MDC PARTNERS INC
Form 10-Q
July 30, 2010

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 June 30, 2010

or

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: 001-13178

MDC Partners Inc.
(Exact name of registrant as specified in its charter)

Canada (State or other jurisdiction of incorporation or organization)	98-0364441 (IRS Employer Identification No.)
45 Hazelton Avenue Toronto, Ontario, Canada (Address of principal executive offices)	M5R 2E3 (Zip Code)

(416) 960-9000
Registrant's telephone number, including area code:

950 Third Avenue, New York, New York 10022
(646) 429-1800

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 o

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 o No o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

The numbers of shares outstanding as of July 28, 2010 were: 29,567,601 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

TABLE OF CONTENTS

Item 1. Financial Statements

MDC PARTNERS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(thousands of United States dollars, except share and per share amounts)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenue:				
Services	$ 169,989	$ 134,882	$ 306,171	$ 261,620
Operating Expenses:				
Cost of services sold	116,766	88,238	213,735	174,117
Office and general expenses	39,110	30,173	73,735	61,325
Depreciation and amortization	8,039	7,604	13,872	15,197
	163,915	126,015	301,342	250,639
Operating profit	6,074	8,867	4,829	10,981
Other Income (Expenses):				
Other income (expense), net	(287)	(2,541)	(900)	89
Interest expense	(8,425)	(3,723)	(15,453)	(7,484)
Interest income	57	70	78	272
	(8,655)	(6,194)	(16,275)	(7,123)
Income (loss) from continuing operations before income taxes, equity in affiliates	(2,581)	2,673	(11,446)	3,858
Income tax expense	552	1,608	801	2,223
Income (loss) from continuing operations before equity in affiliates	(3,133)	1,065	(12,247)	1,635
Equity in earnings (loss) of non-consolidated affiliates	(39)	105	(143)	198
Income (loss) from continuing operations	(3,172)	1,170	(12,390)	1,833
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(647)	(108)	(647)	(361)
Net income (loss)	(3,819)	1,062	(13,037)	1,472
Net income attributable to the noncontrolling interests	(1,986)	(983)	(2,954)	(1,365)
Net income (loss) attributable to MDC Partners Inc.	$ (5,805)	$ 79	$ (15,991)	$ 107
Income (loss) Per Common Share:				
Basic and Diluted:				
Income (loss) from continuing operations attributable to MDC Partners Inc. common shareholders	$ (0.19)	$ 0.01	$ (0.55)	$ 0.02
Discontinued operations attributable to MDC Partners Inc. common shareholders	(0.02)	(0.00)	(0.02)	(0.01)
Net income (loss) attributable to MDC Partners Inc. common shareholders	$ (0.21)	$ 0.01	$ (0.57)	$ 0.01
Weighted Average Number of Common Shares Outstanding:				
Basic	27,800,953	27,440,030	27,716,895	27,278,786

Diluted		27,800,953		27,684,194		27,716,895		27,278,786
Non cash stock-based compensation expense is included in the following line items above:								
Cost of services sold	$	637	$	286	$	1,317	$	497
Office and general expenses		2,251		1,759		5,038		3,445
Total	$	2,888	$	2,045	$	6,355	$	3,942

See notes to the unaudited condensed consolidated financial statements.

MDC PARTNERS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(thousands of United States dollars)

	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 47,454	$ 51,926
Accounts receivable, less allowance for doubtful accounts of $2,280 and $2,034	146,346	118,211
Expenditures billable to clients	44,708	24,003
Other current assets	10,603	8,105
Total Current Assets	249,111	202,245
Fixed assets, at cost, less accumulated depreciation of $89,247 and $82,752	37,073	35,375
Investment in affiliates	1,385	1,547
Goodwill	415,541	301,632
Other intangibles assets, net	57,164	34,715
Deferred tax asset	12,546	12,542
Other assets	19,166	16,463
Total Assets	$ 791,986	$ 604,519
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS, AND EQUITY		
Current Liabilities:		
Accounts payable	$ 88,721	$ 77,450
Accruals and other liabilities	59,299	66,967
Advance billings	122,957	65,879
Current portion of long-term debt	1,502	1,456
Current portion of deferred acquisition consideration	23,640	30,645
Total Current Liabilities	296,119	242,397
Revolving credit facility	—	—
Long-term debt	284,640	216,490
Long-term portion of deferred acquisition consideration	40,328	—
Other liabilities	8,519	8,707
Deferred tax liabilities	8,989	9,051
Total Liabilities	638,595	476,645
Redeemable Noncontrolling Interests (Note 2)	34,626	33,728
Commitments, contingencies and guarantees (Note 13)		
Shareholders' Equity:		
Preferred shares, unlimited authorized, none issued	—	—
Class A Shares, no par value, unlimited authorized, 27,818,986 and 27,566,815 shares issued in 2010 and 2009	220,029	218,532
Class B Shares, no par value, unlimited authorized, 2,503 shares issued in 2010 and 2009, each convertible into one Class A share	1	1
Additional paid-in capital	6,491	9,174
Accumulated deficit	(147,151)	(131,160)
Stock subscription receivable	(217)	(341)

