

EQUITY LIFESTYLE PROPERTIES INC
 Form 4
 April 04, 2017

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549**

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
ROSENBERG SHELI Z

2. Issuer Name and Ticker or Trading Symbol
EQUITY LIFESTYLE PROPERTIES INC [ELS]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)
 04/03/2017

Director 10% Owner
 Officer (give title below) Other (specify below)

C/O EQUITY LIFESTYLE PROPERTIES, INC., TWO NORTH RIVERSIDE PLAZA, SUITE 800

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

CHICAGO, IL 60606

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(D)	Price
Common Stock, par value \$.01	04/03/2017		A ⁽¹⁾		218	A	\$ 65.5
Depository Shares					8,000	D	
Common Stock, par value \$.01					189,127.64	I	By Spouse
Depository					20,000	I	By Spouse

Shares

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Beneficially (Instr. 5)
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
ROSENBERG SHELI Z C/O EQUITY LIFESTYLE PROPERTIES, INC. TWO NORTH RIVERSIDE PLAZA, SUITE 800 CHICAGO, IL 60606	X			

Signatures

Jennifer Krebs by Power of Attorney for Sheli Rosenberg
04/03/2017

**Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents shares acquired through ELS' Employee Stock Purchase Plan

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—

—

—

—

—

Shares acquired and cancelled
(28,673
)

(876
)

—

—

—

—

—

—

(876
)

—

(876
)
Stock-based compensation

—

Explanation of Responses:

—

—

—

1,776

—

—

—

1,776

—

1,776

Changes in redemption value of redeemable noncontrolling interests

—

—

—

—

(4,290

)

—

—

Explanation of Responses:

—

(4,290
)

—

(4,290
)
Changes in noncontrolling interests and redeemable noncontrolling interest from step-up transactions
—

—

—

—

(2,917
)

—

—

—

(2,917
)

(6,479
)

(9,396
)
Dividends paid and to be paid
—

—

—

—

(10,643
)

—

—

—

(10,643
)

—

(10,643
)
Transfer to charges in excess of capital

—

—

—

—

19,954

(19,954
)

—

—

Explanation of Responses:

—

—

—

Balance at March 31, 2015
49,846,285

\$
268,821

3,755

\$
1

\$
—

\$
(229,622
)

\$
(521,724
)

\$
(40
)

\$
(482,564
)

\$
83,645

\$
(398,919

Explanation of Responses:

)

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, 2014.

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 are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Actual results could differ from these 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. No client accounted for more than 10% of the Company's consolidated accounts receivable at March 31, 2015 and December 31, 2014. No clients accounted for 10% of the Company's revenue for the three months ended March 31, 2015 and 2014.

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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 of credit risk in that there are cash deposits in excess of federally insured amounts. Included in cash and cash equivalents at March 31, 2015 and December 31, 2014, was \$6,211 and \$6,461, respectively, of cash restricted as to withdrawal pursuant to a collateral agreement and a customer's contractual requirement.

Allowance for Doubtful Accounts. Trade receivables are stated at invoiced amounts less allowances for doubtful accounts. The allowances represent estimated uncollectible receivables associated with potential customer defaults usually due to customers' potential insolvency. The allowances include amounts for certain customers where a risk of default has been specifically identified. The assessment of the likelihood of customer defaults is based on various factors, including the length of time the receivables are past due, historical experience and existing economic conditions.

Expenditures Billable to Clients. Expenditures billable to clients consist principally of outside vendors costs incurred on behalf of clients when providing advertising, marketing and corporate communications services to clients that have not been invoiced. Such amounts are invoiced to clients at various times over the course of the production process.

Fixed Assets. Fixed assets are stated at cost, net of accumulated depreciation. Computers, furniture and fixtures are depreciated on a straight-line basis over periods of 3 to 7 years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the term of the related lease or the estimated useful life of the asset. Repairs and maintenance costs are expensed as incurred.

Equity Method Investments. The equity method is used to account for investments in entities in which the Company has an ownership interest of less than 50% and has significant influence, or joint control by contractual arrangement with all parties having an equity interest, over the operating and financial policies of the affiliate or has an ownership interest greater than 50% however the substantive participating rights of the noncontrolling interest shareholders preclude the Company of exercising unilateral control over the operating and financial policies of the affiliate. The Company's investments accounted for using the equity method includes a 30% undivided interest in a real estate joint venture and various interests in investment funds. The Company's management periodically evaluates these investments to determine if there has been a decline in value that is other than temporary. These investments are included in investments in non-consolidated affiliates.

Cost Method Investments. From time to time, the Company makes non-material cost based investments in start-up advertising technology companies and innovative consumer product companies where the Company does not exercise significant influence over the operating and financial policies of the investee. The total net cost basis of these investments, which is included in Other Assets on the balance sheet, as of March 31, 2015 and December 31, 2014 was \$10,420 and \$10,196, respectively. These investments are periodically evaluated to determine if there have been any other than temporary declines below book value. A variety of factors are considered when determining if a decline in fair value below book value is other than temporary, including, among others, the financial condition and prospects of the investee, as well as the Company's investment intent. In addition, the Company's partner agencies may receive minority equity interests from start-up companies in lieu of fees.

Business Combinations. Valuations 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 after 2010 included an initial payment at the time of closing and provide for future additional contingent purchase price payments.

Contingent payments for these transactions, as well as certain acquisitions completed in prior years, are derived using the performance of the acquired entity and are based on predetermined 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, 2015 and 2014, \$2,248 and \$8,022, respectively, related to changes in estimated value was recorded as operating expenses. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests is recorded as Redeemable Noncontrolling Interests. As of January 1, 2009, the Company expenses acquisition related costs in accordance with the Accounting Standard's Codification's guidance on acquisition accounting. For the three months ended March 31, 2015 and 2014, \$874 and \$1,071, respectively, of acquisition related costs were charged to operations.

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For each of the Company's 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 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 acquired is derived from customer relationships, including the related customer contracts, as well as trade names. In executing the Company's acquisition strategy, one of the primary drivers in identifying and executing a specific transaction is the existence of, or the ability to, expand the existing client relationships. The expected benefits of the Company's 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 the value of put options held by noncontrolling interests 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 income attributable 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, 2015 and 2014, there were no charges to income attributable 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 (loss) per share.

The following table presents changes in Redeemable Noncontrolling Interests:

	Three Months Ended March 31, 2015	Year Ended December 31, 2014
Beginning Balance	\$194,951	\$148,534
Redemptions	(1,729)	(4,820)
Granted (1)	5,704	13,327
Changes in redemption value	4,290	38,850
Currency Translation Adjustments	(878)	(940)
Ending Balance	\$202,338	\$194,951

(1) Grants in 2015 consist entirely of transfers from Noncontrolling Interests related to step-up transactions.

Variable Interest Entity. Effective March 28, 2012, the Company invested in Doner Partners LLC ("Doner"), and has determined that this entity is a variable interest entity ("VIE") and is consolidated for all periods subsequent to the date of investment. The Company acquired a 30% voting interest and convertible preferred interests that allow the Company to increase ordinary voting ownership to 70% at the Company's option. Doner is a full service integrated creative agency that is included as part of our portfolio in the Strategic Marketing Services Segment. The Company's Credit Agreement (see Note 7) is guaranteed and secured by all of Doner's assets.

