollars, unless otherwise stated)

1. Basis of Presentation

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

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

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

2. Significant Accounting Policies

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

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

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

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

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

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

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

Cash and Cash Equivalents. The Company's cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. The Company has a concentration risk in that there are cash deposits in excess of federally insured amounts. Included in cash and cash equivalents at March 31, 2012 and December 31, 2011, is approximately $47 and $46, respectively, of cash restricted as to withdrawal pursuant to a collateral agreement and a customer's contractual requirements.

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(thousands of United States dollars, unless otherwise stated)

2. Significant Accounting Policies – (continued)

Business Combinations. Valuation of acquired companies are based on a number of factors, including specialized know-how, reputation, competitive position and service offerings. The Company's acquisition strategy has been focused on acquiring the expertise of an assembled workforce in order to continue to build upon the core capabilities of its various strategic business platforms to better serve the Company's clients. Consistent with the acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed in 2011, 2010 and 2009 included an initial payment at the time of closing and provide for future additional contingent purchase price payments. Contingent payments for these transactions, as well as certain acquisitions completed in prior years, are derived using the performance of the acquired entity and are based on pre-determined formulas. Contingent purchase price obligations for acquisitions completed prior to January 1, 2009 are accrued when the contingency is resolved and payment is certain. Contingent purchase price obligations related to acquisitions completed subsequent to December 31, 2008 are recorded as liabilities at estimated value and are remeasured at each reporting period and changes in estimated value are recorded in results of operations. For the three months ended March 31, 2012, $2,528 of expense was recognized related to changes in estimated value. For the three months ended March 31, 2011, $2,977 of income has been recorded in operating income. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests are recorded as Redeemable Noncontrolling Interests. As of January 1, 2009, the Company expenses acquisition related costs in accordance with the Accounting Standard's Codification's new guidance on acquisition accounting. For the three months ended March 31, 2012, $740 of acquisition related costs have been charged to operations. For the three months ended March 31, 2011, $568 of acquisition related costs have been charged to operations.

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

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

The Company has recorded its put options as mezzanine equity at their current estimated redemption amounts. The Company accrues changes in the redemption amounts over the period from the date of issuance to the earliest redemption date of the put options. The Company accounts for the put options with a charge to noncontrolling interests to reflect the excess, if any, of the estimated exercise price over the estimated fair value of the noncontrolling interest shares at the date of the option being exercised. For the three months ended March 31, 2012 and 2011, there have been no charges to noncontrolling interests. Changes in the estimated redemption amounts of the put options are adjusted at each reporting period with a corresponding adjustment to equity. These adjustments will not impact the calculation of earnings per share.

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(thousands of United States dollars, unless otherwise stated)

2. Significant Accounting Policies – (continued)

The following table presents changes in Redeemable Noncontrolling Interests.

	Three Months Ended March 31,	
	2012	2011
Beginning Balance as of December 31,	$107,432	$77,560
Redemptions	(3,425)	(362)
Granted	4,189	7,890
Changes in redemption value	(44)	3,781
Currency Translation Adjustments	703	979
Ending Balance as of March 31,	$108,855	$89,848

Variable Interest Entity. Effective March 28, 2012, MDC invested in Doner Partners LLC (“Doner”), and has determined that this entity is a variable interest entity (“VIE”) and is consolidated for the quarter ended March 31, 2012. The Company acquired a 30% voting interest and convertible preferred interests that allow the Company to increase ordinary voting ownership to 70% at MDC’s option. Doner is a full service integrated creative agency that is included as part of our portfolio in the Strategic Marketing Services Segment. The Company’s WF Credit Agreement is guaranteed and secured by all of Doner’s assets.

The Company has determined that we are the primary beneficiary because MDC receives a disproportionate share of profits and losses as compared to the Company’s ownership percentage. Total assets and total liabilities of Doner included in the Company’s consolidated balance sheet at March 31, 2012 were $202,787 and $175,504, respectively.