Accumulated other comprehensive loss	(5,420)	(5,880)
MDC Partners Inc. Shareholders' Equity	73,733	90,326
Noncontrolling Interests	45,032	3,820
Total Equity	118,765	94,146
Total Liabilities, Redeemable Noncontrolling Interests and Equity	$ 791,986	$ 604,519

See notes to the unaudited condensed consolidated financial statements.

MDC PARTNERS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(thousands of United States dollars)

	Six Months Ended June 30, 2010	2009
Cash flows from operating activities:		
Net income (loss)	$ (13,037)	$ 1,472
Net income attributable to the noncontrolling interests	(2,954)	(1,365)
Net income (loss) attributable to MDC Partners Inc.	(15,991)	107
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes	(647)	(361)
Income (loss) attributable to MDC Partners Inc. from continuing operations	(15,344)	468
Adjustments to reconcile net income (loss) attributable to MDC Partners Inc. from continuing operations to cash provided by (used in) operating activities		
Depreciation	7,621	8,171
Amortization of intangibles	6,251	7,026
Non-cash stock-based compensation	5,287	3,511
Amortization of deferred finance charges and debt discount	862	661
Adjustment to deferred acquisition consideration	1,589	—
Gain on disposition of assets	(13)	—
Deferred income taxes	(55)	1,034
Loss (earnings) of non-consolidated affiliates	143	(198)
Other non-current assets and liabilities	(1,039)	3,303
Foreign exchange	498	920
Changes in working capital:		
Accounts receivable	1,670	(11,191)
Expenditures billable to clients	(8,418)	(1,727)
Prepaid expenses and other current assets	(1,031)	1,021
Accounts payable, accruals and other liabilities	(16,508)	7,474
Advance billings	16,023	1,248
Cash flows provided by (used in) continuing operating activities	(2,464)	21,721
Discontinued operations	(269)	(290)
Net cash provided by (used in) operating activities	(2,733)	21,431
Cash flows from investing activities:		
Capital expenditures	(5,720)	(2,087)
Acquisitions, net of cash acquired	(57,476)	(3,643)
Proceeds (loss) from sale of assets	58	(56)
Other investments	(99)	(33)
Profit distributions from affiliates	7	59
Cash Flows used in continuing investing activities	(63,230)	(5,760)
Discontinued operations	(710)	—
Net cash used in investing activities	(63,940)	(5,760)
Cash flows from financing activities:		
Proceeds from issuance of 11% Senior Notes	67,600	—
Proceeds from revolving credit facility	—	2,159
Repayment of long-term debt	(479)	(897)
Proceeds from stock subscription receivable	124	13
Proceeds from exercise options	51	—

Purchase of treasury shares		(896)		(402)
Deferred financing costs		(1,491)		—
Payment of dividends		(2,781)		—
Net cash provided by financing activities		62,128		873
Effect of exchange rate changes on cash and cash equivalents		73		59
Net increase (decrease) in cash and cash equivalents		(4,472)		16,603
Cash and cash equivalents at beginning of period		51,926		41,331
Cash and cash equivalents at end of period	$	47,454	$	57,934
Supplemental disclosures:				
Cash paid to noncontrolling partners	$	5,159	$	4,574
Cash income taxes paid	$	803	$	402
Cash interest paid	$	13,411	$	6,962
Dividends payable	$	208	$	—
Non-cash transactions:				
Capital leases	$	274	$	288

See notes to the unaudited condensed consolidated financial statements.

MDC PARTNERS INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(thousands of United States dollars, unless otherwise stated)

1. Basis of Presentation

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

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

These statements should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 31, 2009.

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.