The Company has determined that it is the primary beneficiary because the Company 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, 2015 were \$154,855 and \$125,670, respectively and at December 31, 2014 were \$223,305 and \$192,340, respectively.

Guarantees. Guarantees issued or modified by the Company to third parties after January 1, 2003 are generally recognized, at the inception or modification of a guarantee, as a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The initial measurement of that liability is the fair value of the guarantee. The

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recognition of the liability is required even if it is not probable that payments will be required under the guarantee. The Company's liability associated with guarantees is not significant. (See Note 11.)

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 also follows the Reporting Revenue Gross as a Principal versus Net as an Agent topic that 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 the Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred topic, for reimbursements received for out-of-pocket expenses, which 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 a limited number of 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.

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.

Cost of Services Sold. Costs of services sold do not include depreciation charges for fixed assets.

Interest Expense. Interest expense primarily consists of the cost of borrowing on the 6.75% Notes and the Credit Agreement. The Company uses the effective interest method to amortize the deferred financing costs and original issue premium on the 6.75% Notes. The Company also uses the straight-line method to amortize the deferred financing costs on the Credit Agreement.

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

allowance for its US net operating losses. During the three months ended March 31, 2015 and 2014, the effective tax rate was generally lower than the statutory rate due to additional valuation allowances recorded primarily in the US.

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.

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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 (expense) 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 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 or equity members to employees as a stock based compensation charge with a corresponding credit to additional paid-in-capital.

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

During the three months ended March 31, 2015, the Company issued no restricted stock units ("RSUs") to its employees and directors.

A total of 751,618 Class A shares of restricted stock, granted to employees as equity incentive awards but not yet vested, have been excluded in the Company's calculation of Class A shares outstanding as of March 31, 2015.

Loss per Common Share. Basic loss per share is based upon the weighted average number of common shares outstanding during each period, including the "Share capital to be issued" as reflected in the Shareholders' Equity on the balance sheet. Diluted loss per share is based on the above, plus, if dilutive, common share equivalents, which include outstanding options, warrants, stock appreciation rights, restricted stock units and convertible notes.

Foreign Currency Translation. The Company's financial statements were prepared in accordance with the requirements of the Foreign Currency Translation topic of the FASB Accounting Standards Codification. The functional currency of the Company is the Canadian dollar and it has decided to use U.S. Dollars as its reporting currency for consolidated reporting purposes. All of the Company's subsidiaries use their local currency as their functional currency. Accordingly, the currency impacts of the translation of the balance sheets of the Company's non-U.S. Dollar based subsidiaries to U.S. Dollar statements are included as cumulative translation adjustments in accumulated other comprehensive income. Translation of intercompany debt, which is not intended to be repaid, is included in cumulative translation adjustments. Cumulative translation adjustments are not included in net earnings unless they are actually realized through a sale or upon complete or substantially complete liquidation of the Company's net investment in the foreign operation. Translation of current intercompany balances are included in net earnings. The balance sheets of non-U.S. Dollar based subsidiaries are translated at the period end rate. The income

statements of non-U.S. Dollar based subsidiaries are translated at average exchange rates for the period.

Gains and losses arising from the Company's foreign currency transactions are reflected in net earnings. Unrealized gains or losses arising on the translation of certain intercompany foreign currency transactions that are of a long-term nature (that is settlement is not planned or anticipated in the future) are included as cumulative translation adjustments in accumulated other comprehensive income.

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3. Loss Per Common Share

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

	Three Months Ended March 31,	
	2015	2014
Numerator		
Numerator for basic loss per common share - loss from continuing operations	\$(23,417)	\$(7,213)
Net income attributable to the non-controlling interests	(2,380)	(1,362)
Net loss attributable to MDC Partners Inc. common shareholders from continuing operations	(25,797)	(8,575)
Effect of dilutive securities	—	—
Numerator for diluted loss per common share - loss attributable to MDC Partners Inc. common shareholders from continuing operations	\$(25,797)	\$(8,575)
Denominator		
Denominator for basic loss per common share - weighted average common shares	49,754,961	49,338,332
Effect of dilutive securities	—	—
Denominator for diluted loss per common share - adjusted weighted shares and assumed conversions	49,754,961	49,338,332
Basic loss per common share from continuing operations	\$(0.52)	\$(0.17)
Diluted loss per common share from continuing operations	\$(0.52)	\$(0.17)

During the three months ended March 31, 2015, options and other rights to purchase 944,835 shares of common stock, which includes 832,335 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, 2014, options and other rights to purchase 1,113,210 shares of common stock, which includes 1,000,710 shares of non-vested restricted stock, were outstanding and 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 2015 since there were no material acquisitions. During 2015, the Company completed a number of step-up transactions to increase its equity ownership percentage in majority owned entities.

2015 Acquisitions

During the first quarter of 2015, the Company entered into various non-material transactions with certain majority owned entities.

2014 Acquisitions

During 2014, the Company entered into several acquisitions and various non-material transactions with certain majority owned entities. Effective January 1, 2014, MDC acquired 60% of the equity interests of Luntz Global Partners LLC ("LG"). Effective February 14, 2014, MDC acquired 65% of the equity interests of Kingsdale Partners LP ("Kingsdale"). LG and Kingsdale are both in the Company's Performance Marketing Services segment. On June 3, 2014, MDC acquired a 100% equity interest in The House Worldwide Ltd ("THW"). On July 31, 2014, Union Advertising Canada LP acquired 100% of the issued and outstanding stock of Trapeze Media Limited ("Trapeze"). Effective

August 1, 2014 MDC acquired 65% of the equity interests of Hunter PR LLC ("Hunter PR"). Effective August 18, 2014, MDC acquired a 75% interest in Albion Brand Communication Limited ("Albion"). In addition, in June 2014 and August 2014, MDC (through a subsidiary) entered into other non-material acquisitions. THW, Trapeze, Hunter PR, and Albion are all included within the Company's Strategic Marketing Services segment.

The aggregate purchase price of these acquisitions has an estimated present value at acquisition date of \$151,202 and consisted of total closing cash payments of \$67,236, and additional deferred acquisition payments that will be based on the financial results of the underlying businesses from 2014 to 2018 with final payments due in 2019. These additional deferred payments have

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an estimated present value at acquisition date of \$83,966. An allocation of excess purchase price consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of \$61,906, consisting primarily of customer lists, a technology asset and covenants not to compete, and goodwill of \$149,234, representing the value of the assembled workforce. The identified assets will be amortized over a five to six year period in a manner represented by the pattern in which the economic benefits of the customer contracts/relationships are realized. In addition, the Company has recorded \$50,552 as the present value of noncontrolling interest and \$13,327 as the present value of redeemable noncontrolling interest. Intangibles and goodwill of \$149,232 are tax deductible. In addition, the Company recorded other income of \$908 representing a gain on the previously held 18% interest in Trapeze.

