Intellicheck, Inc.
Form PRE 14A
March 15, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant	[X]
Filed by a Party other than the Registrant	[ ]

Check the appropriate box:

[X] Preliminary Proxy Statement

[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

[ ] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to Section 240.14a-12

INTELLICHECK, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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[ ] Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

To the Stockholders of

INTELLICHECK, INC.

Re: **2019 Annual Meeting of Stockholders**

Dear Stockholder:

You are cordially invited to attend Intellicheck, Inc.'s 2019 Annual Meeting of Stockholders. The meeting will be held Wednesday, May 8, 2019 at the offices of K&L Gates located at 599 Lexington Avenue, Floor 32, New York, NY 10022. The meeting will begin promptly at 1:00 p.m., Eastern Time. Please plan to arrive a few minutes before the meeting.

The formal notice of the meeting follows on the next page. No admission tickets or other credentials are required unless you hold your shares in street name. If you hold your shares in street name, please follow the directions given in the Proxy Statement.

Some of our directors and officers will be available before and after the meeting to speak with you. At the meeting, the Company will answer your questions about our business affairs and will consider the matters explained in the Notice and Proxy Statement that follow.

Please vote, sign and return the enclosed proxy card as soon as possible, whether or not you plan to attend the meeting. Your vote is important.

Sincerely yours,

/s/ Guy L. Smith
Guy L. Smith
Chairman of the Board

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 8, 2019

To the Stockholders of

INTELLICHECK, INC.

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of INTELLICHECK, INC. (the “Company”), a Delaware corporation, will be held Wednesday, May 8, 2019 at 1:00 p.m. Eastern Time, at the offices of K&L Gates located at 599 Lexington Avenue, Floor 32, New York, NY 10022, for the following purposes:

1. To elect six directors to serve for a one-year term or until their respective successors have been duly elected and qualified;
2. To approve an amendment to the Intellicheck, Inc. 2015 Omnibus Incentive Plan;
3. To ratify the appointment of EisnerAmper LLP as the Company’s independent public accountants for the 2019 fiscal year;
4. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The Board of Directors has fixed the close of business on March 11, 2019 as the record date for the meeting and only record holders of shares of the Company’s common stock at that time will be entitled to notice of and to vote at the Annual Meeting of Stockholders or any adjournment or adjournments thereof. This proxy statement and the accompanying proxy will be mailed on or about April 11, 2019.

By Order of the Board of Directors,

/s/ Bill White
Bill White
Chief Financial Officer, Treasurer and Secretary

Melville, NY

April 11, 2019

IMPORTANT

IF YOU CANNOT PERSONALLY ATTEND THE MEETING, IT IS

REQUESTED THAT YOU INDICATE YOUR VOTE ON THE ISSUES

INCLUDED ON THE ENCLOSED PROXY AND DATE, SIGN AND MAIL

IT IN THE ENCLOSED SELF-ADDRESSED ENVELOPE WHICH

REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING HELD ON MAY 8, 2019: The Notice of Annual Meeting of Stockholders, Proxy Statement and the Annual Report to Stockholders are available on the following website: ***www.intellicheck.com/proxy2019***

INTELLICHECK, INC.

535 Broadhollow Road, Suite B51

Melville, NY 11747

PROXY STATEMENT

for

ANNUAL MEETING OF STOCKHOLDERS

to be held Wednesday, May 8, 2019

SOLICITATION OF PROXY

The accompanying proxy is solicited on behalf of the board of directors (the "Board of Directors") of Intellicheck, Inc., a Delaware corporation ("Intellicheck" or the "Company"), for use at the annual meeting of stockholders of the Company (the "Annual Meeting") to be held Wednesday, May 8, 2019 at the offices of K&L Gates located at 599 Lexington Avenue, Floor 32, New York, NY 10022. The meeting will begin promptly at 1:00 p.m., Eastern Time. This proxy statement contains information about the matters to be considered at the meeting or any adjournments or postponements of the meeting. In addition to mail, proxies may be solicited by personal interview, telephone or telegraph by our officers and regular employees, without additional compensation. We will bear the cost of solicitation of proxies. Brokerage houses, banks and other custodians, nominees and fiduciaries will be reimbursed for out-of-pocket and reasonable expenses incurred in forwarding proxies and proxy statements. The Board of Directors has set March 11, 2019, as the record date (the "Record Date") to determine those holders of record of common stock, par value $0.001 ("Common Stock") who are entitled to notice of, and to vote at the Annual Meeting. Each share of Common Stock entitles its owner to one vote. On the Record Date, there were 15,638,765 shares outstanding. On or about April 11, 2019, this Proxy Statement and the proxy card (the "Proxy Card" or "Proxy") are being mailed to stockholders of record as of the close of business on March 11, 2019.

ABOUT THE MEETING

What is being considered at the meeting?

You will be voting on the following:

The election of six directors, each to serve until the next annual meeting;
The approval of an amendment to the Intellicheck, Inc. 2015 Omnibus Incentive Plan; and
The ratification of the appointment of EisnerAmper LLP, as our independent registered public accountant firm.

Who is entitled to vote at the meeting?

You may vote if you owned Common Stock as of the close of business on March 11, 2019. Each share of Common Stock is entitled to one vote.

How many votes must be present to hold the meeting?

Your shares are counted as present at the meeting if you attend the meeting and vote in person or if you properly return a Proxy by mail. To conduct our meeting, a majority of the combined voting power of our Common Stock as of March 11, 2019, must be present at the meeting. This is referred to as a quorum. We believe that on March 11, 2019, there were 15,638,765 outstanding shares of Common Stock entitled to vote.

How do I vote?

You can vote in two ways:

- by attending the meeting in person; or
- by completing, signing and returning the enclosed Proxy Card.

Can I change my mind after I submit my Proxy?

Yes, you may change your mind at any time before a vote is taken at the meeting. You can do this by (1) signing another Proxy with a later date and submitting it in the same manner as the prior Proxy was submitted; (2) if you hold your shares in your name, voting again at the meeting; or (3) if you hold your shares in street name, arranging with your broker to vote your shares at the annual meeting.

What if I return my Proxy Card but do not include voting instructions?

Proxies that are signed and returned but do not include voting instructions will be voted FOR the election of the nominated directors, FOR the approval of an amendment to the Intellicheck, Inc. 2015 Omnibus Incentive Plan and FOR the approval of the appointment of our independent public accountants.

What does it mean if I receive more than one Proxy Card?

It means that you have multiple accounts with brokers and/or our transfer agent. Please vote all of these shares. We recommend that you contact your broker and/or our transfer agent to consolidate as many accounts as possible under the same name and address. Our transfer agent is Continental Stock Transfer and Trust Company. The transfer agent's telephone number is (212) 509-4000.

Will my shares be voted if I do not provide my Proxy?

If you hold your shares directly in your own name, they will not be voted if you do not provide a Proxy. Your shares may be voted under certain circumstances if they are held in the name of a brokerage firm. Brokerage firms generally have the authority to vote customers' unvoted shares on certain "routine" matters, including approval of the appointment of independent public accountants. When a brokerage firm votes its customer's unvoted shares, these shares are counted for purposes of establishing a quorum. At our meeting, these shares will be counted as voted by the brokerage firm in the approval of the appointment of our independent public accountants.

What vote is required to approve each item?

The affirmative vote of a plurality of the votes cast at the annual meeting is required for approval of the election of directors, the affirmative vote of the majority of the votes cast is required for the amendment to the 2015 Omnibus Incentive Plan and for the ratification of the appointment of our independent public accountants.

Do we currently have, or do we intend to submit for stockholder approval, any anti-takeover device?

Our Certificate of Incorporation, Bylaws and other corporate documents do not contain any provisions that contain material anti-takeover aspects. We have no plans or proposals to submit any other amendments to the Certificate of Incorporation or Bylaws, or other measures in the future that have anti-takeover effects.

Proposal No. 1

ELECTION OF DIRECTORS

Our Board of Directors has one class of directors, with each director elected annually for a term of one year. Unless specified to be voted otherwise, the persons named in the accompanying Proxy will vote for the election of the following persons as directors, all of whom are presently members of the Board of Directors, to hold office for the terms set forth below or until their respective successors have been elected and qualified. Each Proxy will be voted for the nominees named below. The nominees have consented to serve as directors if elected.

The Board of Directors recommends that you elect the nominees identified below.

Name	Age	Position with the Company and Principal Occupation	Director Since	New Board Term Expires
Guy L. Smith	69	Chairman of the Board of Directors	2005	2020
Lieutenant General Emil R. Bedard	74	Director	2008	2020
Major General Jack A. Davis	72	Director	2014	2020
William P. Georges	64	Director	2014	2020
Amelia L. Ruzzo	65	Director	2019	2020
David E. Ullman	61	Director	2018	2020

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information with respect to each director and executive officer as of March 11, 2019:

Name	Age	Position with the Company and Principal Occupation	Held Office Since	Current Board Term Expires
Guy L. Smith	69	Chairman of the Board of Directors	2005	2019
Lieutenant General Emil R. Bedard	74	Director	2008	2019
Major General Jack A. Davis	72	Director	2014	2019
William P. Georges	64	Director	2014	2019

Amelia L. Ruzzo	65	Director	2019	2019
David E. Ullman	61	Director	2018	2019
Russell T. Embry	54	Chief Technology Officer, Senior Vice President	2001	N/A
Bryan Lewis	56	President and Chief Executive Officer	2018	N/A
Bill White	58	Chief Financial Officer, Secretary and Treasurer	2012	N/A

Business Experience

Guy L. Smith was appointed Chairman of the Board of Directors effective November 14, 2018 and became a member of the Board of Directors in June 2005. Mr. Smith has been the Executive Vice President of Diageo, the world's leading premium drinks company, since 2000 and is responsible for Corporate Relations and Marketing Public Relations. At Diageo, Mr. Smith's responsibilities include overseeing the corporation's civic and social responsibility efforts in North America, including the Diageo Marketing Code. The code governs the company's social responsibility activities with regard to the marketing and sale of alcoholic beverages and the company's undertakings to reduce underage access and abuse of alcohol. From 1998 to 1999, prior to joining Diageo, Mr. Smith was Special Advisor to President Clinton on The White House staff, where he served on the impeachment defense team. Mr. Smith also served as an informal strategic communications advisor to President Clinton from the beginning of the Clinton Administration. From 1999 to 2000, Mr. Smith was associated with The Hawthorn Group, a Washington-based public affairs firm, as well as with his own firm, Smith Worldwide Inc., from 1994 to 1996, which focused on reputation and crisis management. He was Chief Operating Officer of Hill & Knowlton International Public Relations, from 1992 to 1993, where he consulted with the firm's largest consumer product, technology, and legal clients. Prior to that Mr. Smith was Vice President-Corporate Affairs, the senior public affairs and public relations officer, for Philip Morris Companies Inc. from 1975 to 1992. During his 17 years with Philip Morris, Mr. Smith led the Corporate Affairs departments of the Miller Brewing Company and The Seven-Up Company, both then Philip Morris operating companies. Mr. Smith began his career as a reporter and assistant city editor for The Knoxville Journal. He is currently chairman of the Barrier Island Trust, an environmental protection organization and sits on the Board of Advisors of Mount Vernon, George Washington's home outside Washington, D.C. Mr. Smith also serves as an Honorary Battalion Chief of the Fire Department of New York. Mr. Smith was selected to serve as a Director in part due to his extensive experience with the alcoholic beverage business and other businesses that rely on age verification, his work in government and public relations, his knowledge of the Company, including as a director of Intelli-Check, Inc. prior to the merger with Mobilisa and his general business experience.

Lieutenant General Emil R. "Buck" Bedard was appointed a member of the Board of Directors on March 14, 2008. General Bedard was appointed a director of Mobilisa in September 2004. He retired from the U.S. Marine Corps with over 37 years of active duty service in 2003. General Bedard's military career included two combat tours in Vietnam, as well as commanding the 7th Marine Regiment in Somalia and the 1st Marine Expeditionary Force during Operation Desert Storm. General Bedard's final active duty tour was as the Deputy Commandant for Plans, Policies and Operations for the US Marine Corps Headquarters in Washington, D.C., where he served until his retirement in 2003. He has continued to serve with the Marine Corps in Afghanistan and Iraq since his retirement. General Bedard's many military awards include a Distinguished Service Medal, Legion of Merit, and Bronze Star (with Combat V). General Bedard graduated from the University of North Dakota in 1967 with a Masters in Science. General Bedard was selected to serve as a Director in part due to his considerable experience as an officer in the U.S. military working with government contracts and his knowledge of the Company, including as a director of Mobilisa.

Major General Jack A. Davis, U.S. Marine Corps, Retired, was appointed a member of the Board of Directors on August 11, 2014. Major General Davis is a proven leader in the military, law enforcement and business arenas. In a 37-year career in the United States Marine Corps, during which he rose to the rank of Major General, he commanded at every level from an infantry platoon in Vietnam to Commanding General of the 4th Marine Division. His final assignment prior to retirement was Vice Commander, Marine Corps Forces Atlantic/Deputy Commander Marine Corps Forces Europe, for which he received the Distinguished Services Medal. He also served five years in federal law enforcement before joining the North Carolina State Bureau of Investigation in 1979, retiring in 1999 with a distinguished record of service. He also established JA Davis & Associates, a frontrunner in leadership and security training development. He holds a Bachelor of Science degree and two master's degrees. He previously served on Mobilisa's Board of Directors from October 2005 until the merger with Intellicheck in March 2008.

William P. Georges was appointed a member of the Board of Directors on August 11, 2014. Mr. Georges is President and CEO of The Georges Group, LLC, a provider of strategic consulting services and project management in the areas of corporate operations/relations to both public and private entities worldwide. Prior to forming the firm, he spent nine years as senior vice president of The Century Council, overseeing their development of programs to fight alcohol misuse, drunk driving and underage drinking. He is a retired 25-year veteran of the Albany, NY Police Department where he ultimately achieved the rank of Assistant Chief/Chief of Patrol where he was responsible for all uniformed police services. Mr. Georges is a life member of the International Association of Chiefs of Police. He serves on the Traffic Law Enforcement Committee of the Transportation Research Board of the National Academies and has been recognized by numerous organizations for his dedication to law enforcement.