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

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

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

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(thousands of United States dollars, unless otherwise stated)

2. Significant Accounting Policies – (continued)

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

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

Interest Expense. Interest expense primarily consists of the cost of borrowing on the revolving credit facility and the 11% Senior Notes. The Company uses the effective interest method to amortize the original issue discount and original issue premium on the 11% Senior Notes. At March 31, 2012 and December 31, 2011, $4 and $232 was amortized, respectively, net of amortized premium of $326 and $943, respectively. The Company amortizes deferred financing costs using the effective interest method over the life of the 11% Senior Notes and straight line over the life of the revolving credit facility. The total net deferred financing costs, included in Other Assets on the balance sheet, as of March 31, 2012 and December 31, 2011 was $11,235 and $11,715, net of accumulated amortization of $4,081 and $3,526, respectively. During the three months of 2012, the Company recorded $74 of deferred financing costs primarily relating to the 2012 amendment of the revolving credit facility.

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

The Company uses its historical volatility derived over the expected term of the award, to determine the volatility factor used in determining the fair value of the award. The Company uses the "simplified" method to determine the term of the award due to the fact that historical share option exercise experience does not provide a reasonable basis upon which to estimate the expected term.

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

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

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

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

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

During the three months ended March 31, 2012, the Company issued 845,727 restricted stock units ("RSUs") to its employees and directors. The RSUs have an aggregate grant date fair value of $11,045 and generally vest on the third anniversary date with certain awards subjected to accelerated vesting based on the financial performance of the Company.

A total of 846,269 Class A shares of restricted stock, granted to employees as equity incentive awards, are included in the Company's calculation of Class A shares outstanding as of March 31, 2012.

3 . Income (Loss) Per Common Share

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

	Three Months Ended March 31,	
	2012	2011
Numerator		
Numerator for basic loss per common share - loss from continuing operations	$(24,624)	$(6,754)
Net income attributable to the noncontrolling interests	(1,357)	(1,605)
Loss attributable to MDC Partners Inc. common shareholders from continuing operations	$(25,981)	$(8,359)
Effect of dilutive securities	—	—
Numerator for diluted loss per common share – loss attributable to MDC Partners Inc. common shareholders from continuing operations	$(25,981)	$(8,359)
Denominator		
Denominator for basic loss per common share - weighted average common shares	29,889,932	28,200,111
Effect of dilutive securities:	—	—
Denominator for diluted loss per common share - adjusted weighted shares	29,889,932	28,200,111
Basic loss per common share from continuing operations attributable to MDC Partners Inc.	$(0.87)	$(0.30)
Diluted loss per common share from continuing operations attributable to MDC Partners Inc.	$(0.87)	$(0.30)

During the three months ended March 31, 2012, options and other rights to purchase 5,093,649 shares of common stock, which includes 846,269 shares of non-vested restricted stock and restricted stock units, were outstanding and were not included in the computation of diluted income per common share because their effect would be antidilutive.

During the three months ended March 31, 2011, options and other rights to purchase 5,352,121 shares of common stock, which includes 1,912,723 shares of non-vested restricted stock, were outstanding but were not included in the computation of diluted income per common share because their effect would be antidilutive.

4. Acquisitions

Pro forma financial information has not been presented for the 2012 acquisitions noted below since they did not have a material effect on the Company's operating results. Included in the Company's consolidated statement of operations for the quarter ended March 31, 2012 was revenue of $1,948 and a net loss of $283 related to 2012 acquisitions. The Company assumed cash of $57,833, accounts receivable of $63,163 and accounts payable of $99,584.