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

Noncontrolling Interests

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

Net Income (Loss) Attributable to MDC Partners Inc. and Transfers (to) from the Noncontrolling Interest

	Three Months Ended March 31,	
	2015	2014
Net loss attributable to MDC Partners Inc.	\$(32,091)	\$(8,846)
Transfers from the noncontrolling Interest:		
Decrease in MDC Partners Inc. paid in capital for purchase of equity interests in excess of Redeemable Noncontrolling Interests and Noncontrolling Interests	(2,917)	(4,798)
Net transfers from noncontrolling interest	\$(2,917)	\$(4,798)
Change from net loss attributable to MDC Partners Inc. and transfers to non controlling interest	\$(35,008)	\$(13,644)

5. Accruals and Other Liabilities

At March 31, 2015 and December 31, 2014, accruals and other liabilities included accrued media of \$214,435 and \$144,161, respectively; trust liabilities of \$6,173 and \$6,419, respectively; and included amounts due to noncontrolling interest holders, for their share of profits, which will be distributed within the next twelve months of \$5,439 and \$6,014, respectively.

Changes in noncontrolling interest amounts included in accrued and other liabilities for the year ended December 31, 2014 and three months ended March 31, 2015 were as follows:

	Noncontrolling Interests
Balance, December 31, 2013	\$5,210
Income attributable to noncontrolling interests	6,890
Distributions made	(6,523)
Other (1)	437
Balance, December 31, 2014	\$6,014
Income attributable to noncontrolling interests	2,380

Distributions made	(2,839)
Other (1)	(116)
Balance, March 31, 2015	\$5,439	

(1) Other primarily relates to step-up transactions, discontinued operations, and cumulative translation adjustments.

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6. Discontinued Operations

In the fourth quarter of 2014, the Company classified Accent Marketing Services, LLC, which was previously reported in the Performance Marketing Services segment, as discontinued operations.

Included in discontinued operations in the Company's consolidated statements of operations for the three months ended March 31, 2015 and 2014 was the following:

	Three Months Ended March 31,	
	2015	2014
Revenue	\$15,524	\$17,715
Operating loss	\$(1,552)	\$(161)
Other expense	\$(72)	\$(110)
Loss on disposal	(4,670)	—
Net loss from discontinued operations attributable to MDC Partners Inc., net of taxes	\$(6,294)	\$(271)

At March 31, 2015, other current assets and other long term assets included assets held for sale of \$5,622 and \$11,378, respectively. At December 31, 2014, other current assets and other long term assets included assets held for sale of \$5,591 and \$16,409, respectively.

7. Debt

The Company's indebtedness was comprised of:

	March 31, 2015	December 31, 2014
Revolving credit agreement	\$19,602	\$—
6.75% Senior Notes due 2020	735,000	735,000
Original issue premium	6,722	7,017
	761,324	742,017
Obligations under capital leases	1,007	1,110
	762,331	743,127
Less current portion:	532	534
	\$761,799	\$742,593

MDC Financing Agreement and Senior Notes

Issuance of 6.75% Senior Notes

On March 20, 2013, MDC Partners Inc. ("MDC") entered into an indenture (the "Indenture") among MDC, its existing and future restricted subsidiaries that guarantee, or are co-borrowers under or grant liens to secure, MDC's senior secured revolving credit agreement (the "Credit Agreement"), as guarantors (the "Guarantors") and The Bank of New

York Mellon, as trustee, relating to the issuance by MDC of its \$550,000 aggregate principal amount 6.75% Senior Notes due 2020 (the "6.75% Notes"). The 6.75% Notes bear interest at a rate of 6.75% per annum, accruing from March 20, 2013. Interest is

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payable semiannually in arrears in cash on April 1 and October 1 of each year, beginning on October 1, 2013. The 6.75% Notes will mature on April 1, 2020, unless earlier redeemed or repurchased. The Company received net proceeds from the offering of the 6.75% Notes equal to approximately \$537,600. The Company used the net proceeds to redeem all of the existing 11% Notes, together with accrued interest, related premiums, fees and expenses and recorded a charge for loss on redemption of notes of \$55,588, including write offs of unamortized original issue premium and debt issuance costs. Remaining proceeds were used for general corporate purposes.

On November 15, 2013, the Company issued an additional \$110,000 aggregate principal amount of its 6.75% Notes. The additional notes were issued under the Indenture governing the 6.75% Notes and treated as a single series with the original 6.75% Notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of \$111,925, which included an original issue premium of \$4,125, and underwriter fees of \$2,200. The Company used the net proceeds of the offering for general corporate purposes.

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

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

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

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

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

The Indenture includes covenants that, among other things, restrict MDC's ability and the ability of its restricted subsidiaries (as defined in the Indenture) to incur or guarantee additional indebtedness; pay dividends on or redeem or

repurchase the capital stock of MDC; make certain types of investments; create restrictions on the payment of dividends or other amounts from MDC's restricted subsidiaries; sell assets; enter into transactions with affiliates; create liens; enter into sale and leaseback transactions; and consolidate or merge with or into, or sell substantially all of MDC's assets to, another person. These covenants are subject to a number of important limitations and exceptions. The 6.75% Notes are also subject to customary events of default, including cross-payment default and cross-acceleration provision.

Credit Agreement

On March 20, 2013, MDC, Maxxcom Inc. (a subsidiary of MDC) and each of their subsidiaries party thereto entered into an amended and restated, \$225 million senior secured revolving credit agreement due 2018 (the "Credit Agreement") with Wells Fargo Capital Finance, LLC, as agent, and the lenders from time to time party thereto. Advances under the Credit

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Agreement will be used for working capital and general corporate purposes, in each case pursuant to the terms of the Credit Agreement. Capitalized terms used in this section and not otherwise defined have the meanings set forth in the Credit Agreement.

Effective October 23, 2014, MDC and its subsidiaries entered into an amendment of its Credit Agreement. The amendment: (i) expands the commitments under the facility by \$100 million, from \$225 million to \$325 million; (ii) extends the date by an additional eighteen months to September 30, 2019; (iii) reduces the base borrowing interest rate by 25 basis points (the applicable margin for borrowing is 1.00% in the case of Base Rate Loans and 1.75% in the case of LIBOR Rate Loans) ; and (iv) modifies certain covenants to provide the Company with increased flexibility to fund its continued growth and other general corporate purposes.

Advances under the Credit Agreement bear interest as follows: (a)(i) LIBOR Rate Loans bore interest at the LIBOR Rate and (ii) Base Rate Loans bear interest at the Base Rate, plus (b) an applicable margin. The initial applicable margin for borrowing is 1.00% in the case of Base Rate Loans and 1.75% in the case of LIBOR Rate Loans. In addition to paying interest on outstanding principal under the Credit Agreement, MDC is required to pay an unused revolver fee to lenders under the Credit Agreement in respect of unused commitments thereunder.

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

The Company is currently in compliance with all of the terms and conditions of its Credit Agreement, and management believes, based on its current financial projections, that the Company will be in compliance with the covenants over the next twelve months. At March 31, 2015, there were \$19,602 borrowings under the Credit Agreement.

At March 31, 2015, the Company had issued \$4,803 of undrawn outstanding Letters of Credit.

At March 31, 2015 and December 31, 2014, accounts payable included \$40,044 and \$72,147 of outstanding checks, respectively.