Dr. Amelia L. Ruzzo was appointed a member of the Board of Directors on January 10, 2019. Dr. Ruzzo has over twenty years of deep experience in technology solutions and solid business management and development expertise. Her experience includes positions with Thermo Fisher Scientific from 2012 to 2015 and ITT Exelis from 2010 to 2012. In these roles, she was responsible for aligning IT with business objectives in the development of strategic and tactical plans for segment businesses. Dr. Ruzzo effectively led teams that developed tactical and strategic solutions to enable strong financial results across the businesses' portfolios. At Alliant Techsystems, from 2006 to 2010 she directed and guided successful solutions for business capture, technology development, execution and customer support. From 2004 to 2005, as Vice President of Information Systems for multi-billion-dollar international gold mining company Placer Dome, Dr. Ruzzo had responsibility for moving the corporation's information technology strategy forward and for oversight of global initiatives of all information systems. Dr. Ruzzo's extensive experience in the defense industry includes six years in successive positions at Lockheed Martin culminating in the Director of the Simulation Technology Group in 2004. Her primary job at Lockheed Martin was to support the executive leadership and business development areas by providing the most advanced technology solutions for Lockheed Martin customers.

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David E. Ullman was appointed a member of the Board of Directors in January 2018. Mr. Ullman has extensive business expertise with a strong focus on retail, strategic planning and growth, as well as mergers and acquisitions. A seasoned retail executive, he spent nearly twenty years as Executive Vice President and Chief Financial Officer for billion-dollar retailer, manufacturer and e-commerce company, Jos. A. Bank Clothiers. Mr. Ullman had an instrumental role in strategic planning and growth initiatives as well as mergers and acquisitions, which led to more than a decade of sustained profitable growth and a six-fold increase in sales. The iconic retailer was acquired by Men's Wearhouse in 2014 for $1.8 billion. He has also held executive positions with Arthur Andersen and $750 million catalogue company Hanover Direct. Most recently, Mr. Ullman has served as Chief Operating Officer, Chief Financial Officer and minority owner of Paul Fredrick Menstyle, a private retail company focused on designer and direct-to-consumer men's apparel and related accessories.

Russell T. Embry was appointed Senior Vice President and Chief Technology Officer in July 2001 and has been Vice President, Information Technology, since July 1999. From January 1998 to July 1999, Mr. Embry was Lead Software Engineer with RTS Wireless. From April 1995 to January 1998, he served as Principal Engineer at GEC-Marconi Hazeltine Corporation. From August 1994 through April 1995, he was a staff software engineer at Periphonics Corporation. From September 1989 to August 1994, Mr. Embry served as Senior Software Engineer at MESC/Nav-Com. From July 1985 through September 1989, he was a software engineer at Grumman Aerospace. Mr. Embry holds a B.S. in Computer Science from Stony Brook University and an M.S. in Computer Science from Polytechnic University, Farmingdale.

Bryan Lewis was appointed President and Chief Executive Officer in February 2018. Mr. Lewis has over 30 years of global leadership positions in sales and operations in the financial services and financial technology sectors with a demonstrated ability to scale both high-growth and under-performing companies to create significant shareholder value. Prior to joining Intellicheck, he was Chief Operating Officer of Third Bridge, Inc. where he oversaw the growth of the company from 100 to 600 employees and a CAGR of 56% in a four-year period. Previously, Mr. Lewis held senior leadership positions at BondDesk (sold to TradeWeb), TheMarkets.com (sold to Capital IQ), Reuters, Barra (sold to MSCI) and Bloomberg. He began his career as a bond trader.

Bill White was named interim CEO and President on October 4, 2017, serving in such position until February 21, 2018, and has served as Chief Financial Officer, Treasurer and Secretary since April 1, 2012. Mr. White has more than 30 years of experience in financial management, operations and business development. Prior to joining Intellicheck, he served 11 years as the Chief Financial Officer, Secretary and Treasurer of FocusMicro, Inc. ("FM"). As co-founder of FM, Mr. White played an integral role in growing the business from the company's inception to over $36 million in annual revenue in a five-year period. Mr. White has broad domestic and international experience including managing rapid and significant growth, import/export, implementing tough cost management initiatives, exploiting new growth opportunities, merger and acquisitions, strategic planning, resource allocation, tax compliance and organization development. Prior to co-founding FM, he served 15 years in various financial leadership positions in the government sector. Mr. White started his career in Public Accounting. Mr. White holds a Bachelor of Arts in Business Administration from Washington State University and is a Certified Fraud Examiner.

Directors generally serve for a one-year term and hold office until the next annual meeting of stockholders following the conclusion of their term and the election and qualification of their successors. Executive officers are appointed by and serve at the discretion of the Board of Directors.

Board Leadership Structure

The current Chairman of the Board of Directors is Guy L. Smith, who is an independent director under NYSE American listing standards. The roles of Chairman of the Board and Chief Executive Officer are separate. The Board of Directors believes that the separation of the offices of the Chairman of the Board and Chief Executive Officer allows the Company's Chief Executive Officer to focus primarily on the Company's business strategy, operations and corporate vision. The Board of Directors consists of a majority of independent directors, and each of the committees of the Board of Directors is comprised solely of independent directors. The Company does not have a policy mandating an independent lead director. The independent directors meet at least annually in executive session without the presence of non-independent directors.

Risk Oversight

While management is responsible for assessing and managing risks to the Company, the Board of Directors is responsible for overseeing management's efforts to assess and manage risk. Risks are considered in virtually every business decision and as part of the Company's overall business strategy. The Board of Directors' risk oversight areas of focus include, but are not limited to:

- managing the Company's long-term growth;
- strategic and operational planning, including significant acquisitions and the evaluation of our capital structure; and
- legal and regulatory compliance.

While the Board of Directors has the ultimate oversight responsibility for the Company's risk management policies and processes, the committees of the Board of Directors also have responsibility for risk oversight. The Audit Committee oversees risks associated with our financial statements and financial reporting, mergers and acquisitions, credit and liquidity, and business conduct compliance. The Compensation Committee considers the risks associated with our compensation policies and practices with respect to both executive compensation and employee compensation generally. The Corporate Governance and Nominating Committee oversee risks associated with our overall governance practices and the leadership structure of the Board of Directors. The Board of Directors stays informed of each committee's risk oversight and other activities via regular reports of the committee chairs to the full Board of Directors. The Board of Directors' role in risk oversight is consistent with our leadership structure, with the Chief Executive Officer and other members of senior management having responsibility for assessing and managing the

Company's risk exposure, and the Board of Directors and committees providing oversight in connection with those efforts.

Section 16(a) Beneficial Ownership Reporting Compliance

The Securities and Exchange Commission has adopted rules relating to the filing of ownership reports under Section 16(a) of the Securities Exchange Act of 1934. One such rule requires disclosure of filings, which under the Commission's rules, are not deemed to be timely. Based upon a review of our filings, Intellicheck is not aware of any untimely filings for fiscal year 2018.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

During the fiscal year ended December 31, 2018, the Board of Directors held four meetings, the Audit Committee held four meetings, the Nominating and Corporate Governance Committee held four meetings and the Compensation Committee held four meetings in conjunction with the regular quarterly board meetings. All the directors attended at least 75% of the aggregate of all Board meetings and meetings of committees on which they served. The Board of Directors has determined that Messrs. Smith, Davis, Georges, Bedard, Ullman and Dr. Ruzzo are each an independent director as defined in Section 803(A) of the NYSE American listing standards. The Company does not have a written policy relating to attendance by members of the Board of Directors at annual stockholder meetings. However, it is communicated and understood by all directors that they are required to attend barring any unforeseen circumstance. All directors who were directors at the time of last year's annual stockholder meeting attended last year's annual stockholder meeting.

Compensation Committee

The Board of Directors established a Compensation Committee, which is currently comprised of Mr. Georges, chairperson, Mr. Bedard, Mr. Davis and Mr. Ullman, each of whom is independent as defined in Section 803(A) of the NYSE AMERICAN listing standards. The Compensation Committee reviews and recommends to the board the compensation for all officers and directors of the Company and reviews general policy matters relating to the compensation and benefits of all employees. The Compensation Committee also administers the stock option plans. The Compensation Committee may not delegate its duties. The Compensation Committee has adopted a written charter, which is available on the Company's Web site at *www.intellicheck.com/about/investor-center*. The charter sets forth responsibilities, authority and specific duties of the Compensation Committee.

Compensation Committee Report

The Compensation Committee Report is not to be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C or to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically requests that such information be treated as soliciting material or specifically incorporates it by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on this review and discussion, the Compensation Committee has recommended to the Company's Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K.

Compensation Committee:

William P. Georges, Chairperson

Emil R. Bedard, Member

Jack A. Davis, Member

David E. Ullman, Member

Corporate Governance and Nominating Committee

The Board of Directors established a Corporate Governance and Nominating Committee, which is comprised of Mr. Bedard, chairperson, Mr. Davis and Dr. Ruzzo, each of whom is independent as defined in Section 803(A) of the NYSE AMERICAN's listing standards. The Corporate Governance and Nominating Committee review our internal policies and procedures and by-laws. With respect to nominating director candidates, this committee identifies and evaluates potential director candidates and recommends candidates for appointment or election to the Board. The Nominating and Corporate Governance Committee has adopted a written charter, which is available on the Company's Web site at *www.intellicheck.com/about/investor-center*. The charter sets forth responsibilities, authority and specific duties of the Corporate Governance and Nominating Committee.

The Corporate Governance and Nominating Committee may consider those factors it deems appropriate in evaluating director nominees, including judgment, skill, diversity, strength of character, experience with businesses and organizations comparable in size or scope to the Company, experience and skill relative to other board members, and specialized knowledge or experience. Depending upon the current needs of our Board of Directors, certain factors may be considered more than others by the Committee in making its recommendation. In considering candidates for our Board of Directors, the Corporate Governance and Nominating Committee will evaluate the entirety of each candidate's credentials and, other than the eligibility requirements established by the Corporate Governance and Nominating Committee, will not have any specific minimum qualifications that must be met by a nominee. The Corporate Governance and Nominating Committee will consider candidates for the Board from any reasonable source, including current board members, stockholders, professional search firms or other persons. The Corporate Governance and Nominating Committee will not evaluate candidates differently based on who has made the recommendation.

Although we do not currently have a formal policy or procedure for stockholder recommendations of director candidates, the Board of Directors welcomes such recommendations and will consider candidates recommended by stockholders. Because we do not prohibit or restrict such recommendations, we have not implemented a formal policy with respect to stockholder recommendations.

Corporate Governance and Nominating Committee:

Mr. Bedard, Chairperson

Mr. Davis, Member

Dr. Ruzzo, Member

Audit Committee

The Board of Directors has a separately designated Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act, which is currently comprised of David E. Ullman, chairperson, William P. Georges and Amelia L Ruzzo. The members of the Audit Committee are independent as defined in Section 803(A) of the NYSE AMERICAN's listing standards. The Audit Committee recommends to the Board of Directors the annual engagement of a firm of independent accountants and reviews with the independent accountants the scope and results of audits, our internal accounting controls and audit practices and professional services rendered to us by our independent accountants. The Audit Committee has adopted a written charter, which sets forth the responsibilities, authority and specific duties of the Audit Committee. A copy of the Audit Committee charter is incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed April 27, 2007.

The Board of Directors has determined that it has at least one audit committee financial expert serving on the audit committee. Mr. Ullman has vast corporate experience including his position as Chief Financial Officer for Jos. A. Bank Clothiers and Chief Financial Officer of Paul Fredrick Menstyle. He is considered an "audit committee financial expert."

Audit Committee Report

The following shall not be deemed to be "soliciting material" or to be "filed" with the Commission nor shall such information be incorporated by reference into any future filing of Intellicheck under the Securities Act of 1933 or the Exchange Act.

With respect to the audit of the fiscal year ended December 31, 2018, and as required by its written charter which sets forth its responsibilities and duties, the Audit Committee has reviewed and discussed the Company's audited financial statements with management.

During its review, the Audit Committee has discussed with EisnerAmper LLP, the Company's Independent Registered Public Accounting Firm, those matters required to be discussed by Statement on Accounting Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T.

The Audit Committee has received from and discussed with EisnerAmper LLP, the written disclosures and the letter required by applicable requirements of the PCAOB regarding the firm's communications with the Audit Committee concerning independence and has discussed with EisnerAmper LLP its independence. These disclosures relate to the firm's independence from the Company.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Audit Committee:

David E. Ullman, Chairperson

William P. Georges, Member

Amelia L. Ruzzo, Member

Process for Sending Communications to the Board of Directors

Stockholders that wish to communicate with the Board of Directors are welcomed to put their comments in writing addressed to the Company's Investor Relations Representative, Bill White. Such communications may be sent to Mr. White at Intellicheck, Inc., 535 Broadhollow Road, Suite B51, Melville, NY 11747. Upon receipt, Mr. White will distribute the correspondence to the directors. All communications received will be provided to the directors specified in the communication.

VOTING SECURITIES AND PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of the Company's Common Stock as of March 11, 2019, by each person who is known by Intellicheck to beneficially own more than 5% of Intellicheck's Common Stock, each officer, each director and all officers and directors as a group.

Shares of Common Stock that an individual or group has a right to acquire within 60 days pursuant to the exercise or conversion of options, warrants or other similar convertible or derivative securities are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

There are no arrangements known to the Company, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

The applicable percentage of ownership is based on 15,638,765 shares outstanding.

Name	Shares Beneficially Owned	Percent
Russell T. Embry [1]	136,348	*
Bryan Lewis [2]	227,116	1.45
Bill White [3]	465,909	2.98
Emil R. Bedard [4]	137,151	*
Jack A. Davis [4]	92,728	*
William P. Georges [4]	74,099	*
Amelia L. Ruzzo	-	-
Guy L. Smith [5]	238,153	1.52
David E. Ullman	8,000	*
All Executive Officers & Directors as a group (9 persons) [6]	1,397,504	8.82
5% Stockholders		
Marathon Micro Fund L.P. [7]	1,256,685	8.04
First Eagle Investment Management, LLC [8]	2,788,314	17.83
Clear Harbor Asset Management, LLC [9]	1,332,876	8.52
Rawleigh Hazen Ralls, IV [10]	974,914	6.23
Bruce Grossman [11]	922,745	5.90
Goldberg Capital Management [12]	1,029,798	6.58

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* Indicates beneficial ownership of less than one percent of the total outstanding Common Stock.

(1) Includes 133,749 shares issuable upon exercise of stock options exercisable within 60 days.

(2) Includes 209,582 shares issuable upon exercise of stock options exercisable within 60 days.

(3) Includes 456,285 shares issuable upon exercise of stock options exercisable within 60 days.

(4) Includes 50,000 shares issuable upon exercise of stock options exercisable within 60 days.

(5) Includes 101,798 shares issuable upon exercise of stock options exercisable within 60 days.

(6) Includes 1,051,414 shares issuable upon the exercise of stock options exercisable within 60 days.

(7) The address of Marathon Micro Fund L.P. (“Marathon Micro”) is 4 North Park Drive, Suite 106, Hunt Valley, MD 21030; shares reflected above for Marathon Micro are based on a Schedule 13G/A filed February 1, 2019.