Concentration of Credit Risk .. The Company provides marketing communications services to clients who operate in most industry sectors. Credit is granted to qualified clients in the ordinary course of business. Due to the diversified nature of the Company’s client base, the Company does not believe that it is exposed to a concentration of credit risk; the Company did not have a client that accounted for more than 10% of the Company’s consolidated accounts receivable at June 30, 2010 and December 31, 2009. Furthermore, the Company did not have a client that accounted for more than 10% of the Company’s revenue for the three and six months ended June 30, 2010. However, one client accounted for 18% of revenue for the three and six months ended June 30, 2009.

Cash and Cash Equivalents. The Company’s cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. The Company has a concentration risk in that there are cash deposits in excess of federally insured amounts. Included in cash and cash equivalents at June 30, 2010 and December 31, 2009, is approximately $71 and $67, respectively, of cash restricted as to withdrawal pursuant to a collateral agreement and a customer’s contractual requirements.

5

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of United States Dollars, Unless Otherwise Stated Except Share and per Share Amounts)

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. Our acquisition strategy has been focused on acquiring the expertise of an assembled workforce in order to continue to build upon the core capabilities of our various strategic business platforms to better serve our clients. Consistent with our acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed in 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 six months ended June 30, 2010 and 2009, $1,311 and nil, respectively, and for the three months ended June 30, 2010 and 2009, $977 and nil, respectively, related to changes in estimated value, have been charged to operations. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests are recorded as Redeemable Noncontrolling Interests. As of January 1, 2009, the Company expenses acquisition related costs in accordance with the Accounting Standard's Codification's new guidance on acquisition accounting. For the three and six months ended June 30, 2010, $331 and $730, respectively, of acquisition related costs have been charged to operations. For the three and six months ended June 30, 2009, no acquisition related costs were charged to operating.

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

Redeemable Noncontrolling Interest . The minority interest shareholders of certain subsidiaries have the right to require the Company to acquire their ownership interest under certain circumstances pursuant to a contractual arrangement and the Company has similar call options under the same contractual terms. The amount of consideration under the put and call rights is not a fixed amount, but rather is dependent upon various valuation formulas and on future events, such as the average earnings of the relevant subsidiary through the date of exercise, the growth rate of the earnings of the relevant subsidiary through the date of exercise, etc. as described in Note 13.

The Company has recorded its put options as mezzanine equity at their current estimated redemption amounts. 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. 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 CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of United States Dollars, Unless Otherwise Stated Except Share and per Share Amounts)

2. Significant Accounting Policies – (continued)

The following table presents changes in Redeemable Noncontrolling Interests.

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Beginning Balance	$ 29,868	$ 33,728
Redemptions	(122)	(1,407)
Granted	2,506	3,782
Changes in redemption value	3,218	(1,015)
Currency Translation Adjustments	(844)	(462)
Ending Balance as of June 30, 2010	$ 34,626	$ 34,626

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 contracted value 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 summarized 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 summarized 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 in revenue such reimbursed expenses.

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 contract. 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 due to the acts being non-similar and there being insufficient evidence of fair value for each service provided.

7

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of United States Dollars, Unless Otherwise Stated Except Share and per Share Amounts)

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 achieved, or when the company's clients determine performance against qualitative goals has been achieved. In all circumstances, revenue is only recognized when collection is reasonably assured. The Company records revenue net of sales and other taxes due to be collected and remitted to governmental authorities.

Interest Expense .. Interest expense primarily consists of the cost of borrowing on the revolving credit facility and the 11% Senior Notes. The Company uses the effective interest method to amortize the original issue discount and original issue premium on the 11% Senior Notes. At June 30, 2010 and December 31, 2009, $473 and $204 was amortized, respectively, net of amortized premium of $49 and nil, respectively. The Company amortizes deferred financing costs using the effective interest method over the life of the 11% Senior Notes and straight line over the life of the revolving credit facility. The total net deferred financing costs, included in Other Assets on the balance sheet, as of June 30, 2010 and December 31, 2009 were $10,712 and $9,790, net of accumulated amortization of $869 and $295, respectively. During the six months of 2010, the Company recorded $1,491 of deferred financing costs primarily relating to the 2010 additional debt issuance.

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 profit 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 the Black-Scholes option pricing-model and is recorded in operating income over the service period, that is the vesting period of the award.

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 six months ended June 30, 2010, the Company issued 990,096 restricted stock units and restricted stock shares (“RSUs”) to its employees and directors. The RSUs have an aggregate grant date fair value of $8,991 and generally vest on the third anniversary date with certain awards subjected to accelerated vesting based on the financial performance of the Company.

