MDC PARTNERS INC
Form 10-K/A
July 26, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

(Amendment No. 2)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2004
Commission File Number: 001-13178

MDC Partners Inc.

(Exact Name of Registrant as Specified in its Charter)

Canada (State or Other Jurisdiction of Incorporation or Organization)	**98-0364441** (I.R.S. Employer Identification Number)

45 Hazelton Avenue, Toronto, Ontario, M5R 2E3
(416) 960-9000

(Address, including zip code, and telephone number,
including area code, of registrant s principal executive offices)

MDC Partners Inc.
375 Hudson Street, New York, NY, 10014
Attn: Mitchell Gendel, General Counsel
(212) 463-3628

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange On Which Registered**
None	n/a

Securities Registered Pursuant to Section 12(g) of the Act:

Title of Each Class	**Name of Each Exchange On Which Registered**
Class A Subordinate Voting Shares without par value	NASDAQ

Toronto Stock Exchange

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES x NO o

The aggregate market value of the shares of all classes of voting and non-voting common stock of the registrant held by non-affiliates of the registrant on June 30, 2004 was approximately $213.8 million, computed upon the basis of the closing sales price of the common stock on that date. For purposes of this computation, shares held by directors (and shares held by entities in which they serve as officers) and officers of the registrant have been excluded.

As of July 1, 2005, there were 23,434,757 outstanding shares of Class A Subordinate Voting Shares without par value, and 2,502 outstanding shares of Class B multiple voting shares without par value, of the Registrant.

Explanatory Note

MDC Partners Inc. (the Company) is filing this Amendment No. 2 to its Annual Report on Form 10-K for the year ended December 31, 2004, solely to amend Item 9A of the Form 10-K previously filed on April 18, 2005, to include Management s Report on Internal Control Over Financial Reporting and the related attestation of KPMG LLP (the Company s independent registered public accounting firm).

2

Item 8. Financial Statements and Supplementary Data

MDC PARTNERS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
MDC Partners Inc.:

We have audited the accompanying consolidated balance sheet of MDC Partners Inc. and subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of operations, shareholders equity and cash flows for the year ended December 31, 2004. In connection with our audit of the consolidated financial statements, we also have audited the financial statement schedule II for the year ended December 31, 2004. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MDC Partners Inc. and subsidiaries as of December 31, 2004 and the results of their operations and their cash flows for the year ended December 31, 2004, in conformity with US generally accepted accounting principles. Also, in our opinion, the related financial statement schedule for the year ended December 31, 2004, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company adopted FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, effective March 31, 2004.

/s/ KPMG LLP

Toronto, Canada

April 15, 2005

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
MDC Partners Inc.:

We have audited the accompanying consolidated balance sheet of MDC Partners Inc. and subsidiaries (the Company) as of December 31, 2003, and the related consolidated statements of operations, shareholders equity and comprehensive income, and cash flows for each of the two years in the period ended December 31, 2003. We have also audited the schedules II for the years ended December 31, 2003 and 2002. These financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MDC Partners Inc. and subsidiaries at December 31, 2003 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the schedules present fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation effective January 1, 2003, and adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002.

/s/ BDO Dunwoody LLP

Toronto, Canada

December 14, 2004 (April 15, 2005 as
to the effects of the discontinued operations
described in Note 12)

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

	Years Ended December 31, 2004	2003	2002
Revenue:			
Services	$ 247,073	$ 164,850	$ 144,944
Products	69,739	113,927	218,775
	316,812	278,777	363,719
Operating Expenses:			
Cost of services sold*	160,703	112,312	102,380
Cost of products sold	42,301	56,654	101,559
Office and general expenses**	99,936	87,837	108,718
Other charges (recoveries)	(2,693)	1,333	5,097
Depreciation and amortization	13,743	8,485	11,222
Write-down of fixed assets		8,126	3,391
Goodwill charges		10,012	
	313,990	284,759	332,367
Operating Profit (Loss)	2,822	(5,982)	31,352
Other Income (Expenses):			
Gain on sale of assets and settlement of long-term debt	14,844	43,792	113,422
Foreign exchange gain (loss)	(498)	(2,023)	4,380
Interest expense	(8,788)	(17,673)	(22,104)
Interest income	685	937	523
	6,243	25,033	96,221
Income from Continuing Operations Before Income Taxes, Equity in Affiliates and Minority Interests	9,065	19,051	127,573
Income Taxes	243	5,770	25,172
Income from Continuing Operations Before Equity in Affiliates and Minority Interests	8,822	13,281	102,401
Equity in Earnings of Non Consolidated Affiliates	3,651	4,929	2,142
Minority Interests in Income of Consolidated Subsidiaries	(8,695)	(4,508)	(6,720)
Income from Continuing Operations	3,778	13,702	97,823
Discontinued Operations	(5,935)	(1,271)	(15,398)
Cumulative Effect of a Change in Accounting Policy			(47,916)
Net Income (Loss)	$ (2,157)	$ 12,431	$ 34,509
Earnings (Loss) Per Common Share:			
Basic			
Continuing Operations	$ 0.18	$ 0.77	$ 5.78
Discontinued Operations	(0.28)	(0.07)	(0.91)
Cumulative Effect of a Change in Accounting Policy			(2.83)
Net Income (Loss)	$ (0.10)	$ 0.70	$ 2.04
Diluted			
Continuing Operations	$ 0.17	$ 0.70	$ 3.87
Discontinued Operations	(0.26)	(0.05)	(0.60)
Cumulative Effect of a Change in Accounting Policy			(1.87)
Net Income (Loss)	$ (0.09)	$ 0.65	$ 1.40
Weighted Average Number of Common Shares:			
Basic	21,353,268	17,791,064	16,915,341
Diluted	22,817,823	21,665,530	25,619,168

* Includes stock-based compensation expense of $339 and $330, during the years ended December 31, 2004 and 2003, respectively.