(8) The address of First Eagle Investment Management, LLC (“First Eagle”) is 1345 Avenue of the Americas, New York, NY 10105; shares reflected above for First Eagle are based on a Schedule 13G/A filing made February 11, 2019.

(9) The address of Clear Harbor Asset Management, LLC (“Clear Harbor”) is 420 Lexington Ave., Suite 2006, New York, NY 10170; shares reflected above for Clear Harbor are based on a Schedule 13G/A filing made January 24, 2019.

(10) The address of Rawleigh Hazen Ralls, IV (“Ralls”) is c/o Lacuna, LLC, 1100 Spruce Street, Suite 202, Boulder, Colorado 80303; shares reflected above for Ralls are based on a Schedule 13G/A filed February 8, 2019.

(11) The address of Bruce Grossman (“Grossman”) is c/o Dillon Hill Capital LLC, 200 Business Park Drive, Suite 306, Armonk, NY 10504; shares reflected above for Grossman are based on a Schedule 13G filed August 18, 2017.

(12) The address of Goldberg Capital Management (“Goldberg”) is 27 Stagecoach Road, Avon, CT 06001; shares reflected above for Goldberg are based on a Schedule 13G filed January 30, 2019.

The address at which our Board of Directors and executive officers can be reached is the address specified in “Process for Sending Communications to the Board of Directors” above.

EXECUTIVE COMPENSATION

This compensation discussion describes the material elements of compensation awarded to, earned by, or paid to each of Intellicheck’s executive officers who served as named executive officers during the last completed fiscal year. This compensation discussion focuses on the information contained in the following tables and related footnotes and narrative for primarily the last completed fiscal year, but also describes compensation actions taken before or after the last completed fiscal year to the extent it enhances the understanding of Intellicheck’s executive compensation disclosure.

The Compensation Committee currently oversees the design and administration of Intellicheck's executive compensation program and compensation for the Board of Directors.

The principal elements of Intellicheck's executive compensation program are base salary, annual cash incentives, long-term equity incentives in the form of stock options and other benefits. Intellicheck's other benefits consist of reimbursed business travel and entertainment expenses, health insurance benefits, vacation and sick pay and a qualified 401(k) savings plan. Intellicheck's philosophy is to position the aggregate of these elements at a level that is commensurate with Intellicheck's size and performance.

Compensation Program Objectives and Philosophy

In General. The objectives of Intellicheck's compensation programs are to:

- attract, motivate and retain talented and dedicated executive officers;
- provide Intellicheck's executive officers with both cash and equity incentives to further Intellicheck's interests and those of Intellicheck's stockholders; and
- provide employees with long-term incentives so Intellicheck can retain them and provide stability during Intellicheck's growth stage.

Generally, the compensation of Intellicheck's executive officers is composed of a base salary, an annual incentive compensation award and equity awards in the form of stock options. In setting base salaries, the Compensation Committee generally reviews the individual contributions of the particular executive. Annual incentive compensation awards for 2017 and 2018 have been paid in accordance with the Executive Compensation Bonus Plan approved by the Compensation Committee based on expected Company performance. In addition, stock options are granted to provide the opportunity for long-term compensation based upon the performance of Intellicheck's common stock over time.

Intellicheck generally intends to qualify executive compensation for deductibility without limitation under Section 162(m) of the Internal Revenue Code. Section 162(m) provides that, for purposes of the regular income tax and the alternative minimum tax, the otherwise allowable deduction for compensation paid or accrued with respect to a covered employee of a publicly-held corporation (other than certain exempt performance-based compensation) is limited to no more than $1.0 million per year. The non-exempt compensation paid to any of our executive officers for fiscal 2016 as calculated for purposes of Section 162(m) did not exceed the $1.0 million limit.

Competitive Marketplace for Talent. Intellicheck defines its competitive marketplace for executive talent and investment capital to be the technology and business services industries. To date, Intellicheck has not engaged in the benchmarking of executive compensation but Intellicheck may choose to do so in the future.

Compensation Process. For each of Intellicheck's named executive officers, the Compensation Committee reviews and approves all elements of compensation, taking into consideration recommendations from Intellicheck's Chief Executive Officer (for compensation other than his own), as well as competitive marketplace guidance. Based upon its review, the Compensation Committee approves salaries for executive officers. The Compensation Committee sets the salary level of each executive officer on a case by case basis, considering the individual's level of responsibilities and performance. All executive officer salaries are reviewed on an annual basis. Salary changes for executives are based primarily on their performance in supporting the strategic initiatives of the Chief Executive Officer, economic and competitive factors, meeting individual goals and objectives set by the Chief Executive Officer, and improving the operating efficiency of the company. Also, where applicable, changes in the duties and responsibilities of each other executive officer may be considered in deciding on changes in annual salary. For 2018, the aggregate of the compensation paid to Intellicheck's Chief Executive Officer and other executive officers was $1,144,668.

Executive Officer Bonuses. During 2018, no bonuses were paid under the Executive Compensation Bonus Plan. During 2017, a bonus of $35,000 was paid under the Executive Compensation Bonus Plan to the Chief Financial Officer for his additional service as Interim President and Chief Executive Officer.

Stock Option Grants. The Compensation Committee currently administers Intellicheck's stock option and equity incentive plans for executive officers, employees, consultants and outside directors. Under the plans, the Compensation Committee grants options to purchase Common Stock with an exercise price of no less than the fair market value of the Common Stock on the date of grant. The Compensation Committee believes that providing stock options to the executive officers, who are responsible for Intellicheck's management and growth, gives them an opportunity to own Intellicheck stock and better aligns their interests with the interests of the stockholders. It also promotes retention of the officers because of the vesting provisions of the option grants and the potential for stock price appreciation.

For these reasons, the Compensation Committee considers stock options as an important element of compensation when it reviews executive officer compensation. At its discretion, the Compensation Committee also grants options based on individual and corporate achievements.

Normally, the Chief Executive Officer makes a recommendation to the Committee for awards to be made to executive officers other than the Chief Executive Officer. The Committee approves grants made to the Chief Executive Officer and other executive officers and, in certain cases, recommends grants for approval by the entire Board. The Compensation Committee determines the number of shares underlying each stock option grant based upon the executive officer's and Intellicheck's performance, the executive officer's role and responsibilities at Intellicheck and the executive officer's base salary.

Chief Executive Officer Compensation. Mr. Lewis receives an annual base salary of $250,000. Mr. Lewis may also receive an annual bonus based on reasonable objectives established by the Company's Board of Directors. In addition, Mr. Lewis is entitled to receive benefits in accordance with the Company's existing benefit policies and is reimbursed for Company expenses in accordance with the Company's expense reimbursement policies.

The determination of the base salary to be paid to the Chief Executive Officer was based on a number of factors including the position's historical compensation and the relative compensation in comparison to the other existing senior executives in the Company. In deciding on future changes in the base salary of the Chief Executive Officer, the Compensation Committee will consider several performance factors. Among these are operating and administrative efficiency and the maintenance of an appropriately experienced management team. The Compensation Committee also evaluates the Chief Executive Officer's performance in the area of finding and evaluating new business opportunities to establish the most productive strategic direction for Intellicheck.

Chief Financial Officer. Effective April 1, 2012, Bill White was appointed Chief Financial Officer of the Company. In connection with his employment at the Company, Mr. White receives a base salary of $215,963.

Severance and Change-in-Control Agreements

On November 29, 2017, the Company entered into a Severance Agreement with Mr. Bill White, the Company's Chief Financial Officer. Under the agreement, if Mr. White is terminated for any reason other than cause, the Company would pay Mr. White two (2) years base salary in accordance with the Company's regular payroll schedule. Mr. White would also be entitled to a gross amount equal to any quarterly bonus target applicable during the quarter, accelerated vesting of all outstanding stock options and coverage of health benefits for a period of up to 12 months. The agreement has a term of three years.

Effective October 1, 2014, the Company entered into an Executive Employment Agreement with Dr. William Roof, the Company's Chief Executive Officer. The agreement provides for an annual base salary of $250,000. Under the agreement, if Dr. Roof is terminated for any reason other than cause, the Company would pay Dr. Roof the greater of: (a) 12 months if the Separation Date occurs less than 24 months after commencement of Dr. Roof's employment as Chief Executive Officer, and (b) 24 months if the Separation Date occurs 24 months or more after the commencement of Dr. Roof's employment as Chief Executive Officer. Dr. Roof was also granted an option to purchase 60,000 shares of Company stock, subject to a four-year vesting schedule. Effective October 4, 2017, Dr. Roof retired from the Company at the request of its Board of Directors.

Each of the agreements requires the executive to devote substantially all his time and efforts to our business and contains non-competition and nondisclosure covenants of the officer for the term of his employment and for a one-year period thereafter. Each agreement provides that we may terminate the agreement for cause.

INTELLICHECK SUMMARY COMPENSATION TABLE

The following table sets forth compensation paid to executive officers whose compensation was more than $100,000 for any of the three fiscal years ended December 31, 2018. No other executive officers received total salary and bonus compensation more than $100,000 during any of such fiscal years.

Name and Principal Position	Year	Salary ($)	Bonus ($)	**Stock Awards ($) (1)**	**Option Awards ($)(1)**	**All Other Compensation ($)(2)**		Total ($)
Russell T. Embry	2018	200,000	—	—	—	4,625	(4)	204,625
Chief Technology Officer	2017	200,000	—	—	—	3,000	(4)	203,000
	2016	200,000	23,500	8,115	16,451	3,000	(4)	251,066
Bryan Lewis	2018	204,861	—	—	212,740	—		417,601
President & Chief Executive Officer								
Bill White	2018	215,963	—	—	—	6,479	(4)	222,442
Chief Financial Officer	2017	215,463	35,000	—	—	6,464	(4)	256,927
	2016	203,963	47,931	16,552	33,553	3,824	(4)	305,823
William H. Roof (3)	2018	300,000	—	—	—	—		300,000
Former President &	2017	300,666 (8)	—	—	—	10,938	(6)	311,604
Chief Executive Officer	2016	252,000	58,750	20,287	41,127	19,025	(7)	391,189
Robert N. Williamsen (5)	2018	—	—	—	—	—		—
Former Chief	2017	96,875	—	—	—	—		96,875
Revenue Officer	2016	230,583	2,625	18,260	37,014	2,813	(4)	291,295

(1) The amounts reported in the “Option Awards” and “Stock Awards” columns reflect the aggregate grant date fair value of awards for the years ended December 31, 2018, 2017 and 2016 computed in accordance with FASB ASC Topic 718. See Note 10 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K, filed in this report, for information regarding assumptions underlying the valuation of equity awards.

(2) No other compensation more than $10,000, including perquisites, was paid to any of Intellicheck’s named executive officers.

(3) Dr. Roof was named Chief Operating Officer on August 11, 2014 and was appointed Chief Executive Officer on October 1, 2014. Dr. Roof’s annual salary is $250,000. Effective October 4, 2017 Dr. Roof retired from the Company at the request of its Board of Directors. Pursuant Dr. Roof’s separation and consulting agreement with the Company, Dr. Roof receives aggregate cash payments of $500,000, subject to all applicable withholding, over a 20-month period beginning effective November 2, 2017.

(4) Represents matching contribution under the Company’s 401(K) Plan.

(5) Mr. Williamsen was named Chief Revenue Officer on December 12, 2014. Mr. Williamsen's annual salary was $225,000. Mr. Williamsen separated from the Company effective May 19, 2016. Pursuant to Mr. Williamsen's employment agreement with the Company, Mr. Williamsen received a payment of his monthly salary, subject to all applicable withholdings, for a period of 12 months following his departure on May 19, 2016.

(6) Represents compensation related to an auto allowance made to Dr. Roof in the amount of $5,000 and matching contribution under the Company's 401(K) Plan in the amount of $5,938.

(7) Represents compensation related to a housing and auto allowance made to Dr. Roof in the amount of $14,400 and matching contribution under the Company's 401(K) Plan in the amount of $4,625.

(8) Includes $60,125 in accrued paid time off (PTO) payout at separation.

Stock Option and Equity Incentive Plan

The principal purpose of the Stock Option and Equity Incentive Plan is to attract, motivate, reward and retain selected employees, consultants and directors through the granting of stock-based compensation awards. The Plan provides for a variety of awards, including non-qualified stock options, incentive stock options (within the meaning of Section 422 of the Code), stock appreciation rights, restricted stock awards, performance-based awards and other stock-based awards.

The Company adopted the 2015 Omnibus Incentive Plan (the "Plan"), which covers up to 3,000,000 of the Company's common shares, pursuant to which officers, directors, key employees and consultants to the Company are eligible to receive incentive stock options, nonqualified stock options and other types of equity incentives such as restricted stock grants. The Compensation Committee of the Board of Directors administers the Plan and determines the terms and conditions of options granted, including the exercise price. The Plan generally provides that all stock options will expire within ten years of the date of grant. Incentive stock options granted under the Plan must be granted at an exercise price that is not less than the fair market value per share at the date of the grant and the exercise price must not be less than 110% of the fair market value per share at the date of the grant for grants to persons owning more than 10% of the voting stock of the Company. The Plan also entitles non-employee directors to receive grants of non-qualified stock options as approved by the Board of Directors.

Administration. The Plan is currently administered by the Compensation Committee as designated by the Board of Directors. The Compensation Committee has the power to interpret the Plan and to adopt rules for the administration, interpretation and application per terms of the Plan.

Grant of Awards; Shares Available for Awards. Certain employees, consultants and directors are eligible to be granted awards under the Plan. The Compensation Committee will determine who will receive awards under the Plan, as well as the form of the awards, the number of shares underlying the awards, and the terms and conditions of the awards consistent with the terms of the Plan.

A total of 301,940 shares of Intellicheck's Common Stock are available for issuance or delivery under the existing Plan. The number of shares of the Company's Common Stock issued or reserved pursuant to the Plan will be adjusted at the discretion of the Board of Directors or the Compensation Committee as a result of stock splits, stock dividends and similar changes in the Company's Common Stock.

Stock Options. The Plan permit the Compensation Committee to grant participants incentive stock options, which qualify for special tax treatment in the United States, as well as non-qualified stock options. The Compensation Committee will establish the duration of each option at the time it is granted, with maximum ten-year duration for incentive stock options, and may also establish vesting and performance requirements that must be met prior to the exercise of options. Stock option grants (other than incentive stock option grants) also may have exercise prices that are less than, equal to or greater than the fair market value of the Company's Common Stock on the date of grant. Incentive stock options must have an exercise price that is at least equal to the fair market value of the Company's Common Stock on the date of grant. Stock option grants may include provisions that permit the option holder to exercise all or part of the holder's vested options, or to satisfy withholding tax liabilities, by tendering shares of the Company's Common Stock already owned by the option holder for at least six months (or another period consistent with the applicable accounting rules) with a fair market value equal to the exercise price.