8. Fair Value Measurements

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

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

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

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

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

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

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

The following tables present certain information for our financial liabilities that is disclosed at fair value on a recurring basis at March 31, 2015 and December 31, 2014:

	Level 1 March 31, 2015		Level 1 December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
6.75% Notes due 2020	\$741,722	\$773,588	\$742,017	\$751,538

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

The following table presents changes in Deferred Acquisition Consideration:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	March 31, 2015	December 31, 2014
Beginning Balance of contingent payments	\$172,227	\$151,848
Payments	(2,033)	(61,441)
Grants (1)	2,944	68,642
Redemption value adjustments (2)	3,723	20,816
Transfers to (from) fixed payments	—	(5,146)
Foreign translation adjustment	(3,055)	(2,492)
Ending Balance of contingent payments	\$173,806	\$172,227

(1) Grants are the initial estimated deferred acquisition payments of new acquisitions completed within that fiscal period.

(2) Redemption value adjustments are fair value changes from the Company's initial estimates of deferred acquisition

Explanation of Responses:

payments, including the accretion of present value and stock based compensation charges relating to acquisition payments that are tied to continued employment.

In addition to the above amounts, there are fixed payments of \$26,998 and \$33,141 for total deferred acquisition consideration of \$200,804 and \$205,368, which reconciles to the consolidated financial statements at March 31, 2015 and December 31, 2014, respectively.

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The Company includes the payments of all deferred acquisition consideration in financing activities in the Company's consolidated statement of cash flows, as the Company believes these payments to be seller related financing activities, which is the predominant source of cash flows.

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

At March 31, 2015 and December 31, 2014, the carrying amount of the Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximated fair value because of their short-term maturity.

9. Other Income (Expense)

	Three Months Ended March 31,	
	2015	2014
Other income (expense)	\$490	\$(19)
Foreign currency loss	(18,530)	(6,552)
	\$(18,040)	\$(6,571)

10. Segment Information

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

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

The Company reports in one reportable Strategic Marketing Services segment plus two "other" segments, Performance Marketing Services and corporate. The segments are as follows:

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

The Performance Marketing Services segment includes our firms that provide consumer insights and analytics to satisfy the growing need for targetable, measurable solutions or cost effective means of driving return on marketing investment. These services interface directly with the consumer of a client's product or service. Such services include the design, development, research and implementation of consumer services, media planning and buying, and direct marketing initiatives. In addition, services include consumer activation, investor relations and general public insights.

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

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

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Three Months Ended March 31, 2015

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$240,436	\$61,786	\$—	\$302,222
Cost of services sold	166,026	44,393	—	210,419
Office and general expenses	49,156	11,154	13,998	74,308
Depreciation and amortization	6,423	5,430	447	12,300
Operating profit (loss)	18,831	809	(14,445)	) 5,195
Other Income (Expense):				
Other expense, net				(18,040)
Interest expense, net				(14,977)
Loss from continuing operations before income taxes and equity in non-consolidated affiliates				(27,822)
Income tax benefit				(4,054)
Loss from continuing operations before equity in non-consolidated affiliates				(23,768)
Equity in earnings of non-consolidated affiliates				351
Loss from continuing operations				(23,417)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(6,294)
Net Loss				(29,711)
Net income attributable to the non-controlling interests	(2,293)	(87)	—	(2,380)
Net loss attributable to MDC Partners Inc.				\$(32,091)
Stock based compensation	\$2,524	\$1,121	\$800	\$4,445
Supplemental Segment Information:				
Capital expenditures	\$5,330	\$258	\$68	\$5,656
Goodwill and intangibles	\$553,066	\$363,156	\$—	\$916,222
Total Assets	\$918,200	\$565,411	\$156,514	\$1,640,125

Explanation of Responses:

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Three Months Ended March 31, 2014
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$214,804	\$60,050	\$—	\$274,854
Cost of services sold	140,560	40,908	—	181,468
Office and general expenses	45,046	16,315	9,975	71,336
Depreciation and amortization	5,148	4,832	502	10,482
Operating profit (loss)	24,050	(2,005	) (10,477	) 11,568
Other Income (Expense):				
Other expense, net				(6,571
Interest expense, net				) (12,619
Loss from continuing operations before income taxes, equity in affiliates				) (7,622
Income tax benefit				) (346
Loss from continuing operations before equity in affiliates				) (7,276
Equity in earnings of non-consolidated affiliates				) 63
Loss from continuing operations				) (7,213
Loss from discontinuing operations attributable to MDC Partners Inc., net of taxes				) (271
Net loss				) (7,484
Net income attributable to the noncontrolling interests	(1,390	) 28	—	) (1,362
Net loss attributable to MDC Partners Inc.				) \$(8,846
Stock based compensation	\$2,139	\$1,277	\$952	\$4,368
Supplemental Segment Information:				
Capital expenditures	\$1,702	\$253	\$541	\$2,496
Goodwill and intangibles	\$522,170	\$424,485	\$—	\$946,655
Total Assets	\$860,571	\$573,308	\$136,393	\$1,570,272

Explanation of Responses:

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

	United States	Canada	Other	Total
Revenue				
Three Months Ended March 31,				
2015	\$252,018	\$29,825	\$20,379	\$302,222
2014	\$228,833	\$30,913	\$15,108	\$274,854

11. Commitments, Contingencies and Guarantees

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

Put Options. Owners of interests in certain subsidiaries have the right in certain circumstances to require the Company to acquire the remaining ownership interests held by them. The owners' ability to exercise any such "put option" right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise. In addition, these rights cannot be exercised prior to specified staggered exercise dates. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund the related amounts during the remainder of 2015 to 2023. It is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights.

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

Management estimates, assuming that the subsidiaries owned by the Company at March 31, 2015, perform over the relevant future periods at their trailing twelve-months earnings levels, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate amount of approximately \$21,632 to the owners of such rights to acquire such ownership interests in the relevant subsidiaries. Of this amount, the Company is entitled, at its option, to fund approximately \$87 by the issuance of share capital. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately \$180,706 only upon termination of such owner's employment with the applicable subsidiary or death. Included in redeemable noncontrolling interests at March 31, 2015 is \$202,338 of these put options because they are not within the control of the Company. The ultimate amount payable relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised.

Natural Disasters. Certain of the Company's operations are located in regions of the United States and Caribbean which typically are subject to hurricanes. During the three months ended March 31, 2015 and 2014, these operations did not incur any costs related to damages resulting from hurricanes.

Guarantees. Generally, the Company has indemnified the purchasers of certain 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 a number of years. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees. The Company continues to monitor the

conditions that are subject to guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under any guarantees or indemnifications in the period when those losses are probable and estimable

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

Commitments. At March 31, 2015, the Company had issued \$4,803 of undrawn outstanding letters of credit. In addition, the Company has commitments to fund investments in an aggregate amount of \$8,588.

12. New Accounting Pronouncements

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In April 2015, the FASB issued Standards Update 2015-03, Intangibles - Goodwill and Other-Internal-Use Software. This update amends Topic 350 and provides explicit guidance about customer's accounting for fees paid in a cloud computing arrangement and whether it includes a software license. This guidance is effective for the Company beginning January 1, 2016. The implementation of the amended accounting guidance is not expected to have a material impact on our consolidated financial position or results of operations.

In April 2015, the FASB issued Standards Update 2015-03, Interest - Imputation of Interest. This update amends Topic 835 and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This guidance is effective for the Company beginning January 1, 2016. The Company is currently assessing the impact on the presentation of our financial position and disclosures.