For the six months ended June 30, 2010, the Company has recorded a $1,469 charge relating to these equity incentive grants.

A total of 1,077,549 Class A shares of restricted stock, granted to employees as equity incentive awards, are included in the Company’s calculation of Class A shares outstanding as of June 30, 2010.

3 . Income (loss) Per Common Share

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Numerator				
Numerator for basic income (loss) per common share - income (loss) from continuing operations	$ (3,172)	$ 1,170	$ (12,390)	$ 1,833
Net income attributable to the noncontrolling interests	(1,986)	(983)	(2,954)	(1,365)
Income (loss) attributable to MDC Partners Inc. common shareholders from continuing operations	$ (5,158)	$ 187	$ (15,344)	$ 468
Effect of dilutive securities	—	—	—	—
Numerator for diluted income (loss) per common share – income (loss) attributable to MDC Partners Inc. common shareholders from continuing operations	$ (5,158)	$ 187	$ (15,344)	$ 468
Denominator				
Denominator for basic income (loss) per common share - weighted average common shares	27,800,953	27,440,030	27,716,895	27,278,786
Effect of dilutive securities:	—	244,164	—	—
Denominator for diluted income (loss) per common share - adjusted weighted shares	27,800,953	27,684,194	27,716,895	27,278,786
Basic income (loss) per common share from continuing operations attributable to MDC Partners Inc.	$ (0.19)	$ 0.01	$ (0.55)	$ 0.02
Diluted income (loss) per common share from continuing operations attributable to MDC Partners Inc.	$ (0.19)	$ 0.01	$ (0.55)	$ 0.02

During the three and six months ended June 30, 2010, options and other rights to purchase 5,824,866 shares of common stock, which includes 1,077,549 shares of non-vested restricted stock, were outstanding but were not included in the computation of diluted loss per common share because their effect would be antidilutive.

During the three and six months ended June 30, 2009, the 8% convertible debentures, options and other rights to purchase 8,863,413 shares of common stock, which includes 615,472 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

Second Quarter 2010 Acquisitions

Effective May 6, 2010, the Company, through a wholly-owned subsidiary, purchased 75% of the total outstanding membership interests in Integrated Media Solutions, LLC (“IMS”), which expands the Company’s direct response marketing capabilities. At closing, the Company paid cash of $20,000 plus additional contingent deferred acquisition consideration, based on actual results from 2010 to 2015 with final payments due in 2016, with a current estimated present value of $19,658. 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 $9,081 (consisting of primarily customer lists and a covenant not to compete) and goodwill of $44,598 representing the value of the assembled workforce. The fair value of the noncontrolling interest not acquired at the acquisition date was $13,219 based in the Company’s evaluation of the Company being acquired and the purchase price paid by the Company. The identified intangibles will be amortized ranging 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. The intangibles and goodwill are tax deductible.

The actual adjustments that the Company will ultimately make in finalizing the allocation of the purchase price of IMS to the fair value of the net assets acquired at May 6, 2010 will depend on a number of factors, including additional information such as changes in the unaudited consolidated financial statements.

During the quarter ended June 30, 2010, the Company completed a number of acquisitions. The Company purchased a 51% equity interest in Allison & Partners LLC (“Allison”), a 75% equity interest in Sloane & Company LLC (“Sloane”), and certain assets and liabilities of CSC – ADPLUS, LLC (d.b.a. Infolure) (“Infolure”). Allison is a full service public relations and corporate communications agency. Sloane is a communication firm focused on corporate positioning and communications, financial public relations and investor relations, and crisis and transactions communications. Infolure is a direct marketing firm. The purchase price paid for these acquisitions consisted of aggregate cash payments of $17,632 plus additional contingent payments of $15,795 that are based on actual results from 2010 to 2015 with final payments due in 2016. An allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $9,431 consisting primarily of customer lists and covenants not to compete, and goodwill of $36,286 representing the value of the assembled workforce. The identified intangibles will be amortized ranging 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 $2,506, the present value of redeemable noncontrolling interests in relation to Sloane. The Sloane acquisition has put rights that could increase the Company’s ownership to 100% in 2015. The amounts paid and to be paid will be tax deductible.

The actual adjustments that the Company will ultimately make in analyzing the allocation of purchase price to the 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.