Other Equity-Based Awards. In addition to stock options, the Compensation Committee may also grant certain employees, consultants and directors shares of restricted stock, with terms and conditions as the Compensation Committee may, pursuant to the terms of the 2006 Plan, establish. The 2006 Plan does not allow awards to be made under terms and conditions which would cause such awards to be treated as deferred compensation subject to the rules of Section 409A of the Code.

Change-in-Control Provisions. In connection with the grant of an award, the Compensation Committee may provide that, in the event of a change in control, any outstanding awards that are unexercisable or otherwise unvested will become fully vested and immediately exercisable.

Amendment and Termination. The Compensation Committee may adopt, amend and rescind rules relating to the administration of the Plan, and amend, suspend or terminate the Plan, but no amendment will be made that adversely affects in a material manner any rights of the holder of any award without the holder's consent, other than amendments that are necessary to permit the granting of awards in compliance with applicable laws. Intellicheck attempted to structure the Plan so that remuneration attributable to stock options and other awards will not be subject to a deduction limitation contained in Section 162(m) of the Code.

The following table summarizes options and restricted stock units granted during the years ended December 31, 2018 and 2017 to the named executive officers:

GRANTS OF PLAN-BASED AWARDS TABLE

Name	Grant Date	Approval Date	Number of Securities Underlying Grant	Exercise or Base Price of Option Awards ($/Sh)	**Fair Value at Grant Date ($)[1]**		Expiration Date
Bryan Lewis	02/21/18	02/21/18	100,000	2.87	212,740	(1)	2/20/23
Jack A. Davis	03/31/17	03/31/17	1,916	2.61	5,000	(2)	
William P. Georges	03/31/17	03/31/17	766	2.61	2,000	(2)	
William P. Georges	03/30/18	03/30/18	556	1.80	1,000	(6)	
William P. Georges	06/29/18	06/29/18	435	2.30	1,000	(7)	
Michael D. Malone	06/29/18	06/29/18	2,500	2.30	4,177	(1)	5/29/19
Guy L. Smith	03/31/17	03/31/17	5,747	2.61	15,000	(2)	
Guy L. Smith	06/30/17	06/30/17	3,856	3.89	15,000	(3)	
Guy L. Smith	09/29/17	09/29/17	5,208	2.88	15,000	(4)	

Guy L. Smith	12/29/17	12/29/17	5,859	2.56	15,000	(5)
Guy L. Smith	03/30/18	03/30/18	8,333	1.80	5,000	(6)
Guy L. Smith	06/29/18	06/29/18	6,522	2.30	15,000	(7)
Guy L. Smith	09/28/18	09/28/18	5,976	2.51	15,000	(8)
David E. Ullman	03/30/18	03/30/18	7,407	1.80	13,333	(6)
David E. Ullman	09/28/18	09/28/18	593	2.51	1,488	(8)

(1) The grant fair value of each equity award has been computed in accordance with ASC 718.

(2) The grant fair value of each equity award has been computed in accordance with ASC 718. Restricted shares vested and shares of stock were issued March 31, 2017.

(3) The grant fair value of each equity award has been computed in accordance with ASC 718. Restricted shares vested and shares of stock were issued June 30, 2017.

(4) The grant fair value of each equity award has been computed in accordance with ASC 718. Restricted shares vested and shares of stock were issued September 29, 2017.

(5) The grant fair value of each equity award has been computed in accordance with ASC 718. Restricted shares vested and shares of stock were issued December 29, 2017.

(6) The grant fair value of each equity award has been computed in accordance with ASC 718. Restricted shares vested and shares of stock were issued March 30, 2018.

(7) The grant fair value of each equity award has been computed in accordance with ASC 718. Restricted shares vested and shares of stock were issued June 29, 2018.

(8) The grant fair value of each equity award has been computed in accordance with ASC 718. Restricted shares vested and shares of stock were issued September 28, 2018.

The following table summarizes unexercised options as of year-end December 31, 2018 for the named executive officers:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END TABLE

	No. of Securities Underlying Unexercised Options/Warrants			Option Exercise	Option Expiration
Name	Exercisable	Unexercisable		Price ($)	Date
Bryan Lewis	—	100,000	(1)	2.87	02/20/23
Russell T. Embry	18,970	—		1.42	05/20/20
Russell T. Embry	92,500	—		1.15	08/11/20
Russell T. Embry	22,279	—		1.01	02/24/21
Bill White	18,970	—		1.42	05/20/20
Bill White	391,875	—		1.15	08/11/20
Bill White	45,440	—		1.01	02/24/21

(1) These shares shall vest at a rate of 25% per year beginning on the first anniversary of the date of grant.

OPTION EXERCISES AND STOCK VESTED TABLE

Name	Stock Options No. of Shares Acquired Upon Exercise (#)	**Value Received Upon Exercise ($) [1]**	Stock Awards No. of Shares Acquired Upon Vesting (#)	**Value Received Upon Vesting ($) [2]**
William H. Roof [3]	593,838	1,159,947	—	—

(1) Represents the difference between the market price of the underlying shares of the Company's common stock on the date of exercise and the exercise price of the options.

(2) Represents the aggregate market value of shares on the vesting date.

(3) Effective October 4, 2017, Dr. Roof retired from the Company at the request of its Board of Directors

No other officers named in the Summary Compensation Table exercised stock options or received shares from vested or unrestricted awards during fiscal year 2018.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation Plan (excluding securities reflected in column (a)) (c)
Equity compensation Plan approved by security holders [1]	1,072,332	$ 1.44	746,103
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	1,072,332	$ 1.44	746,103

(1) Represents 1,020,534 options under the 2015 Omnibus Incentive Plan and 51,798 options under the 2006 Equity Incentive Plan.

Pension Benefits

The Company does not sponsor any qualified or non-qualified defined benefit plans.

Non-qualified Deferred Compensation

Intellicheck does not maintain any non-qualified defined contribution or deferred compensation plans. The Compensation Committee, which is comprised solely of "outside directors" as defined for purposes of Section 162(m) of the Code, may elect to provide Intellicheck's officers and other employees with non-qualified defined contribution or deferred compensation benefits if the Compensation Committee determines that doing so is in the company's best interests. Intellicheck sponsors a tax qualified defined contribution 401(k) plan in which Mr. Embry and Mr. White participated in during 2018. Intellicheck made a matching contribution to the plan equal to 50% of the first 6% an employee contributes into the plan.

Compensation of Directors

The following table sets forth certain information concerning compensation of Intellicheck's directors who served in 2018.

Name and Principal Position	Fees Paid in Cash ($)	**Option Awards ($)** [1]	**Stock Awards ($)** [1]	**All Other Compensation ($)** [2]	Total ($)
Michael D. Malone, Chairman	65,823	4,177	—	—	70,000
General Emil Bedard, Director	60,000	—	—	—	60,000
Jack A. Davis, Director	60,000	—	—	—	60,000
William P, Georges, Director	58,000	—	2,000	—	60,000
Guy L. Smith, Director [3]	17,500	—	45,000	—	62,500
David E. Ullman	43,512	—	14,821	—	58,333

(1) The amounts reported in the “Option Awards” and “Stock Awards” columns reflect the aggregate grant date fair value of awards computed in accordance with FASB ASC Topic 718. See Note 10 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K, filed in this report, for information regarding assumptions underlying the valuation of equity awards.

(2) No other compensation, including perquisites more than $10,000 was paid to any of the directors.

(3) As of December 31, 2018, Mr. Smith had aggregate outstanding options to purchase 101,798 shares of common stock.

The Company reimburses directors for reasonable out-of-pocket expenses incurred in connection with attendance at board meetings.

CERTAIN RELATED PARTY TRANSACTIONS

The Corporate Governance and Nominating Committee reviews transactions with firms associated with directors and nominees for director. Intellicheck’s management also monitors such transactions on an ongoing basis. Executive officers and directors are governed by Intellicheck’s Code of Business Conduct and Ethics, which provides that waivers may only be granted by the Board of Directors and must be promptly disclosed to stockholders. No such waivers were granted nor applied for in 2018. Intellicheck’s Corporate Governance Guidelines require that all directors recuse themselves from any discussion or decision affecting their personal, business or professional interests.

Proposal No. 2

APPROVAL OF AMENDMENT TO OUR 2015 OMNIBUS INCENTIVE PLAN

On March 6, 2019, the Compensation Committee and the Board of Directors adopted, subject to stockholder approval, an amendment to the Intellicheck, Inc. 2015 Omnibus Incentive Plan (the “2015 Incentive Plan”). The proposed amendment would increase the total number of shares of Common Stock available for issuance under the 2015 Incentive Plan by 500,000 shares from 3,000,000 to 3,500,000 (the “2015 Incentive Plan Amendment”).

The 2015 Incentive Plan initially authorized the issuance of 2,000,000 shares of Common Stock. Such amount was amended to 3,000,000 in 2016. As of March 11, 2019, there were 301,940 shares remaining available for issuance under the 2015 Incentive Plan. The Compensation Committee and the Board of Directors believes that the increase in the aggregate number of shares available for future grants under the 2015 Incentive Plan is appropriate to permit the grant of equity awards at expected levels for the next two years. If the 2015 Incentive Plan Amendment is not approved by the stockholders, it will be of no effect and the number of shares available for issuance under the 2015 Incentive Plan will remain unchanged, although we may have insufficient shares available for future awards which may result in the use of cash-settled or cash-based long-term incentives rather than equity.

		Total Shares Remaining Available for Issuance under the 2015 Incentive Plan as of March 11, 2019												
to ndment		—	—	—	—	—	3,138	3,138	(782	) 2,356				
nce of cted stock s	697,186	7,068	—	—	—	—	(7,068	—	—	—	—	—	—	—
red and elled	(187,800)	(4,791)	—	—	—	—	—	—	—	—	—	(4,791)	—	(4,791

t-based ensation	—	—	—	—	—	—	6,553	—	—	—	—	6,553	—	6,553
ges in nption of mable ontrolling ests	—	—	—	—	—	—	(27,768)	—	—	—	—	(27,768)	—	(27,76
ges in ontrolling ests and mable ontrolling est from up actions	—	—	—	—	—	—	(6,129)	—	—	—	—	(6,129)	(4,126)	(10,25
ase in ontrolling ests from ess sitions	—	—	—	—	—	—	—	—	—	—	—	—	62,724	62,72
ends paid o be paid	—	—	—	—	—	—	(27,607)	—	—	—	—	(27,607)	—	(27,60
r	42,000	915	—	—	(42,000)	(424)	(437)	—	—	—	—	54	—	54
fer to es in s of al	—	—	—	—	—	—	62,456	(62,456)	—	—	—	—	—	—
nce at mber 30,	49,643,813	$265,847	3,755	$1	—	$—	$—	$(188,808)	$(462,874)	$(55)	$2,341	$(383,548)	$110,904	$(272

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, 2013.

All periods have been restated to reflect the discontinued operations. See Note 6.

2. Significant Accounting Policies

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

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

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

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

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

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

Concentration of Credit Risk. The Company provides marketing communications services to clients who operate in most industry sectors. Credit is granted to qualified clients in the ordinary course of business. Due to the diversified nature of the Company's client base, the Company does not believe that it is exposed to a concentration of credit risk; the Company did not have a client that accounted for more than 10% of the Company's consolidated accounts receivable at September 30, 2014 or December 31, 2013. Furthermore, the Company did not have a client that accounted for more than 10% of the Company's revenue for the three and nine months ended September 30, 2014 or for the three and nine months ended September 30, 2013.

Cash and Cash Equivalents. The Company's cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. The Company has a concentration risk in that there are cash deposits in excess of federally insured amounts. Included in cash and cash equivalents at September 30, 2014 and December 31, 2013, is approximately $6,464 and $44, respectively, of cash restricted as to withdrawal pursuant to various agreements with third parties.

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 September 30, 2014 and December 31, 2013 was $15,048 and $12,452, 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. During the nine month period ended September 30, 2014, the Company liquidated one such equity interest position in exchange for an aggregate purchase price equal to $7,700. The purchaser of this equity investment was a current investor in such entity and an executive officer of one of our subsidiary partner agencies.

Business Combinations. Valuation of acquired companies is 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 September 30, 2014 and 2013, $2,623 and $717 of expense was recognized in operations related to changes in estimated value, respectively. For the nine months ended September 30, 2014 and 2013, $14,716 and $5,400 of expense was recognized in operations related to changes in estimated value, respectively. 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 September 30, 2014 and 2013, $1,658 and $427 of acquisition related costs have been charged to operations, respectively. For the nine months ended September 30, 2014 and 2013, $3,713 and $1,438 of acquisition related costs have been charged to operations, respectively.

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

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

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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 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 and nine months ended September 30, 2014 and 2013, there have been no charges to noncontrolling interests. Changes in the estimated redemption amounts of the put options are adjusted at each reporting period with a corresponding adjustment to equity. These adjustments will not impact the calculation of earnings per share.

The following table presents changes in Redeemable Noncontrolling Interests.

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Beginning Balance	$148,534	$117,953
Redemptions	(3,592)	(4,270)
Granted	13,720	—
Changes in redemption value	27,768	35,689
Currency Translation Adjustments	(505)	(838)
Ending Balance	$185,925	$148,534

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 MDC’s option. Doner is a full service integrated creative agency that is included as part of our portfolio in the Strategic Marketing Services Segment. The Company’s Credit Agreement is guaranteed and secured by all of Doner’s assets.

The Company has determined that it is the primary beneficiary because MDC receives a disproportionate share of profits and losses as compared to the Company’s ownership percentage. Total assets and total liabilities of Doner included in the Company’s consolidated balance sheet at September 30, 2014 were $231,216 and $173,768, respectively and at December 31, 2013 were $224,964 and $179,500, respectively.

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

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

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

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

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

Interest Expense. Interest expense primarily consists of the cost of borrowing on the revolving credit agreement and Senior Notes. The Company amortizes deferred financing costs using the effective interest method over the life of the Senior Notes and straight line over the life of the revolving 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 and nine months ended September 30, 2014 and 2013, the effective tax rate was generally lower than the statutory rate due to losses in non-US based entities where a valuation allowance was not deemed necessary and utilization of previously fully reserved net operating losses.

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, which 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.

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

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

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

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

The Company treats benefits paid by shareholders 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.