** Includes stock-based compensation expense of $8,049 and $5,852, during the years ended December 31, 2004 and 2003, respectively.

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

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

	December 31, 2004	2003
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 22,673	$ 65,334
Accounts receivable, less allowance for doubtful accounts of $1,521 and $497	111,399	56,485
Expenditures billable to clients	8,296	5,689
Inventories	10,792	7,735
Prepaid expenses	3,036	3,784
Other current assets	813	92
Total Current Assets	157,009	139,119
Fixed Assets	55,365	37,670
Investment in Affiliates	10,771	34,362
Goodwill	146,494	83,199
Other Intangible Assets	47,273	
Deferred Tax Assets	12,883	11,563
Assets Held for Sale	622	6,530
Other Assets	7,438	9,096
Total Assets	$ 437,855	$ 321,539
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Bank debt	$ 6,026	$
Accounts payable	77,425	35,180
Accrued and other liabilities	94,639	32,949
Advance billings, net	9,798	13,649
Current portion of long-term debt	3,218	16,378
Deferred acquisition consideration	1,775	1,113
Total Current Liabilities	192,881	99,269
Long-Term Debt	50,320	95,970
Convertible Notes		37,794
Liabilities Related to Assets Held for Sale	867	6,649
Other Liabilities	4,857	516
Deferred Tax Liabilities	854	
Total Liabilities	249,779	240,198
Minority Interests	45,052	2,432
Commitments, Contingencies and Guarantees (Note 19)		
Shareholders Equity:		
Preferred shares, unlimited authorized, none issued		
Class A Shares, no par value, unlimited authorized, 21,937,871 and 18,369,451 shares issued in 2004 and 2003, respectively	164,064	115,861
Class B Shares, no par value, unlimited authorized, 2,502 and 450,470 shares issued in 2004 and 2003, respectively, convertible into one Class A share	1	135
Share capital to be issued	3,909	
Additional paid-in capital	17,113	4,610
Deficit	(45,083)	(39,169)
Accumulated other comprehensive income (loss)	3,020	(2,528)
Total Shareholders Equity	143,024	78,909
Total Liabilities and Shareholders Equity	$ 437,855	$ 321,539

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

7

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

	Years Ended December 31, 2004	2003	2002
Cash flows from operating activities:			
Net income (loss)	$ (2,157)	$ 12,431	$ 34,509
Loss from discontinued operations	(5,935)	(1,271)	(15,398)
Cumulative effect of change in accounting policy			(47,916)
Income (loss) from continuing operations	3,778	13,702	97,823
Adjustments for non-cash items:			
Stock-based compensation	8,388	6,182	
Depreciation and amortization	13,743	8,485	11,222
Amortization and write-off of deferred finance charges	6,212	3,897	2,428
Non-cash interest expense		4,557	3,368
Deferred income taxes	(2,712)	4,630	24,121
Foreign exchange	498	2,023	(4,380)
Gain on sale of assets and settlement of long-term debt	(18,741)	(43,792)	(113,422)
Write-down of fixed assets and other assets		8,126	3,391
Goodwill charges		10,012	
Earnings of non consolidated affiliates	(3,651)	(4,929)	(2,142)
Minority interest and other	(3,234)	(1,164)	(3,214)
Changes in non-cash working capital			
Accounts receivable	5,586	790	6,793
Expenditures billable to clients	(16,083)	1,188	(1,465)
Inventories	(2,547)	(921)	2,780
Prepaid expenses and other current assets	1,148	(759)	(656)
Accounts payable, accruals and other liabilities	49,239	627	(4,865)
Advance billings	(17,122)	394	(5,978)
Net cash provided by operating activities	24,502	13,048	15,804
Cash flows from investing activities:			
Capital expenditures	(15,552)	(16,514)	(7,001)
Proceeds of dispositions		115,184	173,682
Acquisitions, net of cash	(17,569)	(26,744)	(12,380)
Distributions from non consolidated affiliates	6,828	3,993	4,228
Other assets, net	(1,363)	4,560	(1,505)
Net cash provided by (used in) investing activities	(27,656)	80,479	157,024
Cash flows from financing activities:			
Increase in bank indebtedness	6,026		
Proceeds from issuance of long-term debt	63,405	37,472	5,955
Repayment of long-term debt	(94,961)	(88,970)	(186,821)
Issuance of share capital	3,639	3,031	
Purchase of share capital	(12,476)	(13,662)	
Net cash used in financing activities	(34,367)	(62,129)	(180,866)
Effect of exchange rate changes on cash and cash equivalents	(898)	5,536	5,914
Effect of discontinued operations	(4,242)	(922)	(1,831)
Net increase (decrease) in cash and cash equivalents	(42,661)	36,012	(3,955)
Cash and cash equivalents at beginning of year	65,334	29,322	33,277
Cash and cash equivalents at end of year	$ 22,673	$ 65,334	$ 29,322
Supplemental disclosures:			
Cash income taxes paid (recovered)	$ 2,968	(1,425)	(272)
Cash interest paid	$ 4,708	6,795	16,001
Non-cash transactions:			
Share capital issued, or to be issued, on acquisitions	$ 20,840	25,985	
Share capital issued on settlement of convertible notes	$ 34,919		
Stock-based awards issued, on acquisitions	$ 1,319	2,530	
Settlement of debt with investment in affiliate:			
Reduction in exchangeable securities	$ (33,991)		
Proceeds on sale of investment	$ 33,991		

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

MDC PARTNERS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(thousands of United States dollars)