First Quarter 2010 Acquisitions

Effective March 1, 2010, the Company, through a wholly-owned subsidiary, purchased 60% of the total outstanding membership interests in Team Holdings LLC (“Team”), which expands the Company’s experiential marketing capabilities. At closing, the Company paid cash of $11,000 plus additional contingent deferred acquisition consideration, based on actual results from 2010 to 2012 with final payments in 2013, with a current estimated present value of $12,656, and the Company paid a working capital true-up estimated at an additional $253 at March 31, 2010. 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 $5,220 (consisting of primarily customer lists and a covenant not to compete) and goodwill of $32,830 representing the value of the assembled workforce. The fair value of the noncontrolling interest not acquired at the acquisition date was $15,771 based in the Company’s evaluation of the Company being acquired and the purchase price paid by the Company. The identified intangibles will be amortized up to a 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 amended the purchase agreement to include additional deferred acquisition consideration, with a current present value of $3,071, with final payments due in 2012. The additional deferred acquisition consideration resulted in additional intangibles of $3,071. The intangibles and goodwill are tax deductible.

The actual adjustments that the Company will ultimately make in analyzing the allocation of purchase price to the 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.

During the three months ended March 31, 2010, the Company completed a number of acquisitions and step-ups in ownership. The Company purchased a 76% equity interest in Communifx Partners LLC (“Communifx”), substantially all of the assets of Plaid Inc. (“Plaid”), an additional 15% equity interest in Fletcher Martin, LLC (“Fletcher Martin”), an additional 49% equity interest in Trend Core, LLC (“Trend Core”), and an additional 1% equity interest in HL Group Partners, LLC (“HL Group”). Communifx builds and manages large-scale customer database solutions to enable the planning, execution, and measurement of multi-channel marketing and advertising programs. Plaid is a marketing services business with a concentration in the digital communication and social media arena. The Company purchased the additional equity interests in Fletcher Martin and HL Group pursuant to the exercise of outstanding puts. The purchase price paid for these acquisitions and step-ups consisted of aggregate cash payments of $4,921 plus additional contingent payments of $580 that are based on actual results from 2010 to 2015 with final payments due in 2016. An allocation of the excess purchase consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $1,851 consisting primarily of customer lists and a covenant not to compete, and goodwill of $2,426 representing the value of the assembled workforce. The identified intangibles will be amortized up to a 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 $710, the present value of redeemable noncontrolling interests in relation to Communifx. The Communifx acquisition has put/call rights that could increase the Company’s ownership to 100% in 2013. In relation to the step up acquisitions, the Company recorded an entry to reduce Redeemable Noncontrolling Interests by $1,116. The amount paid to the employee over fair value, $608, was recorded as a stock-based compensation charge. The Company recorded a reduction of additional paid-in capital of $1,029 representing the difference between the fair value of the shares and the value of the Redeemable Noncontrolling Interests. The amounts paid and to be paid will be tax deductible.

The actual adjustments that the Company will ultimately make in analyzing the allocation of purchase price to the fair value of the net assets acquired, will depend on a number of factors, including additional information available at such time, changes in market values, and changes in operation results between the date of the unaudited financial statements and the effective date of acquisition.

2009 Acquisitions

In December 2009, the Company paid an additional $38,974 pursuant to the CPB purchase agreement originally entered into in November 2008 with the founders of Crispin Porter & Bogusky LLC ("CPB"). In connection with this transaction, the Company recorded $14,067 as deferred acquisition consideration, $1,450 was paid in January 2010, $433 was reversed as an adjustment and the balance was paid in April 2010. This purchase price payment was pursuant to an accelerated exercise of a call option that was exercised by the Company in November 2008 (the Company increased its ownership from 77% to 94%). Because CPB was originally consolidated as a Variable Interest Entity, the Company reduced Redeemable Noncontrolling Interests by $17,809. The Company recorded additional goodwill of $31,253 and identifiable intangible backlog of $3,979. The amount recorded related to the 17% step up from November 2008. The backlog was amortized over one month. In addition, the Company recorded a stock-based charge of $3,074 for amounts paid by the former shareholder to CPB employees. The goodwill will be tax deductible.

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of United States Dollars, Unless Otherwise Stated Except Share and per Share Amounts)

4. Acquisitions – (continued)

On December 31, 2009, the Company acquired an additional 3% interest in VitroRobertson increasing its holdings from 79% to 82%. The purchase price totaled $845 and was paid in cash. The Company recorded an entry to reduce Redeemable Noncontrolling Interests by $266. The amount paid to the employee over fair value, $370, was recorded as a stock-based compensation charge. The Company recorded a reduction of additional paid-in capital of $209 representing the difference between the fair value of the shares and the value of the Redeemable Noncontrolling Interests. As this purchase was pursuant to the exercise of an existing put/call option, no additional intangibles have been recorded. The goodwill will be tax deductible.