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During the nine months ended September 30, 2014, the Company issued 319,283 restricted stock units ("RSUs") to its employees and directors. The RSUs have an aggregate grant date fair value of $7,483 and generally vest on the third anniversary date with certain awards subjected to accelerated vesting based on the financial performance of the Company.

A total of 795,883 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 September 30, 2014.

3. Income (Loss) Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Numerator				
Numerator for basic income (loss) per common share - loss from continuing operations	$(3,197)	$(11,901)	$7,796	$(39,244)
Net income attributable to the noncontrolling interests	(1,685)	(1,911)	(4,796)	(4,407)
Net income (loss) attributable to MDC Partners Inc. common shareholders	(4,882)	(13,812)	3,000	(43,651)
Effect of dilutive securities	—	—	—	—
Numerator for diluted income (loss) per common share - loss attributable to MDC Partners Inc. common shareholders from continuing operations	$(4,882)	$(13,812)	$3,000	$(43,651)
Denominator				
Denominator for basic income (loss) per common share - weighted average common shares	49,630,532	47,205,699	49,506,427	47,052,944
Effect of dilutive securities	—	—	627,836	—
Denominator for diluted income (loss) per common share - adjusted weighted shares and assumed conversions	49,630,532	47,205,699	50,134,263	47,052,944
Basic income (loss) per common share from continuing operations	$(0.10)	$(0.29)	$0.06	$(0.93)
Diluted income (loss) per common share from continuing operations	$(0.10)	$(0.29)	$0.06	$(0.93)

During the nine months ended September 30, 2014, options and other rights to purchase 1,111,055 shares of common stock, which includes 998,555 shares of non-vested restricted stock and restricted stock units, were outstanding and were included in the computation of diluted income per common share.

During the three months ended September 30, 2014, options and other rights to purchase 1,111,055 shares of common stock, which includes 998,555 shares of non-vested restricted stock, were outstanding and were excluded in the computation of diluted income per share.

During the three and nine months ended September 30, 2013, options and other rights to purchase 3,698,058 shares of common stock, which includes 3,623,058 shares of non-vested restricted stock, were outstanding and were included in the computation of diluted income per common share.

4. Acquisitions

Pro forma financial information has not been presented for 2014 since there were no material acquisitions. During 2014, the Company completed a number of non-material acquisitions and a number of step-up transactions to increase its equity ownership percentage in majority owned entities. Included in the Company’s consolidated statement of operations for the three and nine

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months ended September 30, 2014 was revenue of $18,069 and $34,049 and net income of $1,791 and $5,810, respectively, related to 2014 acquisitions.

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 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. Hunter PR, Albion, and Trapeze 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 $162,975 and consisted of total closing cash payments of $67,238, and additional deferred acquisition payments that will be based on the financial results of the underlying businesses from 2013 to 2018 with final payments due in 2019. These additional deferred payments have an estimated present value at acquisition date of $95,737. An allocation of excess purchase price consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $33,956, consisting primarily of customer lists, a technology asset and covenants not to compete, and goodwill of $188,988, including 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 $63,158 as the present value of noncontrolling interest and $13,720 as the present value of redeemable noncontrolling interest. Intangibles and goodwill of $107,793 are tax deductible. In addition the Company recorded other income of $908 representing a gain on the previously held 18% interest in Trapeze (see Note 13).

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.

2013 Acquisitions

During the fourth quarter of 2013, the Company acquired a 70% interest in Local Biz Now LLC (“LBN”). The acquisition of LBN allows MDC to participate in the online local search market. LBN is in the Company’s Performance Marketing Services segment. During 2013, the Company also entered into various non-material transactions with certain majority owned entities.

The aggregate purchase price has an estimated present value at acquisition date of $38,202 and consisted of total closing cash payments of $12,000, and additional contingent deferred acquisition consideration that are based on the financial results of the underlying businesses from 2013 to 2017 with final payments due in 2018 that have an estimated present value at acquisition date of $26,202. An allocation of excess purchase price consideration of these acquisitions to the fair value of the net assets acquired resulted in identifiable intangibles of $10,835 consisting primarily of customer lists, a technology asset, and covenants not to compete, and goodwill of $35,956 including 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 $11,090 as the present value of noncontrolling interest. The intangibles and goodwill of $46,791 are tax deductible.

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

Noncontrolling Interests

Changes in the Company's ownership interests in our less than 100% owned subsidiaries during the nine months ended September 30, were as follows:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income (loss) attributable to MDC Partners Inc.	$(4,922)	$(21,200)	$2,702	$(54,542)
Transfers to (from) the noncontrolling Interest:				
Increase (decrease) in MDC Partners Inc. paid in capital for purchase of equity interests in excess of Redeemable Noncontrolling Interests and Noncontrolling Interests	109	1,531	(6,129)	11,347
Net transfers to (from) noncontrolling interest	$109	$1,531	$(6,129)	$11,347
Change from net loss attributable to MDC Partners Inc. and transfers to non controlling interest	$(4,813)	$(19,669)	$(3,427)	$(43,195)

5. Accruals and Other Liabilities

At September 30, 2014 and December 31, 2013, accruals and other liabilities included accrued media of $152,371 and $144,161, respectively; trust liabilities of $6,422 and nil, respectively; and included amounts due to noncontrolling interest holders, for their share of profits, which will be distributed within the next twelve months of $4,103 and $5,210, respectively.

Changes in noncontrolling interest amounts included in accrued and other liabilities for the year ended December 31, 2013 and nine months ended September 30, 2014 were as follows:

	Noncontrolling Interests
Balance, December 31, 2012	$3,624
Income attributable to noncontrolling interests	6,461
Distributions made	(5,525)
Cumulative translation adjustments	650
Balance, December 31, 2013	$5,210
Income attributable to noncontrolling interests	4,796
Distributions made	(6,014)
Other (1)	111
Balance, September 30, 2014	$4,103

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

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6. Discontinued Operations

In 2013, the Company discontinued a subsidiary and an operating division.

Included in discontinued operations in the Company's consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 was the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	$—	$531	$—	$3,245
Operating loss	$(40)	$(922)	$(298)	$(2,799)
Other expense	$—	$(20)	$—	$(117)
Noncontrolling interest expense (recovery)	—	1	—	(55)
Loss on disposal	—	(6,447)	—	(7,920)
Net loss from discontinued operations attributable to MDC Partners Inc., net of taxes	$(40)	$(7,388)	$(298)	$(10,891)

7. Debt

Debt consists of:

	September 30, 2014	December 31, 2013
Revolving credit agreement	$—	$—
6.75% Senior Notes due 2020	735,000	660,000
Original issue premium	7,296	4,056
Notes payable and other bank loans	80	120
	742,376	664,176
Obligations under capital leases	1,422	952
	743,798	665,128
Less current portion:	650	467
	$743,148	$664,661

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 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 $537,600. The Company used the net proceeds to redeem all of the existing 11% Notes, together with accrued

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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 and prepayment of interest of $14. 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. The Indenture contains no restrictions with respect to the amount of funds that may be loaned and/or advanced by and among Loan Parties, including Parent.

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

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Agreement. Capitalized terms used in this section and not otherwise defined have the meanings set forth in the Credit Agreement.

As of September 30, 2014, advances under the Credit Agreement bore interest as follows: (a)(i) LIBOR Rate Loans bore interest at the LIBOR Rate and (ii) Base Rate Loans bore interest at the Base Rate, plus (b) an applicable margin. As of September 30, 2014 the initial applicable margin for borrowing is 1.25% in the case of Base Rate Loans and 2.00% 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.

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.

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 Credit Agreement contains no restrictions with respect to the amount of funds that may be loaned and/or advanced by and among Loan Parties, including Parent.

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 September 30, 2014, there were no borrowings under the Credit Agreement.

At September 30, 2014, the Company had issued $4,827 of undrawn outstanding Letters of Credit.

At September 30, 2014 and December 31, 2013, accounts payable included $52,676 and $34,312 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 September 30, 2014 and December 31, 2013:

	Level 1 September 30, 2014		Level 1 December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
6.75% Notes due 2020	$742,296	$768,075	$664,056	$690,525

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)	
	September 30, 2014	December 31, 2013
Beginning Balance of contingent payments	$151,848	$194,795
Payments	(61,138)	(106,460)
Grants (1)	71,575	31,608
Redemption value adjustments (2)	17,882	38,712
Transfers to fixed payments	(5,146)	(6,318)
Foreign translation adjustment	(1,003)	(489)
Ending Balance of contingent payments	$174,018	$151,848

(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

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 $35,898 and $2,065 for total deferred acquisition consideration of $209,916 and $153,913, which reconciles to the consolidated financial statements at September 30, 2014 and December 31, 2013, 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 September 30, 2014 and December 31, 2013, 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Other income (expense)	$1,387	$(2)	$1,767	$(304)
Distribution in excess of carrying value	—	—	—	3,058
Foreign currency income (loss)	(11,046)	1,738	(10,661)	(1,209)
	$(9,659)	$1,736	$(8,894)	$1,545

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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 two 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 two segments plus corporate. The segments are as follows:

- 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. Each of the entities within the Performance 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, the services provided to the customer and they exhibit similar long term financial performance and have been aggregated together.

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 September 30, 2014
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$228,297	$98,593	$—	$326,890
Cost of services sold	148,157	68,348	—	216,505
Office and general expenses	47,455	19,419	10,937	77,811
Depreciation and amortization	6,790	5,269	421	12,480
Operating Profit (Loss)	25,895	5,557	(11,358)	20,094
Other Income (Expense):				
Other expense, net				(9,659)
Interest expense and finance charges, net				(13,976)
Loss from continuing operations before income taxes and equity in non-consolidated affiliates				(3,541)
Income tax benefit				(263)
Loss from continuing operations before equity in non-consolidated affiliates				(3,278)
Equity in earnings of non-consolidated affiliates				81
Loss from continuing operations				(3,197)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(40)
Net Loss				(3,237)
Net income attributable to the noncontrolling interests	(1,669)	(16)	—	(1,685)
Net loss attributable to MDC Partners Inc.				$(4,922)
Stock based compensation	$1,816	$477	$1,144	$3,437
Supplemental Segment Information:				
Capital expenditures	$12,111	$1,250	$428	$13,789

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Three Months Ended September 30, 2013
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$203,440	$85,230	$—	$288,670
Cost of services sold	128,300	60,904	—	189,204
Office and general expenses	40,995	14,759	33,074	88,828
Depreciation and amortization	5,807	3,358	297	9,462
Operating Profit (loss)	28,338	6,209	(33,371)	1,176
Other Income (Expense):				
Other income, net				1,736
Interest expense, net				(10,552)
Loss from continuing operations before income taxes and equity in non-consolidated affiliates				(7,640)
Income tax expense				4,334
Loss from continuing operations before equity in non-consolidated affiliates				(11,974)
Equity in earnings of non-consolidated affiliates				73
Loss from continuing operations				(11,901)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(7,388)
Net Loss				(19,289)
Net income attributable to the non-controlling interests	(1,471)	(440)	—	(1,911)
Net loss attributable to MDC Partners Inc.				$(21,200)
Stock based compensation	$1,835	$646	$24,954	$27,435
Supplemental Segment Information:				
Capital expenditures	$2,617	$844	$908	$4,369

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Nine Months Ended September 30, 2014
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$655,262	$281,916	$—	$937,178
Cost of services sold	419,371	189,009	—	608,380
Office and general expenses	134,022	67,496	33,025	234,543
Depreciation and amortization	16,874	16,275	1,356	34,505
Operating Profit (loss)	84,995	9,136	(34,381)	59,750
Other Income (Expense):				
Other expense, net				(8,894)
Interest expense, net				(40,502)
Income from continuing operations before income taxes and equity in non-consolidated affiliates				10,354
Income tax expense				2,781
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				7,573
Equity in earnings of non-consolidated affiliates				223
Income from continuing operations				7,796
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(298)
Net income				7,498
Net income attributable to the non-controlling interests	(4,854)	58	—	(4,796)
Net income attributable to MDC Partners Inc.				$2,702
Stock based compensation	$6,067	$2,684	$3,482	$12,233
Supplemental Segment Information:				
Capital expenditures	$16,105	$3,295	$1,234	$20,634
Goodwill and intangibles	$572,454	$421,330	$—	$993,784
Total Assets	$960,194	$567,329	$179,805	$1,707,328

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Nine Months Ended September 30, 2013
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$587,540	$254,265	$—	$841,805
Cost of services sold	375,681	181,058	—	556,739
Office and general expenses	115,759	53,358	47,916	217,033
Depreciation and amortization	17,334	10,106	989	28,429
Operating Profit (Loss)	78,766	9,743	(48,905)	39,604
Other Income (Expense):				
Other income, net				1,545
Interest expense, net				(88,778)
Loss from continuing operations before income taxes, equity in affiliates				(47,629)
Income tax benefit				(8,189)
Loss from continuing operations before equity in affiliates				(39,440)
Equity in earnings of non-consolidated affiliates				196
Loss from continuing operations				(39,244)
Loss from discontinuing operations attributable to MDC Partners Inc., net of taxes				(10,891)
Net loss				(50,135)
Net income attributable to the noncontrolling interests	(3,578)	(829)	—	(4,407)
Net loss attributable to MDC Partners Inc.				$(54,542)
Stock based compensation	$4,815	$2,505	$29,370	$36,690
Supplemental Segment Information:				
Capital expenditures	$8,223	$4,225	$1,528	$13,976
Goodwill and intangibles	$520,408	$241,737	$—	$762,145
Total Assets	$845,342	$376,577	$143,768	$1,365,687

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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 September 30,				
2014	$263,796	$38,052	$25,042	$326,890
2013	$237,260	$33,892	$17,518	$288,670
Nine Months Ended September 30,				
2014	$765,699	$107,993	$63,486	$937,178
2013	$694,670	$99,897	$47,238	$841,805

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 2014 to 2019. 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 September 30, 2014, 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 $22,348 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 $1,538 by the issuance of share capital. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately $168,027 only upon termination of such owner's employment with the applicable subsidiary or death. Included in redeemable noncontrolling interests at September 30, 2014 is $185,925 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 nine months ended September 30, 2014 and 2013, these operations did not incur any costs related to damages resulting from hurricanes.

Guarantees. The Company has provided customary representations and warranties whose terms range in duration and may not be explicitly defined. The Company has also retained certain liabilities for events occurring prior to sale, relating to tax, environmental, litigation and other matters. Generally, the Company has indemnified the purchasers 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.

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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. The Company has commitments to fund $13,018 of investments. At September 30, 2014, the Company had issued $4,827 of undrawn outstanding letters of credit.

12. New Accounting Pronouncements

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 transition method to choose.