In May 2014, the FASB issued Standards Update 2014-09, Revenue with Contracts from Customers. This update supersedes Topic 605, Revenue Recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, an entity must apply a five-step approach. ASU 2014-09 provides for one of two methods of transition: retrospective application to each prior period presented; or, recognition of the cumulative effect of retrospective application of the new standard in the period of initial application. This guidance is effective for the Company beginning January 1, 2017. The Company is currently assessing the impact and choice of transition method.

13. Subsequent Events

Since October 5, 2014, the Company has been actively cooperating with the production of documents for review by the Securities and Exchange Commission pursuant to a Subpoena. In connection with this production of documents, the Company formed a Special Committee of independent directors to review certain matters relating to the reimbursement of expenses incurred by the CEO. The Special Committee completed an extensive review of perquisites and payments made by the Company on behalf of the CEO during the period 2009 through 2014. Following the review, the CEO agreed to reimburse the Company for the perquisites and expenses in the aggregate amount of \$8,600, which will be recorded as income in the second quarter of 2015.

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

Unless otherwise indicated, references to the "Company" mean MDC Partners Inc. and its subsidiaries, and references to a fiscal year means the Company's year commencing on January 1 of that year and ending December 31 of that year (e.g., fiscal 2015 means the period beginning January 1, 2015, and ending December 31, 2015).

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

The following discussion focuses on the operating performance of the Company for the three months ended March 31, 2015 and 2014 and the financial condition of the Company as of March 31, 2015. This analysis should be read in conjunction with the interim condensed consolidated financial statements presented in this interim report and the annual audited consolidated financial statements and Management's Discussion and Analysis presented in the Annual Report for the year ended December 31, 2014 as reported on Form 10-K. All amounts are in U.S. dollars unless otherwise stated.

Executive Summary

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

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

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

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

MDC measures operating expenses in two distinct cost categories: cost of services sold, and office and general expenses. Cost of services sold is primarily comprised of employee compensation related costs and direct costs related primarily to providing services. Office and general expenses are primarily comprised of rent and occupancy costs and administrative service costs including related employee compensation costs. Also included in office and general expenses are the changes of the estimated value of our contingent purchase price obligations, including the accretion of present value and acquisition related costs. Depreciation and amortization are also included in operating expenses.

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

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

Certain Factors Affecting Our Business

Overall Factors Affecting our Business and Results of Operations. The most significant factors include national, regional and local economic conditions, our clients' profitability, mergers and acquisitions of our clients, changes in top management of our clients and our ability to retain and attract key employees. New business wins and client losses occur due to a variety of factors. The two most significant factors are clients' desire to change marketing

communication firms and the creative product our firms are offering. A client may choose to change marketing communication firms for any number of reasons, such as a change in top management and the new management wants to retain an agency that it may have previously worked with. In addition, if the client is merged or acquired by another company, the marketing communication firm is often changed. Further, global clients are trending to consolidate the use of numerous marketing communication firms to just one or two. Another factor in a client changing firms is the agency's campaign or work product is not providing results and they feel a change is in order to generate additional revenues.

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

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Acquisitions and Dispositions. Our strategy includes acquiring ownership stakes in well-managed businesses with strong reputations in the industry. We engaged in a number of acquisition and disposal transactions during the 2009 to 2015 period, which affected revenues, expenses, operating income and net income. Additional information regarding material acquisitions is provided in Note 4 “Acquisitions” and information on dispositions is provided in Note 6 “Discontinued Operations” in the Notes to the Unaudited Condensed Consolidated Financial Statements.

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

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

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Three Months Ended March 31, 2015

(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total	
Revenue	\$240,436	\$61,786	\$—	\$302,222	
Cost of services sold	166,026	44,393	—	210,419	
Office and general expenses	49,156	11,154	13,998	74,308	
Depreciation and amortization	6,423	5,430	447	12,300	
Operating profit (loss)	18,831	809	(14,445)	5,195	
Other Income (Expense):					
Other expense, net				(18,040)
Interest expense, net				(14,977)
Loss from continuing operations before income taxes and equity in non-consolidated affiliates				(27,822)
Income tax benefit				(4,054)
Loss from continuing operations before equity in non-consolidated affiliates				(23,768)
Equity in earnings of non-consolidated affiliates				351	
Loss from continuing operations				(23,417)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(6,294)
Net Loss				(29,711)
Net income attributable to the non-controlling interests	(2,293)	(87)	—	(2,380)
Net loss attributable to MDC Partners Inc.				\$(32,091)
Stock based compensation	\$2,524	\$1,121	\$800	\$4,445	

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Three Months Ended March 31, 2014
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	\$214,804	\$60,050	\$—	\$274,854
Cost of services sold	140,560	40,908	—	181,468
Office and general expenses	45,046	16,315	9,975	71,336
Depreciation and amortization	5,148	4,832	502	10,482
Operating profit (loss)	24,050	(2,005)	(10,477)	11,568
Other Income (Expense):				
Other expense, net				(6,571)
Interest expense, net				(12,619)
Loss from continuing operations before income taxes, equity in affiliates				(7,622)
Income tax benefit				(346)
Loss from continuing operations before equity in affiliates				(7,276)
Equity in earnings of non-consolidated affiliates				63
Loss from continuing operations				(7,213)
Loss from discontinuing operations attributable to MDC Partners Inc., net of taxes				(271)
Net loss				(7,484)
Net income attributable to the noncontrolling interests	(1,390)	28	—	(1,362)
Net loss attributable to MDC Partners Inc.				\$(8,846)
Stock based compensation	\$2,139	\$1,277	\$952	\$4,368

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Three Months Ended March 31, 2015, Compared to Three Months Ended March 31, 2014

Revenue was \$302.2 million for the three months ended March 31, 2015, representing an increase of \$27.4 million, or 10.0%, compared to revenue of \$274.9 million for the three months ended March 31, 2014. This revenue increase related primarily to organic growth of \$20.4 million and acquisition growth of \$12.4 million. A strengthening of the US Dollar, primarily versus the Canadian dollar during the three months ended March 31, 2015, resulted in decreased revenues of \$5.4 million.

The operating profit for the three months ended March 31, 2015 was \$5.2 million, compared to operating profit of \$11.6 million for the three months ended March 31, 2014. The decrease in operating profit was primarily the result of a decrease in operating profit of \$5.2 million in the Strategic Marketing Services segment and an increase in corporate expenses of \$4.0 million, offset by an increase in operating profit of \$2.8 million within the Performance Marketing Services segment.

Loss from continuing operations for the first three months ended March 31, 2015 was \$23.4 million, compared to a loss of \$7.2 million for the first three months ended March 31, 2014. This increase in loss of \$16.2 million was primarily the result of an increase in other expense, net of \$11.5 million related to an increase of \$12.0 million in unrealized foreign exchange loss, a decrease in operating profit of \$6.4 million, and an increase in interest expense, net of \$2.3 million. These amounts were offset by an increase in income tax benefit of \$3.7 million, and equity in earnings of non-consolidated affiliates of \$0.3 million.