	2004 Number of Shares	2004 Amount	2003 Number of Shares	2003 Amount	2002 Number of Shares	2002 Amount
Class A Shares						
Balance at beginning of year	18,369,451	$ 115,861	16,464,871	$ 91,426	16,464,871	$ 90,265
Stock appreciation rights exercised	1,998	25				
Share options exercised	241,755	3,507	458,987	3,031		
Shares acquired and cancelled	(1,070,000)	(8,719)	(1,274,816)	(8,131)		
Shares issued on privatization of Maxxcom			2,473,183	23,327		
Shares issued as acquisition consideration	1,243,753	16,931	74,183	872		
Shares issued as deferred acquisition consideration			173,043	1,786		
Shares issued on private placement	120,919	1,406				
Shares issued upon conversion of Class B shares	447,968	134				
Shares issued on settlement of convertible notes	2,582,027	34,919				
Share purchase loans repaid				3,550		1,161
Balance at end of year	21,937,871	164,064	18,369,451	115,861	16,464,871	91,426
Class B Shares						
Balance at beginning of year	450,470	135	450,470	135	450,470	135
Shares converted to Class A shares	(447,968)	(134)				
Balance at end of year	2,502	1	450,470	135	450,470	135
Share Capital to be Issued						
Balance at beginning of year						
Shares to be issued as deferred acquisition consideration		3,909				
Balance at end of year		3,909				
Additional Paid In Capital						
Balance at beginning of year		4,610				
Stock-based compensation		6,347		888		
Acquisition purchase price consideration		1,313		2,530		
Warrants granted to service providers				1,192		
Share appreciation rights plan		6,142				
Share options exercised		(1,274)				
Share appreciation rights exercised		(25)				
Balance at end of year		17,113		4,610		
Deficit						
Balance at beginning of year		(39,169)		(46,069)		(80,578)
Premium paid on repurchase of Class A shares		(3,757)		(5,531)		
Net income (Loss) for the year		(2,157)		12,431		34,509
Balance at end of year		(45,083)		(39,169)		(46,069)
Accumulated Other Comprehensive Income (Loss)						
Balance at beginning of year		(2,528)		8,687		3,447
Foreign currency translation adjustments		5,548		(11,215)		5,240
Balance at end of year		3,020		(2,528)		8,687
Total Shareholders Equity		$ 143,024		$ 78,909		$ 54,179

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

MDC PARTNERS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(thousands of United States dollars, unless otherwise stated except share and per share amounts)

1. Basis of Presentation

MDC Partners Inc. (the Company) has prepared the consolidated financial statements included herein pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC) and in accordance with generally accepted accounting principles (GAAP) of the United States of America (US GAAP).

Nature of Operations

MDC Partners Inc., formerly MDC Corporation Inc., is incorporated under the laws of Canada. The Company commenced using the name MDC Partners Inc. on November 1, 2003 and legally changed its name through amalgamation with a wholly-owned subsidiary on January 1, 2004. The Company s operations are in primarily two business segments Marketing Communications and Secure Products International. Both business segments operate in the United States (US) and in Canada, while the Marketing Communications business also operates in the United Kingdom and the Secure Products International business also operates in Australia. See Note 17, Segment Information , for further description of the two business segments.

Change in Methods of Accounting

Effective January 1, 2004, the Company changed its method of accounting from Canadian GAAP to US GAAP. The comparative financial statements included in these financial statements have been restated following US GAAP. This change in accounting method resulted from the conversion of Class B multiple voting shares into Class A subordinate voting shares during the first quarter of 2004 (see Note 15). Due to the conversion of these shares, the majority of shareholder votes now belong to shareholders of the Company who reside in the US and, as a result, the Company is now deemed to be a US domestic issuer as defined under the SEC regulations to which the Company is subject.

Under Canadian securities requirements, the Company is required to provide, for all years presented, a reconciliation setting out the differences between US and Canadian GAAP as applied to the Company s financial statements for each of the Company s annual filings in the years ending December 31, 2004 and 2005. This required disclosure is set out in Note 22.

EITF No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share is required to be adopted in financial periods beginning after March 31, 2004. The adoption of EITF No. 03-6 did not have an impact on the Company s consolidated results of operation or financial position.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 requires an investor with a majority of the variable interests in a variable interest entity to consolidate the entity and also requires majority and significant variable interest investors to provide certain disclosures. A variable interest entity is an entity in which the equity investors do not have a controlling financial interest or the equity investment at risk is insufficient to finance the entity s activities without receiving additional subordinated financial support from other parties. In December 2003, the FASB issued Interpretation No. 46 Consolidation of Variable Interest Entities Revised (FIN 46R), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights, and accordingly, whether it should consolidate the entity.

The Company was required to apply FIN 46R to such variable interest entities (VIEs) commencing with the quarter ended March 31, 2004. In addition, the Company is required, upon the occurrence of certain triggering events, to reconsider whether an entity is a VIE. As of September 22, 2004, the Company was required to consolidate, pursuant to FIN 46R, Crispin Porter + Bogusky, LLC, a non-controlled affiliate, which was previously accounted for under the equity method. This change in accounting method was a result of a change in the relationship between the Company and Crispin Porter + Bogusky, LLC and its officers, affected by the Company s senior credit agreement entered into on September 22, 2004. (See Note 9). This change has been applied on a prospective basis.

In May 2003, the FASB issued SFAS No. 150, Accounting For Certain Financial Instruments with Characteristics of Both Liabilities and Equity , (SFAS No. 150) which establishes standards for how an issuer of financial instruments classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Implementation of this standard did not have a material effect on the Company s results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation, Transition and Disclosure, an amendment of FASB Statement No. 123 . (SFAS No. 148) SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Additionally, the statement amends the disclosure provisions of SFAS No. 123 to require prominent disclosure in financial statements about the method for accounting for stock-based compensation and the effect of the method used on reported results. The amendments to SFAS No. 123 that provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation are effective for financial statements for fiscal years ending after December 15, 2002. See Stock-Based Compensation .

In November 2002, the FASB issued FASB Interpretation No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others . (FIN 45) FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation it has undertaken in issuing the guarantee. FIN 45 also requires guarantors to disclose certain information for guarantees, beginning December 31, 2002. The adoption of FIN 45 did not have a material effect on the Company s results of operations or financial condition and these financial statements contain the required disclosures.