In April 2014, the FASB issued Standards Update No 2014-08, Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity. This update changes the requirements for reporting discontinued operations and requires additional disclosures. This guidance is effective for the Company beginning January 1, 2015. The implementation of the amended accounting guidance is not expected to have a material impact on our consolidated financial position or results of operations.

13. Related Party

On July 31, 2014, Union Advertising Canada LP, acquired 100% of the issued and outstanding stock of Trapeze Media Limited. Trapeze Media is a Toronto-based digital advertising company. Prior to the acquisition, the Company owned 18% of the equity interests in Trapeze, and Miles Nadal (the Company's President and Chief Executive Officer) owned 54% of the equity interests. The total estimated aggregate consideration for 100% of the equity interests in Trapeze was $5,281 (or $4,373 excluding the Company's current equity interest). MDC recorded other income of $908 representing a gain on the previously held 18% interest in Trapeze. Mr. Nadal recused himself from all Board discussions relating to Trapeze.

The Stock Purchase Agreement for the Trapeze transaction contains customary representations and warranties and covenants of each party. Breaches of any representations and warranties will be subject to customary indemnification provisions.

The acquisition of Trapeze by Union is expected to create an integrated agency with strong digital capabilities and more significant scale. In order to maximize the operating efficiency of the combined operations, the employees of Trapeze relocated into Union's current offices, and certain changes were made to the combined entity's executive management team.

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 2014 means the period beginning January 1, 2014, and ending December 31, 2014).

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.

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The following discussion focuses on the operating performance of the Company for the three and nine months ended September 30, 2014 and 2013 and the financial condition of the Company as of September 30, 2014. 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, 2013 as reported on Form 10-K. All amounts are in U.S. dollars unless otherwise stated.

Executive Summary

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 are two reportable operating segments: Strategic Marketing Services and Performance Marking 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 operating expenses is depreciation and amortization.

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 call centers, 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

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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.

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 2014 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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Results of Operations:
Three Months Ended September 30, 2014
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$228,297	$98,593	$—	$326,890
Cost of services sold	148,157	68,348	—	216,505
Office and general expenses	47,455	19,419	10,937	77,811
Depreciation and amortization	6,790	5,269	421	12,480
Operating Profit (Loss)	25,895	5,557	(11,358)	20,094
Other Income (Expense):				
Other expense, net				(9,659)
Interest expense and finance charges, net				(13,976)
Loss from continuing operations before income taxes and equity in non-consolidated affiliates				(3,541)
Income tax benefit				(263)
Loss from continuing operations before equity in non-consolidated affiliates				(3,278)
Equity in earnings of non-consolidated affiliates				81
Loss from continuing operations				(3,197)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(40)
Net Loss				(3,237)
Net income attributable to the noncontrolling interests	(1,669)	(16)	—	(1,685)
Net loss attributable to MDC Partners Inc.				$(4,922)
Stock based compensation	$1,816	$477	$1,144	$3,437

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Three Months Ended September 30, 2013
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$203,440	$85,230	$—	$288,670
Cost of services sold	128,300	60,904	—	189,204
Office and general expenses	40,995	14,759	33,074	88,828
Depreciation and amortization	5,807	3,358	297	9,462
Operating Profit (loss)	28,338	6,209	(33,371)	1,176
Other Income (Expense):				
Other income, net				1,736
Interest expense, net				(10,552)
Loss from continuing operations before income taxes and equity in non-consolidated affiliates				(7,640)
Income tax expense				4,334
Loss from continuing operations before equity in non-consolidated affiliates				(11,974)
Equity in earnings of non-consolidated affiliates				73
Loss from continuing operations				(11,901)
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(7,388)
Net Loss				(19,289)
Net income attributable to the non-controlling interests	(1,471)	(440)	—	(1,911)
Net loss attributable to MDC Partners Inc.				$(21,200)
Stock based compensation	$1,835	$646	$24,954	$27,435

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Nine Months Ended September 30, 2014
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$655,262	$281,916	$—	$937,178
Cost of services sold	419,371	189,009	—	608,380
Office and general expenses	134,022	67,496	33,025	234,543
Depreciation and amortization	16,874	16,275	1,356	34,505
Operating Profit (loss)	84,995	9,136	(34,381)	59,750
Other Income (Expense):				
Other expense, net				(8,894)
Interest expense, net				(40,502)
Income from continuing operations before income taxes and equity in non-consolidated affiliates				10,354
Income tax expense				2,781
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				7,573
Equity in earnings of non-consolidated affiliates				223
Income from continuing operations				7,796
Loss from discontinued operations attributable to MDC Partners Inc., net of taxes				(298)
Net income				7,498
Net income attributable to the non-controlling interests	(4,854)	58	—	(4,796)
Net income attributable to MDC Partners Inc.				$2,702
Stock based compensation	$6,067	$2,684	$3,482	$12,233

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Nine Months Ended September 30, 2013
(thousands of United States dollars)

	Strategic Marketing Services	Performance Marketing Services	Corporate	Total
Revenue	$587,540	$254,265	$—	$841,805
Cost of services sold	375,681	181,058	—	556,739
Office and general expenses	115,759	53,358	47,916	217,033
Depreciation and amortization	17,334	10,106	989	28,429
Operating Profit (Loss)	78,766	9,743	(48,905)	39,604
Other Income (Expense):				
Other income, net				1,545
Interest expense, net				(88,778)
Loss from continuing operations before income taxes, equity in affiliates				(47,629)
Income tax benefit				(8,189)
Loss from continuing operations before equity in affiliates				(39,440)
Equity in earnings of non-consolidated affiliates				196
Loss from continuing operations				(39,244)
Loss from discontinuing operations attributable to MDC Partners Inc., net of taxes				(10,891)
Net loss				(50,135)
Net income attributable to the noncontrolling interests	(3,578)	(829)	—	(4,407)
Net loss attributable to MDC Partners Inc.				$(54,542)
Stock based compensation	$4,815	$2,505	$29,370	$36,690

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Three Months Ended September 30, 2014, Compared to Three Months Ended September 30, 2013

Revenue was $326.9 million for the quarter ended September 30, 2014, representing an increase of $38.2 million, or 13.2%, compared to revenue of $288.7 million for the quarter ended September 30, 2013. This revenue increase was driven by organic growth of $23.5 million and acquisition growth of $16.3 million. A strengthening of the US Dollar, primarily versus the Canadian dollar during the quarter ended September 30, 2014, resulted in decreased revenues of $1.6 million.

The operating profit for the quarter ended September 30, 2014 was $20.1 million, compared to operating profit of $1.2 million for the quarter ended September 30, 2013. The increase in operating profit was primarily the result of a decrease in corporate expenses of $22.0 million, offset by decreases in operating profit of $2.4 million in the Strategic Marketing Services segment and $0.7 million within the Performance Marketing Services segment.

Loss from continuing operations for the third quarter of 2014 was $3.2 million, compared to a loss of $11.9 million for the third quarter ended September 30, 2013. This decrease in loss of $8.7 million was primarily the result of an increase in operating profit of $18.9 million and a decrease in income tax expense of $4.6 million, offset by increases in other expense, net of $11.4 million, and interest expense, net of $3.4 million.

Marketing Communications Group

Revenues in the third quarter of 2014 attributable to the Marketing Communications Group, which consists of two reportable segments — Strategic Marketing Services and Performance Marketing Services, were $326.9 million compared to $288.7 million in the third quarter of 2013, representing a year-over-year increase of 13.2%.

The components of the increase in revenue in 2014 are shown in the following table:

	Revenue $ 000's	%
Quarter ended September 30, 2013	$288,670	
Organic	23,542	8.2%
Acquisitions	16,303	5.6%
Foreign exchange impact	(1,625)	(0.6)%
Quarter ended September 30, 2014	$326,890	13.2%

The geographic mix in revenues was consistent between the third quarter of 2014 and 2013 and is demonstrated in the following table:

	2014	2013
US	81%	82%
Canada	11%	11%
Other	8%	7%

The operating profit of the Marketing Communications Group decreased from $34.5 million in the third quarter of 2013, to $31.5 million in the third quarter of 2014. Operating margins decreased by 2.4% and were 9.6% for 2014, compared to 12.0% for 2013. The decrease in operating profit and in operating margin was primarily due to increased direct costs (excluding staff labor), office and general expense and depreciation and amortization. Direct costs increased as a percentage of revenues from 13.6% in 2013, to 16.4% in 2014, as there were increased pass-through costs incurred on the clients' behalf during the third quarter of 2014 where the Company was acting as principal versus agent for certain client contracts. This was offset by increases in revenue and decreases in total staff costs. Total staff costs decreased as a percentage of revenue from 58.7% in 2013 to 56.6% in 2014. Total staff costs decreased as the Company continues to benefit from prior investments in staff which have resulted in increased revenues. Office and general expenses increased as a percentage of revenue from 19.3% in 2013, to 20.5% in 2014. This increase was primarily due to an increase of $1.9 million in expense relating to estimated deferred acquisition consideration. Depreciation and amortization increased from 3.2% in 2013 to 3.7% in 2014, due primarily to amortization expense relating to acquisitions completed in the fourth quarter of 2013 and throughout 2014.

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Strategic Marketing Services

Revenues attributable to Strategic Marketing Services in the third quarter of 2014 were $228.3 million, compared to $203.4 million in the third quarter of 2013. The year-over-year increase of $24.9 million or 12.2% was attributable primarily to organic growth of 8.8% as a result of net new business wins and acquisition growth of 3.7%. A strengthening of the US dollar versus the Canadian dollar in 2014 compared to 2013 resulted in a slight decrease in revenues from the segment’s Canadian-based operations.

The operating profit of Strategic Marketing Services decreased by $2.4 million from $28.3 million in the third quarter of 2013 to $25.9 million in the third quarter of 2014. Operating margins decreased from 13.9% in the third quarter of 2013 to 11.3% in the third quarter of 2014. The decrease in operating profits and operating margins was primarily due to increased direct costs (excluding staff labor), office and general expense, and depreciation and amortization expense offset by the increase in revenue. Total staff costs were consistent at approximately 59.6% of revenue for the third quarter ended 2014 and 2013. Direct costs increased from 8.6% in 2013 to 10.7% in 2014 as there were increased pass-through costs incurred on the clients' behalf during the third quarter of 2014 where the Company was acting as principal versus agent for certain client contracts. Office and general expense increase from 20.2% in 2013 to 20.8% in 2014. This was primarily due to acquisition related expenses which increased by $0.7 million. Depreciation and amortization increased from 2.9% in 2013 to 3.0% in 2014, due primarily to the amortization expenses related to the 2014 acquisitions.

Performance Marketing Services

The Performance Marketing Services segment generated revenues of $98.6 million for the third quarter of 2014, an increase of $13.4 million, or 15.7% compared to $85.2 million in the third quarter of 2013. The year over year increase was attributed primarily to acquisition growth of 10.2% and organic growth of 6.6% as a result of net new business wins. In addition, a strengthening of the US dollar versus the Canadian dollar in 2014 compared to 2013 resulted in a decrease in revenues from the segment’s Canadian-based operations.

The operating profit of Performance Marketing Services decreased by $0.6 million, from $6.2 million in the third quarter of 2013 to $5.6 million in the third quarter of 2014. Operating margins decreased from 7.3% in the third quarter of 2013 to 5.6% in the third quarter of 2014. The decrease in operating profits and operating margins were primarily due to increased direct costs (excluding staff labor), office and general costs and depreciation and amortization. These increases were offset by increased revenue and decreased staff costs. Total staff costs decreased from 56.3% in 2013 to 49.7% in 2014 continuing the trend started in 2013 to reduce overall staff costs. Direct costs increased from 25.6% in 2013 to 29.4% in 2014 as there were increased pass-through costs incurred on the clients' behalf during the third quarter of 2014 where the Company was acting as principal versus agent for certain client contracts. Office and general costs increased from 17.3% in 2013 to 19.7% in 2014. The increase was due to an increase of $2.3 million in expense relating to estimated deferred acquisition consideration. Depreciation and amortization increased from 3.9% in 2013 to 5.3% in 2014 due primarily to amortization expense relating to acquisitions completed in the fourth quarter of 2013 and throughout 2014.

Corporate

Operating costs related to the Company’s Corporate operations decreased $22.0 million to $11.4 million in the third quarter of 2014, from $33.4 million in the third quarter of 2013. This decrease in 2014 was primarily related to $23.8 million of additional stock based compensation in 2013, as a result of the Company's obligation to settle a portion of its outstanding SAR's in cash. This decrease in compensation related costs was offset by an increase of $1.3 million relating to incentive compensation. In addition, increases in advertising and promotional costs accounted for the additional change.

Other Income, Net

Other income (expense) decreased to expense of $9.7 million in the third quarter of 2014 compared to income of $1.7 million in the third quarter of 2013. The decrease was primarily related to an unrealized foreign exchange loss of $11.0 million in 2014, compared to an unrealized foreign exchange gain of $1.7 million in 2013. Specifically, these unrealized gains and losses were due primarily to the fluctuation in the US dollar during 2014 and 2013 compared to the Canadian dollar primarily on the Company’s US dollar denominated intercompany balances with its Canadian subsidiaries. Additionally, in 2014 the Company had other income of $1.4 million compared to a nominal amount in 2013.

Net Interest Expense

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Net interest expense for the third quarter of 2014 was $14.0 million, an increase of $3.4 million over the $10.6 million of net interest expense incurred during the third quarter of 2013. The increase in interest expense in 2014 was due to an increase in the outstanding principal amount of the 6.75% Senior Notes.

Income Taxes

Income tax benefit was $0.3 million in the third quarter of 2014, compared to expense of $4.3 million for the third quarter of 2013. The Company's effective tax rate in 2014 was substantially lower than the statutory rate due to the utilization of previously fully reserved net operating losses and noncontrolling interest charges and losses in certain tax jurisdictions where a valuation allowance was deemed necessary, offset by non-deductible stock based compensation. The Company's effective tax rate for 2013 was substantially higher than the statutory rate due to additional valuation allowance required.

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 nominal income in both 2013 and 2014.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was $1.7 million for the third quarter of 2014, a decrease of $0.2 million from the $1.9 million of noncontrolling interest expense incurred during the third quarter of 2013, primarily due to the Company's increase in profitability of certain entities within the Performance Marketing Services segment.

Discontinued Operations Attributable to MDC Partners Inc.

The loss from discontinued operations was nominal for the third quarter of 2014, and $7.4 million for the third quarter of 2013.

Net Income attributable to MDC Partners Inc.

As a result of the foregoing, the net loss attributable to MDC Partners Inc. recorded for the third quarter of 2014 was $4.9 million, or $0.10 per diluted share.   This amount is compared to a net loss attributable to MDC Partners Inc. of $21.2 million or $0.45 per diluted share reported for the third quarter of 2013.