Marketing Communications Group

Revenues in the first three months of 2015 attributable to the Marketing Communications Group, which consists of two segments — Strategic Marketing Services and Performance Marketing Services, were \$302.2 million, compared to \$274.9 million in the first three months of 2014, representing a year-over-year increase of 10.0%.

The components of the increase in revenue in 2015 are shown in the following table:

	Revenue		
	\$ 000's	%	
Three months ended March 31, 2014	\$274,854		
Organic	20,379	7.4	%
Acquisitions	12,361	4.5	%
Foreign exchange impact	(5,372)	(1.9))%
Three months ended March 31, 2015	\$302,222	10.0	%

The geographic mix in revenues was consistent between the first three months of 2015 and 2014 and is demonstrated in the following table:

	2015	2014	
US	83	% 83	%
Canada	10	% 11	%
Other	7	% 6	%

The operating profit of the Marketing Communications Group decreased by \$2.4 million to \$19.6 million from \$22.0 million. Operating margins decreased by 1.5% and were 6.5% for 2015, compared to 8.0% for 2014. The decrease in operating profit and margins was primarily due to increases in staff costs, direct costs (excluding staff costs) and depreciation and amortization, offset by increased revenue and decreases in office and general expenses. Total staff

costs increased as a percentage of revenue from 58.2% in 2014 to 61.1% in 2015. This increase is primarily due to timing of revenue recognized in the first quarter of 2015 compared to the fourth quarter 2014 run rate of staff costs. Direct costs increased as a percentage of revenues from 14.5% in 2014, to 14.8% in 2015. Direct costs increased as there were increased pass-through costs incurred on the clients' behalf during the first three months of 2015 where the company was acting as principal versus agent for certain client contracts. Depreciation and amortization as a percentage of revenue increased from 3.6% in 2014 to 3.9% in 2015 primarily due to amortization expense relating to acquisitions completed throughout 2014. Office and general expenses

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decreased as a percentage of revenue from 22.3% in 2014 to 20.0% in 2015. This decrease was primarily due to a decrease of \$5.8 million in expense relating to estimated deferred acquisition consideration and increased revenue on relatively fixed costs.

Strategic Marketing Services

Revenues attributable to Strategic Marketing Services in the first three months of 2015 were \$240.4 million, compared to \$214.8 million in the first three months of 2014. The year-over-year increase of \$25.6 million or 11.9% was attributable primarily to organic growth as a result of net new business wins of \$18.8 million or 8.7% and acquisition growth of \$11.0 million or 5.1%. A strengthening of the US dollar versus the Canadian dollar in 2015 compared to 2014 resulted in a 1.9% decrease in revenues from the segment's Canadian-based operations.

The operating profit of Strategic Marketing Services decreased by \$5.2 million from \$24.1 million in the first three months of 2014 to \$18.8 million in the first three months of 2015. Operating margins decreased from 11.2% in the first three months of 2014 to 7.8% in the first three months of 2015. The decrease in operating profits and margins was primarily due to increases in total staff costs, direct costs (excluding staff and labor), and depreciation and amortization, offset by a decrease in total office and general expenses. Total staff costs increased as a percentage of revenue from 61.1% in the first three months of 2014 to 63.6% in the months of 2015. This increase is primarily due to timing of revenue recognized in the first quarter of 2015 compared to the fourth quarter 2014 run rate of staff cost. It is expected that the staff cost ratio will normalize to the 2014 annualized rate of approximately 59%. Direct costs increased as a percentage of revenue from 10.3% in 2014 to 11.9% in 2015. Direct costs increased as there were increased pass-through costs incurred on clients' behalf during the first three months of 2015. Depreciation and amortization as a percentage of revenue increased from 2.4% in 2014 to 2.7% in 2015 due primarily to amortization expense relating to acquisitions completed throughout 2014. Office and general expenses decreased as a percentage of revenue from 21.0% in the first three months of 2014 to 20.4% in the first three months of 2015. The decrease was due primarily to a decrease of \$2.9 million in expense relating to acquisition related costs and increased revenue on relatively fixed costs.

Performance Marketing Services

The Performance Marketing Services segment generated revenues of \$61.8 million for the first three months of 2015, an increase of \$1.7 million, or 2.9% compared to \$60.1 million in the first three months of 2014. The year over year increase was attributed primarily to organic revenue growth as a result of net new business wins of 2.7% and acquisition growth of 2.3%. In addition, a strengthening of the US dollar versus the Canadian dollar in 2015 compared to 2014, resulted in a decrease in revenues from the segment's Canadian-based operations of 2.1%.

The operating profit and margins of Performance Marketing Services increased by \$2.8 million from a loss of \$2.0 million in the first three months of 2014 to profit of \$0.8 million in the first three months of 2015. Operating margins increased from a loss of 3.3% in the first three months of 2014 to operating profit of 1.3% in the first three months of 2015. This increase in operating profits and operating margins were due to decreases in direct costs (excluding staff labor), and office and general expenses, offset by increases in total staff costs and depreciation and amortization. Direct costs decreased as a percentage of revenue from 29.5% in the first three months of 2014 to 26.3% in 2015. Direct costs decreased as there were less pass-through costs incurred on client's behalf during the first three months of 2015. Office and general costs decreased from 27.2% in 2014 to 18.1% in 2015. The decrease was due to a decrease of \$2.9 million in expense relating to estimated deferred acquisition consideration. Total staff costs increased as a percentage of revenue from 47.8% in 2014 to 51.5% in 2015. Staff costs increased by \$3.1 million from 2014 to 2015. The increase in staff costs as a percentage of revenue was primarily due to relatively flat revenue growth year over year. Depreciation and amortization increased from 8.0% in 2014 to 8.8% in 2015 due primarily to amortization expense relating to acquisitions completed in 2014.

Corporate

Operating costs related to the Company's Corporate operations increased \$4.0 million to \$14.4 million in the first three months of 2015 from \$10.5 million in the first three months of 2014. This increase was primarily related to \$6.2 million of legal fees of which \$5.8 million related to the Securities and Exchange Commission inquiry. This increase was offset in part by declines in advertising and promotional expenses of \$0.8 million, travel and entertainment of \$0.7 million, staff costs of \$0.5 million and various other administrative expenses of \$0.2 million.

Other Income, Net

Other income (expense) decreased to expense of \$18.0 million in the first three months of 2015 compared to expense of \$6.6 million in the first three months of 2014. The increase was primarily related to an unrealized foreign exchange loss of

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\$6.6 million in 2014 compared to an unrealized foreign exchange loss of \$18.5 million in 2015. Specifically, these unrealized losses were due primarily to the fluctuation in the US dollar during 2015 and 2014, compared to the Canadian dollar, on the Company's US dollar denominated intercompany balances with its Canadian subsidiaries. Additionally, in 2015 the Company had other income of \$0.5 million compared to a nominal loss in 2014.

Net Interest Expense

Net interest expense for the first three months of 2015 was \$15.0 million, an increase of \$2.4 million over the \$12.6 million of net interest expense incurred during the first three months of 2014. The increase in interest expense in 2015 was due the additional issuance of the \$75 million of 6.75% Notes in April 2014.

Income Taxes

Income tax benefit was \$4.1 million in the first three months of 2015 compared to a benefit of \$0.3 million for the first three months of 2014. The Company's effective tax rates in 2015 and 2014 was lower than the statutory rate due losses in certain tax jurisdictions where a valuation allowance was deemed necessary.

