

MDC PARTNERS INC
Form 10-Q
November 09, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

Or

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

For the transition period from _____ to _____

Commission file number: 001-13178

MDC Partners Inc.

(Exact name of registrant as specified in its charter)

Canada

(State or other jurisdiction of
incorporation or organization)

98-0364441

(IRS Employer Identification No.)

45 Hazelton Avenue

Toronto, Ontario, Canada

(Address of principal executive offices)

M5R 2E3

(Zip Code)

(416) 960-9000

Registrant's telephone number, including area code:

950 Third Avenue, New York, New York 10022

(646) 429-1809

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12(b)-2 of the Exchange Act (check one)

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

Yes No

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Act subsequent to the distributions of securities under a plan confirmed by a court. Yes No

The numbers of shares outstanding as of November 1, 2006 were: 24,191,113 Class A subordinate voting shares and 2,502 Class B multiple voting shares.

Website Access to Company Reports

MDC Partners Inc.'s Internet website address is www.mdc-partners.com. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act, will be made available free of charge through the Company's website as soon as reasonably practical after those reports are electronically filed with, or furnished to, the Securities and Exchange Commission.

MDC PARTNERS INC.**QUARTERLY REPORT ON FORM 10-Q****TABLE OF CONTENTS**

	Page
PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements
	Condensed Consolidated Statements of Operations (unaudited) for the Three and Nine Months Ended September 30, 2006 and 2005
	4
	Condensed Consolidated Balance Sheets as of September 30, 2006 (unaudited) and December 31, 2005
	5
	Condensed Consolidated Statements of Cash Flows (unaudited) for the Nine Months Ended September 30, 2006 and 2005
	6
	Notes to Unaudited Condensed Consolidated Financial Statements
	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	27
Item 3.	Quantitative and Qualitative Disclosures about Market Risk
	48
Item 4.	Controls and Procedures
	48
PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings
	50
Item 1A.	Risk Factors
	50
Item 2.	Unregistered Sales of Equity and Use of Proceeds
	50
Item 4.	Submission of Matters to a Vote of Security Holders
	50
Item 6.	Exhibits
	51
Signatures	52

Item 1. Financial Statements

MDC PARTNERS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(thousands of United States dollars, except share and per share amounts)

	Three Months Ended September		Nine Months Ended September 30,	
	2006	30, 2005	2006	2005
Revenue:				
Services	\$ 101,122	\$ 96,977	\$ 299,333	\$ 261,042
Operating Expenses:				
Cost of services sold (1)	57,150	55,509	177,790	155,180
Office and general expenses (2)	36,666	28,853	97,672	77,826
Depreciation and amortization	6,696	6,905	18,595	16,675
	100,512	91,267	294,057	249,681
Operating profit	610	5,710	5,276	11,361
Other Income (Expenses):				
Other income (expense)	625	(395)	1,697	616
Interest expense	(3,704)	(2,302)	(8,134)	(4,926)
Interest income	171	—	429	230
	(2,908)	(2,697)	(6,008)	(4,080)
Income (loss) from continuing operations before income taxes, equity in affiliates and minority interests				
	(2,298)	3,013	(732)	7,281
Income tax recovery	812	397	1,711	1,676
Income/(loss) from continuing operations before equity in affiliates and minority interests				
	(1,486)	3,410	979	8,957
Equity in earnings of non-consolidated affiliates	129	348	630	624
Minority interests in income of consolidated subsidiaries	(1,780)	(6,073)	(9,965)	(14,374)
Loss from continuing operations	(3,137)	(2,315)	(8,356)	(4,793)
Income/(loss) from discontinued operations	(9,772)	660	(20,190)	(1,609)
Net Loss	\$ (12,909)	\$ (1,655)	\$ (28,546)	\$ (6,402)
Income/(Loss) Per Common Share:				
Basic:				
Continuing operations	\$ (0.13)	\$ (0.10)	\$ (0.35)	\$ (0.21)

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Discontinued operations		(0.41)		0.03		(0.84)		(0.07)
Net Loss	\$	(0.54)	\$	(0.07)	\$	(1.19)	\$	(0.28)
Diluted:								
Continuing operations	\$	(0.13)	\$	(0.10)	\$	(0.35)	\$	(0.21)
Discontinued operations		(0.41)		0.03		(0.84)		(0.07)
Net loss	\$	(0.54)	\$	(0.07)	\$	(1.19)	\$	(0.28)

Weighted Average Number of
Common Shares Outstanding:

Basic		23,911,327		23,710,572		23,849,571		23,151,825
Diluted		23,911,327		23,710,572		23,849,571		23,151,825

- (1) *Includes non cash stock-based compensation of \$134 and \$18 in each of the three month periods ended September 30, 2006 and 2005, respectively, and \$2,975 and \$89 in each of the nine month periods ended September 30, 2006 and 2005, respectively.*
- (2) *Includes non cash stock-based compensation of \$1,515 and \$548, respectively, in each of the three month periods ended September 30, 2006 and 2005, respectively, and \$4,006 and \$2,273 in each of the nine month periods ended September 20, 2006 and 2005 respectively.*

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

MDC PARTNERS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(thousands of United States dollars)

	September 30,	December 31,
	2006	2005
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,592	\$ 12,923
Accounts receivable, less allowance for doubtful accounts of \$1,780 and \$1,250	120,414	117,319
Expenditures billable to clients	31,152	7,838
Inventories	—	10,359
Prepaid expenses	4,682	4,401
Other current assets	630	356
Assets held for sale	28,849	—
Total Current Assets	190,319	153,196
Fixed assets, at cost, less accumulated depreciation of \$52,196 and \$71,220	43,403	63,528
Investment in affiliates	10,068	10,929
Goodwill	199,340	195,026
Other intangibles assets, net	50,130	57,139
Deferred tax asset	17,825	16,057
Other assets	10,173	11,440
Assets held for sale	12,249	—
Total Assets	\$ 533,507	\$ 507,315
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$ 4,218	\$ 3,739
Revolving credit facility	85,300	73,500
Accounts payable	69,686	63,452
Accruals and other liabilities	69,549	69,891
Advance billings	50,996	38,237
Current portion of long-term debt	1,532	2,571
Deferred acquisition consideration	—	1,741
Liabilities related to assets held for sale	16,221	—
Total Current Liabilities	297,502	253,131
Long-term debt	4,991	8,475
Convertible notes	40,261	38,694
Other liabilities	8,871	7,937
Deferred tax liabilities	2,346	2,446
Liabilities related to assets held for sale	3,352	—
Total Liabilities	357,323	310,683
Minority interest		