On December 1, 2009, the Company agreed to make an early payment to KBP Management Partners LLC originally due in March 2010 pursuant to the purchase agreement entered into in November 2007. The additional payment totaled $14,870, of which $10,140 was paid in cash in December 2009, $4,215 was paid in March 2010 with the balance due in March 2011, recorded as deferred acquisition consideration. This additional payment was accounted for as additional goodwill. In addition, pursuant to an existing phantom stock arrangement, a stock-based compensation charge of $3,028 has been recorded for amounts paid by KBP Management Partners to phantom equity holders. The goodwill will be tax deductible.

On October 5, 2009, the Company purchased the remaining 6% outstanding interest in CPB for an estimated fixed and contingent purchase price. The estimated purchase price of $9,818 is included in deferred acquisition consideration and includes $518 of fixed payments to be paid in 2013. The Company recorded a reduction of $8,596 to Redeemable Noncontrolling Interests and $704 to additional paid in capital. The fixed payments of $518 are allocated to identifiable intangibles and will be amortized over three years.

On August 31, 2009, the Company, through HL Group, acquired a 51% interest in Attention Partners LLC (“Attention”), a social media agency that further expands HL Group’s business capabilities. At closing, the HL Group paid $1,000 and made a capital contribution of $400 to Attention. In addition, HL Group recorded estimated contingent payments totaling $1,313, of which $1,022 was paid in cash in March 2010 with the balance due in 2010 as deferred acquisition consideration. The allocation of the excess purchase consideration of this acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of $544 (consisting primarily of customer lists and a covenant not to compete) and goodwill of $3,057 representing the value of the assembled workforce. The fair value of the noncontrolling interests not acquired at the acquisition date was $2,431 based on the Company’s evaluation of the Company being acquired, the purchase paid by the Company. The identified intangibles will be amortized up to a three-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.

On July 1, 2009, the Company, through CPB, acquired 100% of the preferred shares and 52% of the common shares of Crispin Porter & Bogusky Europe AB (formerly known as “daddy”), a digital agency based in Sweden that has created a foothold in Europe for CPB. At closing, CPB paid $3,052 plus an additional $50 deferred payment. Also in December 2009, CPB called an additional 24% and made a payment of 80% of the purchase price of $188. An additional amount of $50 is recorded as deferred acquisition consideration. The Company has additional calls and the noncontrolling owners have reciprocal puts on the remaining 24% of the common shares, which are exercisable beginning January 2012. The current estimated cost of these puts and calls is approximately $6,600 and has been recorded as Redeemable Noncontrolling Interests. The allocation of the excess purchase consideration of this acquisition to the fair value of the net assets acquired resulted in identifiable intangibles of $650 (consisting primarily of customer lists and a covenant not to compete) and goodwill of $8,533 representing the value of the assembled workforce. The identified intangibles will be amortized up to a three-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 not tax deductible. Accordingly, CPB recorded a deferred tax liability of $221 representing the future tax benefits relating to the amortization of the identified intangibles.

MDC PARTNERS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Thousands of United States Dollars, Unless Otherwise Stated Except Share and per Share Amounts)

4. Acquisitions – (continued)

Effective January 22, 2009, the Company acquired an additional 8.9% of equity interests in HL Group, thereby increasing MDC's ownership to 64.9%. The purchase price totaled $1,100 and was paid in cash at closing. The Company recorded an entry to reduce Redeemable Noncontrolling Interests, as this purchase was pursuant to the early exercise of an existing put/call option. Accordingly, no additional intangibles have been recorded. However, the amount of the purchase price will be tax deductible.

Pro forma Information

The following unaudited pro forma results of operations of the Company for the three and six months ended June 30, 2010 and 2009 assume that the acquisition of the operating assets of Team and IMS acquired as of the beginning of each year. These unaudited pro forma results are not necessarily indicative of either the actual results of operations that would have been achieved had the companies been combined during these periods, or are they necessarily indicative of future results of operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 173,085	$ 154,853	$ 322,911	$ 298,356
Net income (loss) attributable to MDC Partners Inc.	$ (5,236)	$ 1,493	$ (15,538)	