In November 2002, EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21) was issued. EITF 00-21 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. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company s adoption EITF 00-21 did not have a material effect on the Company s results of operations or financial condition. The Company s revenue recognition policies are in compliance with SAB 104, EITF 99-19 and EITF 00-21 and EITF 01-14.

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities , (SFAS No. 146) which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) . SFAS No. 146 requires companies to recognize costs associated with exit or disposal of activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have any immediate impact on the Company s results of operations or financial position.

In January 2002, the EITF released Issue No. 01-14, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred (EITF 01-14). This Issue summarized the EITF s views on when out-of-pocket expenses should be characterized as revenue. The adoption of the provisions of this EITF had no material impact on the Company s financial position, results of operations, or cashflows.

In January 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets . The adoption of SFAS No. 142 did result in a cumulative effect adjustment of $47,916 for an impairment charge as reflected in the Company s consolidated results of operations in 2002. See note 2, Significant Accounting Policies Goodwill and Other Intangible Assets.

In January 2002, the Company adopted SFAS No. 141, Business Combinations. The adoption of SFAS No. 141 did not have an impact on the Company s consolidated results of operation or financial position. See note 2, Significant Accounting Policies Goodwill and Other Intangible Assets.

In January 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets. The adoption of SFAS No. 144 did not have an impact on the Company s consolidated results of operation or financial position. See note 2, Significant Accounting Policies Impairment of Long-lived Assets.

In June 2001 FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. The Company adopted SFAS No. 143 in January 2003. The adoption of SFAS No. 143 did not have an impact on the Company s consolidated results of operation or financial position.

Reclassifications

Certain prior period amounts have been reclassified to conform with the 2004 presentation. These reclassifications include reclassifying the statement of operations line items from Salary and related costs and General and other operating costs to new categories entitled Cost of services sold and Office and general expenses . The Company has regrouped certain direct service costs such as production costs, travel and entertainment, and client service costs from General and other operating costs into Cost of services sold . Certain costs such as administrative salaries have been reclassified from Salary and related costs to Office and general expenses . The reclassification segregates the expense items that are directly related to serving clients from other expenses which are indirect in nature such as facilities, overhead, depreciation and other administrative expenses.

2. Significant Accounting Policies

The Company s significant accounting policies are summarized as follows:

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of MDC Partners Inc. (formerly MDC Corporation 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.

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, stock-based compensation, and the reporting of variable interest entities at the date of the financial statements. The estimates are evaluated on an ongoing basis and estimates are based on historical experience, current conditions and various other assumptions believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Concentration of Credit Risk. The Company provides marketing communications services and secure products to over 200 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 as its largest client accounted for 10.2% of the Company s 2004 consolidated revenue and no other client accounted for more than 6.2% and the top ten clients accounted for 31.9% of 2004 consolidated revenue. No client accounted for 10% or more of consolidated revenues in 2003 and 2002.

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. Included in cash and cash equivalents at December 31, 2004 is $2,836 (2003 $0) of cash restricted as to withdrawal pursuant to a collateral agreement and a customer s contractual requirement.

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

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

Inventories. Work-in-process inventories are valued at the lower of cost and net realizable value and include certain capitalized manufacturing costs. Raw materials and supplies are valued at the lower of cost and replacement cost. Cost is determined on a first-in, first-out method.

Depreciation of Fixed Assets. Buildings are depreciated on a declining balance basis over the estimated useful lives of 20 to 25 years. Computers, furniture and fixtures are depreciated on a straight-line basis over periods of 3 to 7 years. Machinery and equipment are depreciated on a straight-line basis over periods of 3 to 10 years. Leasehold improvements are depreciated on a straight-line basis over the lesser of the term of the related lease or the estimated useful life of the asset.

Impairment of Long-lived Assets. In accordance with SFAS, No. 144, Accounting for the Impairment or Disposal of Long-lived Assets, (SFAS No. 144) a long-lived asset or asset group is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, the Company compares the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group to the carrying amount of the long-lived asset or asset group. If this comparison indicates that there is an impairment, the amount of the impairment is typically calculated using discounted expected future cash flows where observable fair values are not readily determinable. The discount rate applied to these cash flows is based on the

13

Company s weighted average cost of capital, risk adjusted where appropriate. The Company incurred impairment charges related to fixed assets of $8,126 in 2003 and $3,391 in 2002.

Equity Method Investments. The equity method is used to account for investments in entities in which the Company has an ownership interest of less than 50% and has significant influence, or joint control by contractual arrangement with all parties having an equity interest, over the operating and financial policies of the affiliate or has an ownership interest of greater than 50% however the substantive participating rights of the minority interest shareholders preclude the Company from exercising unilateral control over the operating and financial policies of the affiliate. The Company s investments accounted for using the equity method include Accumark Promotions Group Inc., 55% owned by the Company, Cliff Freeman & Partners, LLC (CF), 19.9% owned by the Company, Mono Advertising LLC, 49.9% owned by the Company, Zig, Inc., 49.9% owned by the Company, and a 50% undivided interest in a real estate joint venture. Until September 22, 2004, the Company s 49.0% interest in Crispin Porter + Bogusky, LLC, (CPB) was accounted for under the equity method. After this date, the Company commenced consolidating CPB under the accounting standards for variable interest entities (see Note 9). The Company s management periodically evaluates these investments to determine if there have been any other than temporary declines in value.

Cost Method Investments. The Company s cost based investments at December 31, 2004 were primarily comprised of various interests in limited partnerships and companies where the Company does not exercise significant influence over the operation and financial policies of the investee. The total net cost basis of these investments, which are included in Other Assets on the balance sheet, as of December 31, 2004 and 2003 was $328 and $1,142, 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.