First Quarter 2012 Acquisitions

During the quarter ended March 31, 2012, the Company completed a number of transactions. Effective March 28, 2012, MDC invested in Doner Partners LLC (“Doner”). The Company acquired a 30% voting interest and a convertible preferred interest that allows the Company to increase ordinary voting ownership to 70% at MDC’s option, at no additional cost to the Company. Doner is a full service integrated creative agency. In addition, the Company acquired a 70% interest in TargetCast LLC (“TargetCast”). TargetCast is a full service media agency that expands our media strategy and activation offerings. The Company acquired a 51% interest in Dotbox LLC (“Dotbox”), The Dotbox acquisition, forms the foundation for a full-service e-commerce solution within the network. Doner and Dotbox are now included in the Company’s Strategic Marketing Services segment, while TargetCast is included in the Company’s Performance Marketing Group segment. During the quarter, the Company also entered into immaterial transactions with certain majority owned entities.

The aggregate purchase price for these transactions has an estimated present value at acquisition date of $86,553 and consisted of total closing cash payments of $20,500, and additional contingent deferred acquisition consideration that are based on the financial results of the underlying businesses from 2011 to 2018 with final payments due in 2018 with an estimated present value at acquisition date $66,053. An allocation of excess purchase price consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $21,581 consisting primarily of customer lists and covenants not to compete, and goodwill of $118,867 representing the value of assembled workforce. The identified assets will be amortized from a five to seven year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded $37,630 as the present value of noncontrolling interest. The Company also recorded an entry to increase redeemable noncontrolling interest by $763 and additional paid-in-capital of $1,262. The intangibles and goodwill are tax deductible.

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

2011 Acquisitions

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

Fourth Quarter 2011 Acquisitions

During the quarter ended December 31, 2011, the Company completed a number of transactions. The Company, through a wholly-owned subsidiary, acquired substantially all of the assets of RJ Palmer LLC and a 75% interest in Trade X Partners LLC ("Trade X"). These acquisitions expand the Company's portfolio with another full service media buying agency as well as provides corporate bartering services to clients and are included in the Performance Marketing Services segment. The Company also entered into a transaction through its subsidiary Kwittken PR LLC ("Kwittken") acquired 100% of Epoch PR Limited. Epoch is a communications and PR agency and expands Kwittken's capabilities to London and is included in the Strategic Marketing Services segment. The Company also acquired a 51% interest in AIC Publishing Services LP ("AIC"). In addition, the Company increased its ownership to 85.3% of Veritas, to 94.0% of 656712 Ontario Limited ("Onbrand"), to 66.3% of 6Degrees Integrated Communications and 85% of Boom Marketing Inc. The aggregate purchase price for these transactions has an estimated present value at acquisition date of $26,659 and consisted of total closing cash payments of $12,769, and additional contingent deferred acquisition consideration, that are based on actual financial results of the underlying businesses from 2011 to 2016 with final payments due in 2017 with an estimated present value at acquisition date of $15,944. An allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $5,434 consisting primarily of customer lists and covenants not to compete, and goodwill of $25,091 representing the value of assembled workforce. The identified intangible assets will be amortized from a five to seven year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded $1,237, the present value of redeemable noncontrolling interest in relation to Trade X. The founder of Trade X has the put option rights only upon termination without cause, disability, or death. The Company recorded $229, the present value of noncontrolling interest in relationship to AIC. The Company also recorded an entry to reduce redeemable noncontrolling interests by $2,017 and additional paid-in-capital of $1,328. The intangibles and goodwill of $26,061 are tax deductible.