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Nine Months Ended September 30, 2014, Compared to Nine Months Ended September 30, 2013

Revenue was $937.2 million for the nine months ended September 30, 2014, representing an increase of $95.4 million, or 11.3%, compared to revenue of $841.8 million for the nine months ended September 30, 2013. This revenue increase related primarily to organic growth of $64.8 million and acquisition growth of $36.4 million. A strengthening of the US Dollar, primarily versus the Canadian dollar during the nine months ended September 30, 2014, resulted in decreased revenues of $5.8 million.

The operating profit for the nine months ended September 30, 2014 was $59.8 million, compared to operating profit of $39.6 million for the nine months ended September 30, 2013. The increase in operating profit was primarily the result of an increase in operating profit of $6.2 million in the Strategic Marketing Services segment, a decrease in corporate expenses of $14.5 million, offset by a decrease of operating profit of $0.6 million within the Performance Marketing Services segment.

Income from continuing operations for the nine months of 2014 was $7.8 million, compared to a loss of $39.2 million for the nine months ended September 30, 2013. This increase in income of $47.0 million was primarily the result of the 2013 premium on redemption of notes of $55.6 million, and the increase in operating profit. These amounts were offset by a decrease in other expense, net of $10.4 million, an increase in interest expense, net of $7.3 million, and an increase in the income tax expense of $11.0 million.

Marketing Communications Group

Revenues in the nine months of 2014 attributable to the Marketing Communications Group, which consists of two reportable segments — Strategic Marketing Services and Performance Marketing Services, were $937.2 million compared to $841.8 million in the nine months of 2013, representing a year-over-year increase of 11.3%.

The components of the increase in revenue in 2014 are shown in the following table:

	Revenue $ 000's	%
Nine months ended September 30, 2013	$841,805	
Organic	64,752	7.7%
Acquisitions	36,439	4.3%
Foreign exchange impact	(5,818)	(0.7)%
Nine months ended September 30, 2014	$937,178	11.3%

The geographic mix in revenues was consistent between the nine months of 2014 and 2013 and is demonstrated in the following table:

	2014	2013
US	82%	83%
Canada	12%	12%
Other	6%	5%

The operating profit of the Marketing Communications Group increased by $5.6 million to $94.1 million from $88.5 million. Operating margins decreased by 0.5% and were 10.0% for 2014, compared to 10.5% for 2013. The increase in operating profit and decrease in operating margin was primarily due to increases in revenue and decreases in total staff costs, offset by increases in direct costs (excluding staff costs), office and general expenses, and depreciation and amortization. Total staff costs decreased as a percentage of revenue from 59.9% in 2013 to 57.6% in 2014. Total staff costs decreased as the Company continues to benefit from prior investments in staff which have resulted in increased revenues. Direct costs increased as a percentage of revenues from 13.2% in 2013, to 14.5% in 2014. Direct costs increased as there were increased pass-through costs incurred on the clients' behalf during the nine months of 2014 where the company was acting as principal versus agent for certain client contracts. Office and general expenses increased as a percentage of revenue from 20.1% in 2013, to 21.5% in 2014. This increase was primarily due to an increase of $9.3 million in expense relating to estimated deferred acquisition

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consideration. Depreciation and amortization as a percentage of revenue increased from 3.3% in 2013 to 3.5% in 2014 due primarily to amortization expense relating to acquisitions completed in the fourth quarter of 2013 and throughout 2014.

Strategic Marketing Services

Revenues attributable to Strategic Marketing Services in the nine months of 2014 were $655.3 million, compared to $587.5 million in the nine months of 2013. The year-over-year increase of $67.7 million or 11.5% was attributable primarily to organic growth as a result of net new business wins of 10.6% and acquisition growth of 1.3%. A strengthening of the US dollar versus the Canadian dollar in 2014 compared to 2013 resulted in a decrease in revenues from the segment’s Canadian-based operations.

The operating profit of Strategic Marketing Services increased by $6.2 million from $78.8 million in the nine months of 2013 to $85.0 million in the nine months of 2014. Operating margins decreased from 13.4% in the nine months of 2013 to 13.0% in the nine months of 2014. The increase in operating profits and decrease in operating margins was primarily due to increases in revenues and decreases in total staff costs, and depreciation and amortization, offset by an increase in direct costs (excluding staff and labor) and total office and general costs. Total staff costs decreased as a percentage of revenue from 60.6% in the nine months of 2013 to 60.2% in the months of 2014. Total staff costs decreased as the Company continues to benefit from prior investments in staff, which have resulted in increased revenues. Direct costs increased as a percentage of revenue from 8.7% in 2013 to 9.4% in 2014. Direct costs increased as there were increased pass-through costs incurred on clients' behalf during the nine months of 2014. Office and general expenses increased as a percentage of revenue from 19.7% in the nine months of 2013 to 20.5% in the nine months of 2014. The increase was due primarily to an increase of $1.1 million in expense relating to acquisition related costs. Depreciation and amortization as a percentage of revenue decreased from 3.0% in the nine months of 2013 to 2.6% in the nine months of 2014 due to increased revenue on relatively fixed costs.

Performance Marketing Services

The Performance Marketing Services segment generated revenues of $281.9 million for the nine months of 2014, an increase of $27.7 million, or 10.9% compared to $254.3 million in the nine months of 2013. The year over year increase was attributed primarily to acquisition growth of 11.3%, and organic revenue growth as a result of net new business wins of 1.0%. In addition, a strengthening of the US dollar versus the Canadian dollar in 2014 compared to 2013 resulted in a decrease in revenues from the segment’s Canadian-based operations.

The operating profit and margins of Performance Marketing Services decreased by $0.6 million from $9.7 million in the nine months of 2013 to $9.1 million in the nine months of 2014. Operating margins decreased from 3.8% in the nine months of 2013 to 3.2% in the nine months of 2014. These decreases in operating profits and operating margins were due to increases in direct costs (excluding staff labor), office and general costs and depreciation and amortization, offset by a decrease in total staff costs and increase in revenue. Total staff costs decreased from 58.2% in 2013 to 51.5% in 2014 continuing the trend started in 2013 to reduce overall staff costs. Direct costs increased from 23.6% in 2013 to 26.1% in 2014. Direct costs increased as there were increased pass-through costs incurred on clients' behalf during the nine months of 2014. Office and general costs increased from 21.0% in 2013 to 23.9% in 2014. The increase was due to an increase of $8.2 million in expense relating to estimated deferred acquisition consideration. Depreciation and amortization increased from 4.0% in 2013 to 5.8% in 2014 due primarily to amortization expense relating to acquisitions completed in the fourth quarter of 2013 and throughout 2014.

Corporate

Operating costs related to the Company’s Corporate operations decreased $14.5 million to $34.4 million in the nine months of 2014 from $48.9 million in the nine months of 2013. This decrease was primarily related to the $25.9 million of additional stock based compensation in 2013, primarily as a result of the Company's obligation to settle a portion of its SAR's in cash. This decrease was offset in part due to the 2013 repayment in full of a previously fully reserved loan by the Company's CEO of $5.3 million and increases in compensation and related costs of $4.5 million relating to incentive compensation and an increases in travel and entertainment and advertising and promotional costs.

Other Income, Net

Other income (expense) decreased to expense of $8.9 million in the nine months of 2014 compared to income of $1.5 million in the nine months of 2013. The decrease was primarily related to a distribution received in excess of the assets carrying value of $3.1 million, and an unrealized foreign exchange loss of $1.2 million in 2013 compared to an unrealized foreign exchange loss of $10.7 million in 2014. Specifically, these unrealized losses were due primarily to the fluctuation in the US

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dollar during 2014 and 2013 compared to the Canadian dollar primarily on the Company's US dollar denominated intercompany balances with its Canadian subsidiaries. Additionally, in 2014 the Company had other income of $1.8 million compared to a loss of $0.3 million in 2013.

Net Interest Expense

Net interest expense for the nine months of 2014 was $40.5 million, a decrease of $48.3 million over the $88.8 million of net interest expense incurred during the nine months of 2013. The decrease in interest expense in 2014 was due to the 2013 loss paid on the redemption of the Company's 11% Notes of $55.6 million, offset by an increase in the outstanding principal amount of the 6.75% senior notes.

Income Taxes

Income tax expense was $2.8 million in the nine months of 2014 compared to a benefit of $8.2 million for the nine months of 2013. The Company's effective tax rate in 2013 was lower than the statutory rate due to utilization of previously fully reserved net operating losses and noncontrolling interest charges, offset by non-deductible stock based compensation. In addition, the Company's effective tax rate was lower due to losses in certain tax jurisdictions where a valuation allowance was deemed necessary. The Company's 2014 effective rate is consistent with the statutory rate.

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 nominal income in both 2013 and 2014.

Noncontrolling Interests

Net income attributable to the noncontrolling interests was $4.8 million for the nine months of 2014, an increase of $0.4 million from the $4.4 million of noncontrolling interest expense incurred during the nine months of 2013, primarily due to the Company's increase in profitability of certain entities within the Strategic Marketing Services segment offset by decreases in profitability by certain entities within the Performance Marketing services segment.

Discontinued Operations Attributable to MDC Partners Inc.

The loss from discontinued operations was $0.3 million for the nine months of 2014 and $10.9 million for the nine months of 2013.

Net Income (Loss) attributable to MDC Partners Inc.

As a result of the foregoing, the net income attributable to MDC Partners Inc. recorded for the nine months of 2014 was $2.7 million, or $0.05 per diluted share. This amount is compared to a net loss attributable to MDC Partners Inc. of $54.5 million or a loss of $1.16 per diluted share reported for the nine months of 2013.

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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 nine months ended September 30, 2014	As of and for the nine months ended September 30, 2013	As of and for the year ended December 31, 2013
	(000’s)	(000’s)	(000’s)
Cash and cash equivalents	$48,885	$63,312	$102,007
Working capital (deficit)	$(256,469)	$(211,095)	$(189,815)
Cash from operations	$41,807	$105,351	$59,299
Cash used in investing	$(79,223)	$(13,242)	$(30,124)
Cash from (used in) financing	$(15,512)	$(88,904)	$10,492
Long-term debt to total equity ratio	(2.73)	(3.08)	(2.40)
Fixed charge coverage ratio	1.20	N/A	N/A
Fixed charge deficiency	N/A	$44,533	$131,829

As of September 30, 2014 and December 31, 2013, $6.5 million and $0.7 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 September 30, 2014 the Company had a working capital deficit of $256.5 million compared to a deficit of $189.8 million at December 31, 2013. The increase in 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 September 30, 2014, $4.1 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 provided by continuing operations, including changes in non-cash working capital, for the nine months ended September 30, 2014 was $42.1 million. This was attributable to income from continuing operations of $7.8 million, depreciation, amortization of intangibles, and stock compensation of $46.7 million, adjustments to deferred acquisition consideration of $16.1 million, amortization of deferred finance charges and debt discount of $1.7 million, an increase in accounts payable, accruals and other liabilities of $20.3 million, an increase in advanced billings of

$51.4 million, foreign exchange of $8.0 million and deferred income taxes of $3.2 million. This was offset by an increase in accounts receivable of $57.5 million, expenditures billable to clients of $38.9 million, an increase in other non-current assets and liabilities of $11.1 million, and an increase in prepaid expenses and other current assets of $5.5 million. Discontinued operations attributable to MDC Partners used cash of $0.3 million in the nine months ended September 30, 2014.

Cash flow provided by continuing operations, including changes in non-cash working capital, for the nine months ended September 30, 2013 was $112.8 million. This was attributable to the loss on the redemption of notes of $50.4 million,

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depreciation and amortization of intangibles and non-cash stock compensation of $65.1 million, an increase in accounts payable, accruals and other liabilities of $39.1 million, an increase in advance billings of $23.0 million, amortization of deferred finance charges and debt discount of $7.0 million, adjustments to deferred acquisition consideration of $5.6 million and foreign exchange of $1.3 million. This cash was offset in part by the loss from continuing operations of $39.2 million, an increase in expenditures billable to clients of $11.0 million, an increase in accounts receivable of $5.2 million, deferred income taxes of $8.7 million, a net increase in other non-current assets and liabilities of $8.9 million, an increase in prepaid expenses and other current assets of $2.3 million and distributions in excess of carrying value of $3.1 million. Discontinued operations attributable to MDC Partners used cash of $7.5 million in the Nine Months Ended September 30, 2013.

Investing Activities

Cash flows used in investing activities was $79.2 million for the nine months ended September 30, 2014, compared with a cash flow used of $13.2 million in the nine months ended September 30, 2013. In the nine months ended September 30, 2014, the Company used $57.7 million, net of cash acquired for acquisitions. The Company also used $3.7 million for other investments. These outflows were offset by $2.8 million of profit distributions from affiliates.

In the nine months ended September 30, 2014, capital expenditures totaled $20.6 million, of which $16.1 million was incurred by the Strategic Marketing Services segment, $3.3 million was incurred by the Performance Marketing Services segment, and $1.2 million was incurred by corporate. In the nine months ended September 30, 2013, capital expenditures totaled $14.0 million of which $8.2 million was incurred by the Strategic Marketing Services segment, $4.2 million was incurred by the Performance Marketing Services segment, and $1.5 million was incurred by corporate. These expenditures consisted primarily of computer equipment, furniture and fixtures, and leasehold improvements.

In the nine months ended September 30, 2013, the Company paid $2.2 million for other investments. These outflows were offset by $3.2 million of profit distributions from affiliates.

Financing Activities

During the nine months ended September 30, 2014, cash flows used in financing activities amounted to $15.5 million, and consisted of $71.3 million of acquisition related payments, payment of dividends of $28.1 million, the purchase of treasury shares for income tax withholding requirements of $4.8 million, distributions to noncontrolling partners of $6.0 million, deferred financing costs of $2.4 million and repayments of long term debt of $0.4 million, offset by proceeds from the additional issuance of $78.9 million of Senior Notes and cash overdrafts of $18.4 million.

During the nine months ended September 30, 2013, cash flows used in financing activities amounted to $88.9 million, and consisted primarily of proceeds from the issuance of the 6.75% Notes of $550.0 million offset by the repayment of the 11% Notes of $425.0 million, premium paid on redemption of notes of $50.4 million, and deferred financing costs of $16.0 million. In addition, there was cash overdrafts of $11.0 million, $111.4 million of acquisition related payments, the purchase of treasury shares for income tax withholding requirements of $5.0 million, $4.8 million of distributions to noncontrolling partners, repayments of long term debt of $1.4 million and $14.5 million of dividend payments.

Total Debt

6.75% Senior Notes Due 2020

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 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. The Indenture contains no restrictions with respect to the amount of funds that may be loaned and/or advanced by and among Loan Parties, including Parent.