Goodwill and Indefinite Lived Intangibles. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets , goodwill and indefinite life intangible assets (trademarks) which are not subject to amortization acquired as a result of a business combination are tested for impairment annually, and more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. For goodwill, this determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit s goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, Business Combinations . The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Impairment losses, where applicable, will be charged to operating profit (loss). The company identifies certain intangible assets (trademarks) as indefinite life if there are no legal, regulatory, contractual or economic factors that limit the useful life. If the fair value of an indefinite life intangible exceeds its carrying amount, an impairment loss is recognized for the excess. The Company incurred goodwill impairment charges of $10,012 in 2003. In 2002, upon adoption of SFAS No. 142, the Company recorded a charge of $47,916, net of income taxes of $10,045, as a cumulative effect of a change in accounting policy.

Definite Lived Intangible Assets. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets , acquired intangibles, are subject to amortization over their useful lives. The method of amortization selected reflects the pattern in which the economic benefits of the specific intangible asset is consumed or otherwise used up. If that pattern cannot be reliably determined, a straight-line amortization method is used over the estimated useful life. Intangible assets that are subject to amortization are

reviewed for potential impairment in accordance with SFAS 144 at least annually or whenever events or circumstances indicate that carrying amounts may not be recoverable. See also Note 10.

Deferred Taxes. The Company uses the asset and liability method of accounting for income taxes. Deferred income taxes are provided for the temporary difference between the financial reporting basis and tax basis of the Company s assets and liabilities. Deferred tax benefits result principally from recording certain expenses in the financial statements that are not currently deductible for tax purposes and from differences between the tax and book basis of assets and liabilities recorded in connection with acquisitions. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax liabilities result principally from deductions recorded for tax purposes in excess of that recorded in the financial statements. The effect of changes in tax rates is recognized in the period the rate change is enacted.

Guarantees. Guarantees issued or modified by the Company to third parties after January 1, 2003 are generally recognized, at the inception or modification of a guarantee, as a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The initial measurement of that liability is the fair value of the guarantee. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee. The Company s liability associated with guarantees is not significant. (See Note 19)

Revenue Recognition. The Company generates services revenue from its Marketing Communications segment and product revenue from its Secure Products International segment.

The Company s revenue recognition policies are in compliance with the SEC Staff Accounting Bulletin 104, Revenue Recognition (SAB 104). SAB 104 summarizes certain of the SEC staff s views in applying generally accepted accounting principles to revenue recognition in financial statements. Also, in July 2000, the EITF of the Financial Accounting Standards Board released Issue No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent (EITF 99-19). This Issue summarized the EITF s views on when revenue should be recorded at the gross amount billed because it has earned revenue from the sale of goods or services, or the net amount retained because it has earned a fee or commission. In the Marketing Communications businesses, it acts as an agent and records revenue equal to the net amount retained, when the fee or commission is earned.

Marketing Communications

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

Non refundable retainer fees are generally recognized on a straight line basis over the term of the specific customer contract. Commission revenue is earned and recognized upon the placement of advertisements in various media when the Company has no further performance obligations. Fixed fees for services are recognized upon completion of the earnings process and acceptance by the client. Per diem fees are recognized upon the performance of the Company s services.

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

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 recognizes the incentive portion of revenue under these arrangements when specific quantitative goals are achieved, or when the Company s clients determine performance against qualitative goals has been achieved. In all circumstances, revenue is only recognized when collection is reasonably assured.

Secured Products

Substantially all of the Secured Products International segment revenue is derived from the sale of products. There are no warranty or product return provisions in the Company s contracts that result in significant provisions. The Company has the following revenue recognition policies.

Revenue derived from the stamp operations is recognized upon shipment or upon delivery of the product to the customer when the Company s obligations under the contractual arrangements are completed, the customer takes ownership and assumes the risk of loss of the product, the selling price is determinable and the collection of the related receivable is reasonably assured. The Company performs quality control testing procedures prior to shipment to ensure that its contractual obligations are met. Under these contractual arrangements, the Company has the ability to recover any costs incurred prior to shipment in the event of contract termination accordingly the Company accounts for the manufacturing costs incurred as inventory work-in-process, prior to completion of production.

Revenue derived from secured printing arrangements whereby the Company manufactures and stores the printed product for a period of time at the direction of its customer with delivery at a future date within a 90 day period is accounted for on a bill and hold basis whereby the Company allocates the arrangement consideration on a relative fair value basis between the printing service and the storage service. The Company recognizes the printing revenue when the customized printed products moves to the secure storage facility and the printing process is complete and when title transfers to the customer. The Company has no further obligations under the printing segment of the arrangement. The Company recognizes the storage fee revenue on a straight-line basis over the period to product delivery.

Although amounts are generally not billed by the Company until the customized print product is delivered to the customer s premises, collection of the entire consideration is due under certain contracts within 90 days of completion of the printing segment of the arrangement and is not dependent on delivery. For other contracts where payment is dependent on delivery, revenue is recognized upon delivery to the customer s premises and when other criteria for revenue recognition are met.

Revenue derived from the design, manufacturing, inventory management and personalization of secured cards is recognized as a single unit of accounting when the secured card is shipped to the cardholder, the Company s service obligations to the card issuer are complete under the terms of the contractual arrangement, the total selling price related to the card is known and collection of the related receivable is reasonably assured. Any amounts billed and/or collected in advance of this date are deferred and recognized at the shipping date. Under these contractual arrangements, the Company has the ability to recover any costs incurred prior to shipping in the event of contract termination and accordingly the Company accounts for the costs incurred related to design and manufacturing as inventory work-in-process.

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

Stock-Based Compensation. Effective January 1, 2003, the Company prospectively adopted fair value accounting for stock-based awards as prescribed by SFAS No. 123 Accounting for Stock-Based Compensation (SFAS No. 123). Prior to January 1, 2003, the Company elected not to apply fair value accounting to stock-based awards to employees, other than for direct awards of stock and awards settleable in cash, which required fair value accounting. Prior to January 1, 2003, for awards not elected to be accounted for under the fair value method, the Company accounted for stock-based compensation in accordance with Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees

(APB 25). APB 25 is based upon an intrinsic value method of accounting for stock-based compensation. Under this method, compensation cost is measured as the excess, if any, of the quoted market price of the stock issuance at the measurement date over the amount to be paid by the employee.