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

Equity in Affiliates

Equity in affiliates represents the income attributable to equity-accounted affiliate operations. Equity in affiliates had income of \$0.4 million in the first three months of 2015 compared to nominal income in the first three months of 2014.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was \$2.4 million for the first three months of 2015, an increase of \$1.0 million from the \$1.4 million of noncontrolling interest expense incurred during the first three months of 2014, primarily due to the Company's increases in profitability of certain entities within the Strategic Marketing Services segment and Performance Marketing Services segment.

Discontinued Operations Attributable to MDC Partners Inc.

The loss from discontinued operations was \$6.3 million for the first three months of 2015, compared to \$0.3 million for the first three months of 2014. The increase in discontinued operations results from the 2014 strategic decision to sell the net assets of the Company's Accent operations.

Net Income (Loss) attributable to MDC Partners Inc.

As a result of the foregoing, the net loss attributable to MDC Partners Inc. recorded for the first three months of 2015 was a loss of \$32.1 million, or \$0.65 per diluted share. This amount is compared to a net loss attributable to MDC Partners Inc. of \$8.8 million, or a loss of \$0.18 per diluted share, reported for the first three months of 2014.

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Liquidity and Capital Resources:

Liquidity

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

	As of and for the first three months ended March 31, 2015 (000's)	As of and for the first three months ended March 31, 2014 (000's)	As of and for the year ended December 31, 2014 (000's)
Cash and cash equivalents	\$17,612	\$17,497	\$119,767
Working capital (deficit)	\$(283,960)	\$(218,815)	\$(269,262)
Cash from (used in) operations	\$(119,846)	\$(39,303)	\$133,942
Cash from (used in) investing	\$(9,066)	\$(44,743)	\$(99,686)
Cash from (used in) financing	\$26,046	\$(491)	\$(15,428)
Long-term debt to total equity ratio	(1.91)	(2.79)	(2.13)
Fixed charge coverage ratio	N/A	N/A	1.23
Fixed charge deficiency	\$27,822	\$7,614	N/A

As of March 31, 2015 and December 31, 2014, \$6.2 million and \$6.5 million, respectively, of the consolidated cash position was held by subsidiaries, which, although available for the subsidiaries' use, does not represent cash that is distributable as earnings to MDC Partners for use to reduce its indebtedness. It is the Company's intent through its cash management system to reduce any outstanding borrowings under the Credit Agreement by using available cash.

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

Working Capital

At March 31, 2015 the Company had a working capital deficit of \$284.0 million compared to a deficit of \$269.3 million at December 31, 2014. The increase in the working capital deficit was primarily due to seasonal shifts in the amounts collected from clients, and paid to suppliers, primarily media outlets. The Company includes amounts due to noncontrolling interest holders, for their share of profits, in accrued and other liabilities. At March 31, 2015, \$5.4 million remained outstanding to be distributed to noncontrolling interest holders over the next twelve months.

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

Cash Flows

Operating Activities

Cash flow used in continuing operations, including changes in non-cash working capital, for the three months ended March 31, 2015 was \$118.6 million. This was attributable to a loss from continuing operations of \$23.4 million, an increase in accounts receivable of \$97.8 million and a decrease in accounts payable, accruals, and other liabilities of \$42.7 million primarily due to the timing and collection of related media payments, an increase in prepaid expenses and other current assets of \$12.2 million, an increase in expenditures billable to clients of \$5.7 million, deferred income taxes of \$3.9 million and earnings of non-consolidated affiliates of \$0.4 million. This was offset by

Explanation of Responses:

depreciation, amortization of intangibles, and stock compensation of \$16.7 million, adjustments to deferred acquisition consideration of \$2.8 million, amortization of deferred finance charges and debt discount of \$1.5 million, an increase in advanced billings of \$30.5 million, foreign exchange of \$15.2 million and an increase in other non-current assets and liabilities of \$0.7 million. Discontinued operations attributable to MDC Partners used cash of \$1.3 million in the three months ended March 31, 2015.

Cash flow used by continuing operations, including changes in non-cash working capital, for the three months ended March 31, 2014 was \$40.0 million. This was attributable to the loss from continuing operations of \$7.2 million, an increase in

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accounts receivable of \$55.2 million, a net increase in other non-current assets and liabilities of \$12.2 million, an increase in prepaid expenses and other current assets of \$9.5 million, a decrease in accounts payable, accruals, and other liabilities of \$7.6 million, expenditures billable to clients of \$6.2 million, and deferred income taxes of \$0.6 million. This was offset in part by an increase in advanced billings of \$29.4 million, depreciation and amortization of intangibles and stock based compensation of \$14.9 million, amortization of deferred finance charges and debt discount of \$0.6 million, adjustments to deferred acquisition consideration of \$8.4 million and foreign exchange of \$5.1 million. Discontinued operations attributable to MDC Partners provided cash of \$0.7 million in the three months ended March 31, 2014.

Investing Activities

Cash flows used in investing activities was \$9.1 million for the three months ended March 31, 2015, compared with a cash flow used of \$44.7 million in the three months ended March 31, 2014. In the three months ended March 31, 2015, the Company used \$1.3 million, net of cash acquired for acquisitions. The Company also used \$2.3 million for other investments. These outflows were offset by \$0.3 million of profit distributions from affiliates.

In the three months ended March 31, 2015, capital expenditures totaled \$5.7 million, of which \$5.3 million was incurred by the Strategic Marketing Services segment, \$0.3 million was incurred by the Performance Marketing Services segment, and \$0.1 million was incurred by corporate. In the three months ended March 31, 2014, capital expenditures totaled \$2.5 million of which \$1.7 million was incurred by the Strategic Marketing Services segment, \$0.3 million was incurred by the Performance Marketing Services segment, and \$0.5 million was incurred by corporate. These expenditures consisted primarily of computer equipment, furniture and fixtures, and leasehold improvements. Discontinued operations used cash of \$0.2 million and \$0.5 million related to capital expenditures for the three months ended March 31, 2015 and March 31, 2014, respectively.

In the three months ended March 31, 2014, the Company used \$40.0 million, net of cash acquired for the acquisitions of Kingsdale Partners LP and Luntz Global Partners LLC. In addition, the Company paid \$2.1 million for other investments. These outflows were offset by \$0.3 million of profit distributions from affiliates.

Financing Activities

During the three months ended March 31, 2015, cash flows provided by financing activities amounted to \$26.0 million, and consisted of cash overdrafts of \$32.1 million and \$19.6 million borrowed under the credit agreement. These inflows were offset by \$11.1 million of acquisition related payments, payment of dividends of \$10.6 million, distributions to noncontrolling partners of \$2.8 million, the purchase of treasury shares for income tax withholding requirements of \$0.9 million, and repayments of long term debt of \$0.1 million.