Redemption of 11% Senior Notes Due 2016

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.

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As of September 30, 2014, advances under the Credit Agreement bore interest as follows: (a)(i) LIBOR Rate Loans bore interest at the LIBOR Rate and (ii) Base Rate Loans bore interest at the Base Rate, plus (b) an applicable margin. As of September 30, 2014 the initial applicable margin for borrowing is 1.25% in the case of Base Rate Loans and 2.00% 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.

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.

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 The Credit Agreement contains no restrictions with respect to the amount of funds that may be loaned and/or advanced by and among Loan Parties, including Parent.

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 September 30, 2014 was $743.8 million, an increase of $78.7 million, compared with $665.1 million outstanding at December 31, 2013. This increase in debt was a result of the Company’s additional issuance of $75 million of 6.75% Notes. At September 30, 2014, approximately $220.2 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 September 30, 2014, the Company's calculation of each of these covenants, and the specific requirements under the Credit Agreement, respectively, were as follows:

	September 30, 2014	
Total Senior Leverage Ratio	(0.1	)
Maximum per covenant	2.0	
Total Leverage Ratio	3.9	
Maximum per covenant	5.5	
Fixed Charges Ratio	2.7	
Minimum per covenant	1.0	
Earnings before interest, taxes, depreciation and amortization	$181,234	
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 September 30, 2014. The actual amount that the Company pays in connection with the obligations may differ materially from this estimate. At September 30, 2014, there was $209.9 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 2014 to 2019. 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 September 30, 2014, 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 $22.3 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 $1.5 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 $168.0 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 $1.3 million of the estimated $22.3 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 $4.7 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)	2014	2015	2016	2017	2018 & Thereafter	Total	
	($ Millions)						
Cash	$1.3	$4.9	$4.2	$4.8	$5.6	$20.8	
Shares	—	—	—	—	1.5	1.5	
	$1.3	$4.9	$4.2	$4.8	$7.1	$22.3	(1)
Operating income before depreciation and amortization to be received(2)	$1.0	$1.9	$0.1	$0.9	$0.8	$4.7	
Cumulative operating income before depreciation and amortization(3)	$1.0	$2.9	$3.0	$3.9	$4.7		(5)

(1) This amount is in addition to put options only exercisable upon termination not within the control of the Company, or death, of $168.0 million, has been recognized in Redeemable Noncontrolling Interests on the Company's balance sheet.

(2) This financial measure is presented because it is the basis of the calculation used in the underlying agreements relating to the put rights and is based on actual operating results. This amount represents additional amounts to be attributable to MDC Partners Inc., commencing in the year the put is exercised.

(3) Cumulative operating income before depreciation and amortization represents the cumulative amounts to be received by the Company.

(4) The timing of consideration to be paid varies by contract and does not necessarily correspond to the date of the exercise of the put.

(5) Amounts are not presented as they would not be meaningful due to multiple periods included.

Critical Accounting Policies

The following summary of accounting policies has been prepared to assist in better understanding the Company's consolidated financial statements and the related management discussion and analysis. Readers are encouraged to consider this information together with the Company's consolidated financial statements and the related notes to the consolidated financial statements as included herein for a more complete understanding of accounting policies discussed below.

Estimates. The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America, or "GAAP", requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities including goodwill, intangible assets, redeemable noncontrolling interests, and deferred acquisition consideration, valuation allowances for receivables and deferred income tax assets and stock based compensation as well as the reported amounts of revenue and expenses during the reporting period. The statements are evaluated on an ongoing basis and estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Actual results can differ from those estimates, and it is possible that the differences could be material.

Revenue Recognition. The Company's revenue recognition policies are as required by the Revenue Recognition topics of the FASB Accounting Standards Codification. 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

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from incentives or bonuses. A small portion of the Company's contractual arrangements with clients includes performance incentive provisions, which allow the Company to earn additional revenues as a result of its performance relative to both quantitative and qualitative goals. The Company records revenue net of sales and other taxes, when persuasive evidence of an arrangement exists, 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 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. In the majority of the Company's businesses, the Company acts as an agent and records revenue equal to the net amount retained, when the fee or commission is earned. In certain arrangements, the Company acts as principal and contracts directly with suppliers for third party media and production costs. In these arrangements, revenue is recorded at the gross amount billed. Additional information about our revenue recognition policy appears in Note 2 to our consolidated financial statements.

Acquisitions, Goodwill and Other Intangibles.   A fair value approach is used in testing goodwill for impairment to determine if an other than temporary impairment has occurred. One approach utilized to determine fair values is a discounted cash flow methodology. When available and as appropriate, comparative market multiples are used. Numerous estimates and assumptions necessarily have to be made when completing a discounted cash flow valuation, including estimates and assumptions regarding interest rates, appropriate discount rates and capital structure. Additionally, estimates must be made regarding revenue growth, operating margins, tax rates, working capital requirements and capital expenditures. Estimates and assumptions also need to be made when determining the appropriate comparative market multiples to be used. Actual results of operations, cash flows and other factors used in a discounted cash flow valuation will likely differ from the estimates used and it is possible that differences and changes could be material.

The Company has historically made and expects to continue to make selective acquisitions of marketing communications businesses. In making acquisitions, the price paid is determined by various factors, including service offerings, competitive position, reputation and geographic coverage, as well as prior experience and judgment. Due to the nature of advertising, marketing and corporate communications services companies; the companies acquired frequently have significant identifiable intangible assets, which primarily consist of customer relationships. The Company has determined that certain intangibles (trademarks) have an indefinite life, as there are no legal, regulatory, contractual, or economic factors that limit the useful life.

Business Combinations.   Valuation of acquired companies are based on a number of factors, including specialized know-how, reputation, competitive position and service offerings. Our acquisition strategy has been to focus on acquiring the expertise of an assembled workforce in order to continue building upon the core capabilities of our various strategic business platforms to better serve our clients. Consistent with our acquisition strategy and past practice of acquiring a majority ownership position, most acquisitions completed after 2009 include an initial payment at the time of closing and provide for future additional contingent purchase price payments. Contingent payments for these transactions, as well as certain acquisitions completed in prior years, are derived using the performance of the acquired entity and are based on pre-determined formulas. Contingent purchase price obligations for acquisitions completed prior to January 1, 2009 are accrued when the contingency is resolved and payment is certain. Contingent purchase price obligations related to acquisitions completed subsequent to December 31, 2008 are recorded as liabilities at 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 on the date of payment. These estimates are adjusted quarterly based on changes in current information affecting each subsidiaries current operating results and the impact this information will have on future results included in the calculation of the estimated liability. In addition, change in various contractual valuation formulas as well as adjustments to present value impact quarterly adjustments. Changes in estimated value are recorded in results of operations. In addition, certain acquisitions also include put/call obligations for additional equity ownership interests. The estimated value of these interests are recorded as redeemable noncontrolling interests. As of January 1, 2009, the Company expenses acquisition related costs in accordance with the Accounting Standard's Codification's new guidance on acquisition accounting.

For each of our acquisitions, we undertake a detailed review to identify other intangible assets and a valuation is performed for all such identified assets. We use several market participant measurements to determine estimated value. This approach includes consideration of similar and recent transactions, as well as utilizing discounted expected cash flow methodologies. Like most service businesses, a substantial portion of the intangible asset value that we acquire is the specialized know-how of the workforce, which is treated as part of goodwill and is not required to be valued separately. The majority of the value of the identifiable intangible assets that we acquire is derived from customer relationships, including the

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related customer contracts, as well as trade names. In executing our acquisition strategy, one of the primary drivers in identifying and executing a specific transaction is the existence of, or the ability to, expand our existing client relationships. The expected benefits of our acquisitions are typically shared across multiple agencies and regions.

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

Allowance for Doubtful Accounts. Trade receivables are stated less allowance for doubtful accounts. The allowance represents estimated uncollectible receivables usually due to customers' potential insolvency. The allowance includes amounts for certain customers where risk of default has been specifically identified.

Income Tax Valuation Allowance. The Company records a valuation allowance against deferred income tax assets when management believes it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Management considers factors such as the reversal of deferred income tax liabilities, projected future taxable income, the character of the income tax asset, tax planning strategies, changes in tax laws and other factors. A change to any of these factors could impact the estimated valuation allowance and income tax expense.

Interest Expense. Interest expense primarily consists of the cost of borrowing on the revolving Credit Agreement, and the Senior Notes. The Company amortizes deferred financing costs using the effective interest method over the life of the Senior Notes and straight line over the life of the revolving Credit Agreement.

Stock-based Compensation. The fair value method is applied to all awards granted, modified or settled. Under the fair value method, compensation cost is measured at fair value at the date of grant and is expensed over the service period that is the award's vesting period. 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. Stock-based awards that are settled in cash or may be settled in cash at the option of employees are recorded as liabilities. The measurement of the liability and compensation cost for these awards is based on the fair value of the award, and is recorded into operating income over the service period, that is the vesting period of the award. Changes in the Company's payment obligation are revalued each period and recorded as compensation cost over the service period in operating income.

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

New Accounting Pronouncements

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 transition method to choose.

In April 2014, the FASB issued Standards Update No 2014-08, Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity. This update changes the requirements for reporting discontinued operations and requires additional disclosures. This guidance is effective for the Company beginning January 1, 2015. The implementation of the amended accounting guidance is not expected to have a material impact on our consolidated financial position or results of operations.

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Risks and Uncertainties

This document contains forward-looking statements. The Company's representatives may also make forward-looking statements orally from time to time. Statements in this document that are not historical facts, including statements about the Company's beliefs and expectations, earnings guidance, recent business and economic trends, potential acquisitions, estimates of amounts for deferred acquisition consideration and "put" option rights, constitute forward-looking statements. These statements are based on current plans, estimates and projections, and are subject to change based on a number of factors, including those outlined in this section. Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update publicly any of them in light of new information or future events, if any.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statements. Such risk factors include, but are not limited to, the following:

- risks associated with severe effects of international, national and regional economic conditions;
- the Company's ability to attract new clients and retain existing clients;
- the spending patterns and financial success of the Company's clients;
- the Company's ability to retain and attract key employees;
- the Company's ability to remain in compliance with its debt agreements and the Company's ability to finance its contingent payment obligations when due and payable, including but not limited to those relating to "put" option rights and deferred acquisition consideration;
- the successful completion and integration of acquisitions which complement and expand the Company's business capabilities; and
- foreign currency fluctuations.

The Company's business strategy includes ongoing efforts to engage in material acquisitions of ownership interests in entities in the marketing communications services industry. The Company intends to finance these acquisitions by using available cash from operations, from borrowings under the Credit Agreement and through incurrence of bridge or other debt financing, either of which may increase the Company's leverage ratios, or by issuing equity, which may have a dilutive impact on existing shareholders proportionate ownership. At any given time, the Company may be engaged in a number of discussions that may result in one or more material acquisitions. These opportunities require confidentiality and may involve negotiations that require quick responses by the Company. Although there is uncertainty that any of these discussions will result in definitive agreements or the completion of any transactions, the announcement of any such transaction may lead to increased volatility in the trading price of the Company's securities.

Investors should carefully consider these risk factors, and the risk factors outlined in more detail in the Company's 2013 Annual Report on Form 10-K under the caption "Risk Factors", and in the Company's other SEC filings.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Debt Instruments: At September 30, 2014, the Company's debt obligations consisted of amounts outstanding under its Credit Agreement and Senior Notes. The Senior Notes bear a fixed 6.75% interest rate. The Credit Agreement bears interest at variable rates based upon the Eurodollar rate, US bank prime rate and US base rate, at the Company's option. The Company's ability to obtain the required bank syndication commitments depends in part on conditions in the bank market at the time of syndication. Given that there were no borrowings under the Credit Agreement, as of September 30, 2014, a 1.0% increase or decrease in the weighted average interest rate, which was 4.5% at September 30, 2014, would have no interest impact.

Foreign Exchange: The Company conducts business in several currencies around the world. Our results of operations are subject to risk from the translation to the US dollar of the revenue and expenses of our non-US operations. The effects of currency exchange rate fluctuations on the translation of our results of operations are discussed in the "Management's Discussion and Analysis of Financial Condition and Result of Operations". For the most part, our revenues and expenses incurred related to our non-US operations are denominated in their functional currency. This minimizes the impact that fluctuations in exchange rates will have on profit margins. The Company does not enter into foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

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The Company is exposed to foreign currency fluctuations relating to its intercompany balances between the US and Canada. For every one cent change in the foreign exchange rate between the US and Canada, the Company will incur a $2.2 million impact to its financial statements.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be included in our SEC reports is recorded, processed, summarized and reported within the applicable time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), who is our principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. However, the Company's disclosure controls and procedures are designed to provide reasonable assurances of achieving the Company's control objectives.

We conducted an evaluation, under the supervision and with the participation of our management, including our CEO, our CFO and our management Disclosure Committee, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(e) and 15(d)-15(e) of the Exchange Act. Based on that evaluation, our CEO and CFO concluded that, as of September 30, 2014, our disclosure controls and procedures are effective to ensure that decisions can be made timely with respect to required disclosures, as well as ensuring that the recording, processing, summarization and reporting of information required to be included in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 is appropriate.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the foregoing evaluation that occurred during the third quarter of 2014 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

The certifications of our Chief Executive Officer and our Chief Financial Officer that are Exhibits 31.1 and 31.2, respectively, should be read in conjunction with the foregoing information for a more complete understanding of the references in those Exhibits to disclosure controls and procedures and internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. 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.

Item 1A. Risk Factors

There are no material changes in the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits required by this item are listed on the Exhibit Table.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MDC PARTNERS INC.

/s/ Michael Sabatino
Michael Sabatino
Senior Vice President, Chief Accounting Officer

November 6, 2014

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EXHIBIT INDEX

Exhibit No.	Description
10.1	Fourth Amendment, dated as of October 23, 2014, to Credit Agreement, dated as of March 20, 2013, by and among the Company, Maxxcom Inc., a Delaware corporation, each of their subsidiaries party thereto, Wells Fargo Foothill, LLC (now Wells Fargo Capital Finance, LLC), as agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's 8-K filed on October 24, 2014)
12	Statement of computation of ratio of earnings to fixed charges.*
31.1	Certification by Chief Executive Officer pursuant to Rules 13a - 14(a) and 15d - 14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification by Chief Financial Officer pursuant to Rules 13a - 14(a) and 15d - 14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification by Chief Executive Officer pursuant to 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification by Chief Financial Officer pursuant to 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
99.1	Schedule of ownership by operating subsidiary.*
101	Interactive data file.*

* Filed electronically herewith.