The Company adopted fair value accounting for stock-based awards using the prospective application transitional alternative available in SFAS 148 Accounting for Stock-Based Compensation Transition and Disclosure . Accordingly, the fair value method is applied to all awards granted, modified or settled on or after January 1, 2003. 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 intrinsic value of the award, and is recorded into operating income over the service period, that is the vesting period of the award in accordance with FIN 28. Changes in the Company s payment obligation subsequent to vesting of the award and prior to the settlement date are recorded as compensation cost in operating income in the period of the change. The final payment amount for Share Appreciation Rights 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 Company are recorded at fair value on the date of grant and recorded as additional paid-in capital. The fair value measurement of the compensation cost for these awards is based on using the Black-Scholes option pricing model, and is recorded into operating income over the service period, that is the vesting period of the award.

The table below summarizes the pro forma effect for the years ended December 31, had the Company adopted the fair value method of accounting for stock options and similar instruments for awards issued prior to 2003:

	Years Ended December 31,		
	2004	**2003**	**2002**
Net income (loss) as reported	$ (2,157)	$ 12,431	$ 34,509
Fair value costs, net of income tax, of stock-based employee compensation for options issued prior to 2003	1,123	1,843	1,710
Net income (loss), pro forma	$ (3,280)	$ 10,588	$ 32,799
Basic net income (loss) per share, as reported	$ (0.10)	$ 0.70	$ 2.04
Basic net income (loss) per share, pro forma	$ (0.15)	$ 0.60	$ 1.94
Diluted net income (loss) per share, as reported	$ (0.09)	$ 0.65	$ 1.40
Diluted net income (loss) per share, pro forma	$ (0.14)	$ 0.56	$ 1.33

The fair value of the stock options and similar awards at the grant date were estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for each of the following years:

	Years ended December 31,		
	2004	**2003**	**2002**
Expected dividend	0 %	0 %	0 %
Expected volatility	40 %	40 %	80 %
Risk-free interest rate	4.0 %	6.0 %	6.0 %
Expected option life in years	3.71	5	5.0
Weighted average grant date fair value of options granted	$ 4.65	$ 2.48	$ 2.38

Pension Costs. Several of the Company s US and Canadian subsidiaries offer employees access to certain defined contribution pension programs. Under the defined contribution plans, these subsidiaries, in some cases, make annual contributions to participants accounts based on individual base salaries and years of service. The Company s contribution expense pursuant to these plans was $1,286, $1,161 and $531 for the years ended December 31, 2004, 2003 and 2002, respectively.

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

Foreign Currency Translation. The Company s financial statements were prepared in accordance with the requirements of SFAS No. 52, Foreign Currency Translation . The functional currency of the Company is the Canadian dollar and it has decided to use US dollars as its reporting currency for consolidated reporting purposes. All of the Company s subsidiaries use their local currency as their functional currency in accordance with SFAS 52. Accordingly, the currency impacts of the translation of the balance sheets of the Company s non-US dollar based subsidiaries to US dollar statements are included as cumulative translation adjustments in other accumulated other comprehensive income. Cumulative translation adjustments are not included in net earnings unless they are actually realized through a sale or upon complete or substantially complete liquidation of the Company s net investment in the foreign operation. The income statements of non-US dollar based subsidiaries are translated at average exchange rates for the period.

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

Derivative Financial Instruments. The Company follows SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities . SFAS No.133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts and debt instruments) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Company issued adjustable rate exchangeable debentures, in December 2003, which included an embedded derivative (Note 16). The derivative met the SFAS No. 133 criteria for separation from the debt contract and was required to be measured at fair value, with changes in the fair value being recorded in net earnings for the period, until the exchangeable debentures were settled on February 13, 2004.

Effective July 1, 2002, management designated the Company s 10.5% US senior subordinated notes (Notes) as an economic hedge against foreign exchange exposure of the US operation, Custom Direct, Inc. (CDI). The hedge was applied prospectively from the effective date whereby any foreign exchange translation adjustment of the Notes reduced any offsetting foreign exchange translation adjustment of the US operations, the net of which was reflected in the cumulative translation account within shareholders equity. The application of hedge accounting ceased on the repayment of the Company s 10.5% US senior subordinated notes on June 30, 2003 which corresponded with the Company s sale of 80% of its investment in CDI.

At December 31, 2004, the Company had no derivative instruments.

3. Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share from continuing operations for the years ended December 31:

	2004	2003	2002
Numerator			
Numerator for basic earnings per common share income from continuing operations	$ 3,778	$ 13,702	$ 97,823
Effect of dilutive securities:			
Interest expense on Convertible Notes, net of taxes of nil, $897 and $861, respectively		1,552	1,369
Numerator for diluted earnings per common share income from continuing operations plus assumed conversion	$ 3,778	$ 15,254	$ 99,192
Denominator			
Denominator for basic earnings per common share weighted average common shares	21,353,268	17,791,064	16,915,341
Effect of dilutive securities:			
Convertible Notes		3,381,643	8,665,511
Warrants	59,462		
Employee stock options, warrants, and stock appreciation rights	1,393,277	492,823	38,316
Employee restricted stock units	11,816		
Dilutive potential common shares	1,464,555	3,874,466	8,703,827
Denominator for diluted earnings per common share adjusted weighted shares and assumed conversions	22,817,823	21,665,530	25,619,168
Basic earnings per common share from continuing operations	$ 0.18	$ 0.77	$ 5.78
Diluted earnings per common share from continuing operations	$ 0.17	$ 0.70	$ 3.87

The effect of the Convertible Notes in the diluted earnings per common share calculation is accounted for using the if converted method. Under that method, the Convertible Notes are assumed to be converted to shares (weighted for the number of days outstanding in the period) at a conversion price of 95% of the twenty day weighted average trading price of the Class A subordinate voting share on The Toronto Stock Exchange prior to conversion or year end, and interest expense, net of taxes, related to the Convertible Notes is added back to net income.