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

Total Debt

6.75% Senior Notes Due 2020

On March 20, 2013, the Company entered into an indenture (the "Indenture") among MDC, its existing and future restricted subsidiaries that guarantee, or are co-borrowers under or grant liens to secure, MDC's senior secured

revolving credit agreement (the “Credit Agreement”), as guarantors (the “Guarantors”) and The Bank of New York Mellon, as trustee, relating to the issuance by MDC of its \$550 million aggregate principal amount 6.75% Senior Notes due 2020 (the “6.75% Notes”). The 6.75% Notes bear interest at a rate of 6.75% per annum, accruing from March 20, 2013. Interest is payable semiannually in arrears in cash on April 1 and October 1 of each year, beginning on October 1, 2013. The 6.75% Notes will mature on April 1, 2020, unless earlier redeemed or repurchased. The Company received net proceeds from the offering of the 6.75% Notes equal to approximately \$537.6 million. The Company used the net proceeds to redeem all of the existing 11% Notes, together with accrued interest, related premiums, fees and expenses and recorded a charge during the nine months ended September 30, 2013, for loss on redemption of notes of \$55.6 million, including write offs of unamortized original issue premium and debt issuance costs. Remaining proceeds were used for general corporate purposes.

On November 15, 2013, the Company issued an additional \$110 million aggregate principal amount of its 6.75% Notes. The additional notes were issued under the Indenture governing the 6.75% Notes and treated as a single series with the

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original 6.75% Notes. The additional notes were sold in a private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of \$111.9 million, which included an original issue premium of \$4.1 million, and underwriter fees of \$2.2 million. The Company used the net proceeds of the offering for general corporate purposes.

On April 2, 2014, the Company issued an additional \$75 million aggregate principal amount of 6.75% Notes due 2020 (the “Notes”). The additional notes were issued under the Indenture governing the 6.75% Notes and treated as a single series with the original 6.75% Notes. The additional notes were sold in private placement in reliance on exceptions from registration under the Securities Act of 1933, as amended. The Company received net proceeds before expenses of \$77.5 million, which included an original issue premium of \$3.9 million, and underwriter fees of \$1.5 million. The Company used the net proceeds of the offering for general corporate purposes, including the funding of deferred acquisition consideration, working capital, acquisitions and the repayment of the amount outstanding under our senior secured revolving credit facility.

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

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

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

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

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

Redemption of 11% Senior Notes Due 2016

Explanation of Responses:

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

Revolving Credit Agreement

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

Effective October 23, 2014, MDC and its subsidiaries entered into an amendment of its Credit Agreement. The amendment: (i) expands the commitments under the facility by \$100 million, from \$225 million to \$325 million; (ii) extends

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the date by an additional eighteen months to September 30, 2019; (iii) reduces the base borrowing interest rate by 25 basis points (the applicable margin for borrowing is 1.00% in the case of Base Rate Loans and 1.75% in the case of LIBOR Rate Loans) ; and (iv) modifies certain covenants to provide the Company with increased flexibility to fund its continued growth and other general corporate purposes.

Advances under the Credit Agreement bear interest as follows: (a)(i) LIBOR Rate Loans bore interest at the LIBOR Rate and (ii) Base Rate Loans bear interest at the Base Rate, plus (b) an applicable margin. The initial applicable margin for borrowing is 1.00% in the case of Base Rate Loans and 1.75% in the case of LIBOR Rate Loans. In addition to paying interest on outstanding principal under the Credit Agreement, MDC is required to pay an unused revolver fee to lenders under the Credit Agreement in respect of unused commitments thereunder.

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

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

Debt as of March 31, 2015 was \$762.3 million, an increase of \$19.2 million, compared with \$743.1 million outstanding at December 31, 2014. This increase in debt was a result of the Company's borrowings on the revolving credit agreement. At March 31, 2015, approximately \$267.5 million was available under the Credit Agreement.

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

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

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Pursuant to the Credit Agreement, the Company must comply with certain financial covenants including, among other things, covenants for (i) senior leverage ratio, (ii) total leverage ratio, (iii) fixed charges ratio, and (iv) minimum earnings before interest, taxes and depreciation and amortization, in each case as such term is specifically defined in the Credit Agreement. For the period ended March 31, 2015, the Company's calculation of each of these covenants, and the specific requirements under the Credit Agreement, respectively, were as follows:

	March 31, 2015
Total Senior Leverage Ratio	0.1
Maximum per covenant	2.0
Total Leverage Ratio	4.1
Maximum per covenant	5.5
Fixed Charges Ratio	2.4
Minimum per covenant	1.0
Earnings before interest, taxes, depreciation and amortization	\$183,587
Minimum per covenant	\$105,000

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

Deferred Acquisition Consideration (Earnouts)

Acquisitions of businesses by the Company may include commitments to contingent deferred purchase consideration payable to the seller. These contingent purchase obligations are generally payable within a one to five-year period following the acquisition date, and are based on achievement of certain thresholds of future earnings and, in certain cases, also based on the rate of growth of those earnings. The contingent consideration is recorded as an obligation of the Company when the contingency is resolved and the amount is reasonably determinable, for acquisitions prior to January 1, 2009. Contingent purchase price obligations related to acquisitions completed subsequent to December 31, 2008, are recorded as liabilities at estimated value and are remeasured at each reporting period. Based on various assumptions, all deferred consideration estimates based on future operating results of the relevant entities are recorded on the Company's balance sheet at March 31, 2015. The actual amount that the Company pays in connection with the obligations may differ materially from this estimate. At March 31, 2015, there was \$200.8 million of deferred consideration included in the Company's balance sheet.

Other-Balance Sheet Commitments

Put Rights of Subsidiaries' Noncontrolling Shareholders

Owners of interests in certain of the Marketing Communications Group subsidiaries have the right in certain circumstances to require the Company to acquire the remaining ownership interests held by them. The owners' ability to exercise any such "put option" right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise. In addition, these rights cannot be exercised prior to specified staggered exercise dates. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund the related amounts during the remainder of 2015 to 2023. It is not determinable, at this time, if or when the owners of

these put option rights will exercise all or a portion of these rights.

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

Management estimates, assuming that the subsidiaries owned by the Company at March 31, 2015, perform over the relevant future periods at their trailing twelve-month earnings level, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate amount of approximately \$21.6 million to the owners of such rights to acquire such ownership

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interests in the relevant subsidiaries. Of this amount, the Company is entitled, at its option, to fund approximately \$0.1 million by the issuance of the Company's Class A subordinate voting shares. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately \$180.7 million only upon termination of such owner's employment with such applicable subsidiary or death. The Company intends to finance the cash portion of these contingent payment obligations using available cash from operations, borrowings under the Credit Agreement (and refinancings thereof) and, if necessary, through incurrence of additional debt. The ultimate amount payable and the incremental operating income in the future relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised. Approximately \$2.3 million of the estimated \$21.6 million that the Company would be required to pay subsidiaries noncontrolling shareholders upon the exercise of outstanding put option rights, relates to rights exercisable within the next twelve months. Upon the settlement of the total amount of such put options, the Company estimates that it would receive incremental operating income before depreciation and amortization of \$5.8 million.

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

Consideration (4)	2015	2016	2017	2018	2019 & Thereafter	Total	
	(\$ Millions)						
Cash	\$2.3	\$3.5	\$3.9	\$5.0	\$6.8	\$21.5	
Shares	—	0.1	—	—	—	0.1	
	\$2.3	\$3.6	\$3.9	\$5.0	\$6.8	\$21.6	(1)
Operating income before depreciation and amortization to be received(2)	\$3.1	\$—	\$1.4				