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

Third Quarter 2011 Acquisitions

During the quarter ended September 30, 2011, the Company completed a number of acquisitions. The Company, through a wholly-owned subsidiary, purchased a 70% interest in Concentric Partners, LLC (“Concentric”) and a 65% interest in Laird + Partners, New York LLC (“Laird”). The Concentric acquisition is expected to serve as the foundation of the Company’s healthcare platform. The Laird acquisition increases the Company’s positioning in the luxury goods and retail marketplace. Concentric and Laird are now included in the Company’s Strategic Marketing Services segment. In addition, the Company increased its ownership to 100% of Redscout LLC (“Redscout”), 82% of VitroRobertson LLC (“Vitro”), and 91.8% of The Northstar Group of companies. The aggregate purchase price for these transactions has an estimated present value at acquisition date of $37,914 and consisted of total closing cash payments of $15,972, additional contingent deferred acquisition consideration, that are based on actual financial results of the underlying businesses from 2011 to 2016 with final payments due in 2017 with an estimated present value at acquisition date of $21,796. During the fourth quarter of 2011, the Company paid a $572 working capital payment. An allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $4,205 consisting primarily of customer lists and covenants not to compete, and goodwill of $36,664 representing the value of assembled workforce. The identified intangible assets will be amortized from a five to seven year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded $5,045, the present value of redeemable noncontrolling interest in relation to Laird, and $6,478, the present value of noncontrolling interest in relation to Concentric. The remaining principals of Laird have put option rights only upon termination without cause, disability, or death. The Company also recorded an entry to reduce noncontrolling interests by $1,297 and additional paid-in-capital of $4,251 and recorded shares to be issued of $424 in relation to the step ups. The intangibles and goodwill are tax deductible.

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

Second Quarter 2011 Acquisitions

During the Quarter ended June 30, 2011, the Company increased ownership in Communifx Partners LLC ("Communifx") by 1.3%, and increased its ownership of Varick Media Management LLC ("Varick") to 100%. The aggregate purchase price for these two step up transactions has an estimated present value at acquisition date of $3,930 and is recorded as deferred acquisition consideration, of which the Company paid $81 in 2011 and $50 in 2012. Both of these step-up transactions were subject to put options. The Company recorded an entry to reduce redeemable noncontrolling interests by $4,440 and recorded an increase to additional-paid-in-capital of $509. The amounts to be paid will be tax deductible.

First Quarter 2011 Acquisitions

Effective January 31, 2011, the Company, through a wholly-owned subsidiary, purchased 60% of the total outstanding membership interests in Anomaly Partners, LLC ("Anomaly"). This acquisition expands the Company's portfolio with another creatively driven agency brand with an international presence. Anomaly is now included in the Company's Strategic Marketing Services segment. At closing, the Company paid cash of $15,000 plus additional contingent deferred acquisition consideration, based on actual results from 2010 to 2014 with final payments due in 2015, with an original estimated present value of $20,951 at the date of acquisition. During 2011, the Company made a working capital payment of $1,854. An initial estimated allocation of the excess purchase consideration of this acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of $4,000 (consisting primarily of customer lists and a covenant not to compete) and goodwill of $22,297 representing the value of the assembled workforce. The fair value of the noncontrolling interest not acquired at the acquisition date was $7,890 based on the Company's evaluation of the Company being acquired and the purchase price paid by the Company and has been recorded as redeemable noncontrolling interests due to put option rights which are triggered upon such owner's termination without cause, disability or death. The identified intangibles will be amortized ranging from a five to eight-year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. The intangibles and goodwill are tax deductible.

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(thousands of United States dollars, unless otherwise stated)

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

Transfers (to) from the Noncontrolling Interest

	Three Months Ended March 31,	
	2012	2011
Net loss attributable to MDC Partners Inc.	$ (26,281)	$ (8,685)
Transfers to the noncontrolling interest:		
Decrease in MDC Partners Inc. paid-in capital for purchase of equity interests in excess of Redeemable Noncontrolling Interests	(1,263)	—
Net transfers to noncontrolling interest	$ (1,263)	$ —
Change from net loss attributable to MDC Partners Inc. and transfers to noncontrolling interest	$ (27,544)	$ (8,685)

5. Accrued and Other Liabilities

At March 31, 2012 and December 31, 2011, accrued and other liabilities included amounts due to noncontrolling interest holders, for their share of profits, which will be distributed within the next twelve months of $3,804 and $4,049, respectively.

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

Noncontrolling Interests