Option and other rights to purchase 352,497, 800,226 and 1,635,295 shares of common stock were outstanding during fiscal 2004, 2003 and 2002 respectively, but were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

4. Acquisitions

2004 Acquisitions

Kirshenbaum bond + partners, LLC (KBP)

On January 29, 2004, the Company acquired a 60% ownership interest in KBP in a transaction accounted for under the purchase method of accounting. KBP is comprised of four units: Kirshenbaum Bond (New York and San Francisco) which are primarily advertising agencies, LIME Public Relations + Promotion, The Media Kitchen, which handles media buying and planning, and Dotglu, an interactive and direct marketing unit. The KBP name is well recognized for creating very successful non-traditional marketing campaigns and as such was acquired by the Company for its assembled workforce to enhance the creative talent within the MDC Partners Marketing Communications segment of businesses. The Company paid $21,129 in cash, issued 148,719 shares of the Company s common stock to the selling interestholders of KBP (valued at approximately $2,027 based on the share price on or about the announcement date), issued warrants to purchase 150,173 shares of the Company s common stock to the selling interestholders of KBP (the fair value of which, using a Black-Scholes option pricing model, was approximately $955 based on the share price during the period on or about the announcement date) and incurred transaction costs of approximately $1,185. Under the terms of the agreement, the selling interestholders of KBP could receive additional cash and/or share consideration totaling an additional $735, based upon the achievement of certain pre-determined earnings targets. Effective December 31, 2004, this earnings contingency was resolved and the additional consideration of $735 and $47 in additional transaction costs was recorded as goodwill.

The recorded purchase price of the net assets acquired in the transaction was $26,031. The purchase price was allocated to the fair value of net assets acquired and minority interests as follows:

	Previously Reported	Adjustments	As Reported
Cash and cash equivalents	$ 17,906	$	$ 17,906
Accounts receivable and other current assets	16,421		16,421
Fixed assets and other assets	4,636	(233)	4,403
Goodwill (tax deductible)	24,621	(7,657)	16,964
Intangible assets	1,200	9,170	10,370
Accounts payable, accrued expenses and other liabilities	(38,788)	(584)	(39,372)
Minority interest at carrying value	(747)	86	(661)
Total consideration	$ 25,249	$ 782	$ 26,031

Identifiable intangible assets of $10,370 are comprised primarily of customer relationships and trademarks. (Note 10). The Company s consolidated financial statements include KBP s results of operations subsequent to its acquisition on January 29, 2004. During the year ended December 31, 2004, the operations of KBP contributed $46,027 of revenue and $2,543 of income from continuing operations to the Company s consolidated statement of operations.

VitroRobertson

On July 27, 2004, the Company acquired a 68% ownership interest in VitroRobertson Acquisition, LLC (VR) in a transaction accounted for under the purchase method of accounting. VR is located in San Diego, California, and is recognized for its expertise in brand market share management and as such was acquired by the Company primarily for its assembled workforce to enhance both the range of services and the creative talent within the MDC Partners Marketing Communications operating segment. The Company paid $7,009 in cash, issued 42,767 shares of the Company s common stock to the selling interestholders of VR (valued at approximately $473 based on the share price on the announcement date), and incurred transaction costs of approximately $122. Under the terms of the agreement, the selling interestholders of VR could receive additional cash consideration based upon achievement of certain pre-determined earnings targets to be measured at the end of 2005. Based on current earnings levels, additional consideration is expected to be $10. Such contingent consideration will be accounted for as goodwill when the contingencies are resolved.

Exclusive of the contingent consideration, the recorded purchase price of the net assets acquired in the transaction was $7,604. The purchase price was allocated to the fair value of net assets acquired and minority interest as follows:

	Previously Reported	**Adjustments**	**As Reported**
Cash and cash equivalents	$ 3,502	$	$ 3,502
Accounts receivable and other current assets	6,383		6,383
Fixed assets and other assets	406		406
Goodwill (tax deductible)	7,282	(2,714)	4,568
Intangible assets		2,718	2,718
Accounts payable, accrued expenses and other liabilities	(9,823)		(9,823)
Minority interest at carrying amount	(150)		(150)
Total consideration	$ 7,600	$ 4	$ 7,604

Identifiable intangible assets of $2,718 are comprised primarily of customer relationships. The Company s consolidated financial statements include VR s results of operations subsequent to its acquisition on July 27, 2004. During the year ended December 31, 2004, the operations of VR contributed $3,744 of revenue and $372 of income from continuing operations to the Company s consolidated statement of operations.

Accent Marketing Services

On March 29, 2004, the Company acquired an additional 39.3% ownership interest in the Accent Marketing Services LLC (Accent), increasing its total ownership interest in this subsidiary from 50.1% to approximately 89.4%. Accent has established itself as an integrated direct marketing services company providing customer contact centers and direct mail services to its clients, offering a unique customer relationship and product life cycle management program to its clients. The Company paid $1,444 in cash, issued, (or will issue), 1,103,331 shares of the Company s common stock to the selling interestholders of Accent (valued at approximately $16,833 based on the share price on or about the announcement date), and incurred transaction costs of approximately $99. Under the terms of the agreement, the selling interestholders of Accent could receive up to a maximum additional consideration of 742,642 common shares of the Company, or the cash equivalent at the option of the Company, based upon achievement of certain pre-determined earnings targets, by June 2005. Such contingent consideration will be accounted for as goodwill when the contingency is resolved. This acquisition was accounted for as a purchase and accordingly, the Company s consolidated financial statements, which have consolidated Accent s financial results since 1999, reflect a further 39% ownership participation subsequent to the additional acquisition on March 29, 2004.

The purchase price was allocated to the Company s increased share of working capital and the fair value of the net assets acquired including acquired intangibles and goodwill. Specifically, $10,074 was allocated to tax deductible goodwill, $3,688 was allocated to intangible assets comprised of customer relationships and internally developed software.

Other 2004 Acquisitions

In March 2004, the Company acquired a 19.9% ownership interest in Cliff Freeman + Partners LLC (CF) in a transaction accounted for under the equity method of accounting. CF is a New York based advertising agency. CF s name has long been recognized for its creative abilities, winning numerous national and international advertising awards, and as such was acquired by the Company for its assembled workforce to enhance the creative talent within the MDC Partners Marketing Communications segment of businesses. Also during the quarter ended March 31, 2004, the Company acquired further equity interests in the existing subsidiaries of Allard Johnson Communications Inc. (4.7%) and Targetcom LLC (20%), as well as several other insignificant investments. In aggregate, the Company paid $3,489 in cash and incurred transaction costs of approximately $213. Under the terms of the CF agreement, the selling interestsholders could receive additional cash and/or share consideration after two years based upon achievement of certain pre-determined cumulative earnings targets. Based on current earnings levels, the additional consideration is estimated to be nil. Such contingent consideration will be accounted for as goodwill when the contingency is resolved.

Exclusive of future contingent consideration, the aggregate purchase price of the net assets acquired in these transactions was approximately $3,702. The purchase price was allocated based on the fair value of the net assets acquired. Of the purchase price, $2,141 was allocated to goodwill of which $1,242 is tax deductible, $306 to intangible assets, $472 to other tangible assets and $783 to investments in affiliates.

The Company s consolidated financial statements include the results of operations and balance sheet, accounted for on a consolidated basis except for CF, which is accounted for on an equity basis due to the significant influence of the management of the operation obtained through contractual rights. During the year ended December 31, 2004, the aggregated operations of these other acquisitions contributed no incremental revenue to, and had no material effect on net income in, the Company s consolidated operating results.

On April 14, 2004, the Company acquired a 65% ownership interest in henderson bas (HB) in a transaction accounted for under the purchase method of accounting. HB is a Toronto based agency providing interactive and direct marketing advertising services. HB has been recognized for its creative abilities, winning several interactive advertising awards, and as such was acquired by the Company for its assembled workforce to enhance the creative talent within the MDC Partners Marketing Communications segment of businesses. On May 27, 2004, the Company acquired a 50.1% ownership interest in Bruce Mau Design Inc. (BMD) in a transaction accounted for under the purchase method of accounting. BMD is a Toronto based design studio providing visual identity and branding such as environmental graphics, exhibition development and design, and cultural and business programming services. BMD is world-renowned, working with internationally acclaimed architects and leading cultural and commercial enterprises and as such was acquired by the Company for its assembled workforce to add a new aspect to the creative talent within the Marketing Communications segment of businesses. During the quarter ended June 30, 2004, the Company also acquired the following interests in three smaller agencies: a 49.9% interest in Mono Advertising LLC (Mono), a 51% interest in Hello Design, LLC and a 51% interest in Banjo, LLC (Banjo), a variable interest entity in which the Company is the primary beneficiary. These agencies provide advertising, interactive direct marketing, and film production related marketing communications services, respectively. These transactions were all accounted for under the purchase method of accounting and are consolidated from the date of acquisition, with the exception of, Mono, which is accounted for under the equity method.

During the quarter ended June 30, 2004, in aggregate, the Company paid and will pay $4,194 in cash, issued warrants to purchase 90,000 shares of the Company s common stock to certain selling interestsholders (valued at approximately $360 using the Black-Scholes option-pricing model assuming a 40% expected volatility, a risk free interest rate of 3.3% and an expected option life of 3 years) and incurred transaction costs of approximately $349. Under the terms of the Mono, Hello Design, LLC, and BMD agreements, the selling interest holders could receive additional cash and/or share consideration after one to three years based on achievement of certain pre-determined cumulative earning targets. Based on current earning levels, the additional consideration is expected to be $2,595. Such contingent consideration will be accounted for as goodwill when the contingency is resolved.

The aggregate purchase price of the net assets acquired in these transactions was approximately $4,903. The purchase price was allocated to the fair value of the net assets acquired. Specifically, $1,070 was allocated to goodwill, of which $1,014 is tax deductible, and $1,537 to intangible assets and $2,296 of other tangible assets.

The Company s consolidated financial statements include the results of operations and balance sheets of these acquired entities accounted for on a consolidated basis. During the year ended December 31, 2004, the aggregated operations of these acquisitions contributed $6,332 of revenue and $65 of net loss to the Company s consolidated operating results.

At August 31, 2004, the Company acquired a 49.9% ownership interest in Zig Inc (Zig) in a transaction accounted for under the equity method of accounting. Zig is a Toronto, Canada-based advertising agency. Zig is internationally recognized for its unique creative abilities and as such was acquired by the Company for its assembled workforce to enhance the creative talent within the MDC Partners Marketing Communications segment of businesses. Also during the quarter, the Company acquired further equity interest in the existing subsidiary Fletcher Martin Ewing LLC, as well as several other insignificant investments. In aggregate, the Company paid $2,462 in cash, issued 125,628 shares of the Company s common stock to the selling interest holders (valued at approximately $1,507 based on the share price during the period on or about the date of closing and the press release) and incurred transaction costs of approximately $243. Under the terms of the Zig agreement, the selling interestholders were entitled to additional cash and share consideration totaling $624 based upon achievement of certain pre-determined earnings targets for 2004. Such contingent consideration was earned and has been accounted for as goodwill.

The aggregate purchase price of the net assets acquired in these transactions was approximately $4,783. The purchase price was allocated to the net assets acquired. Specifically, $764 was allocated to goodwill, of which $739 is tax deductible, and $1,054 to intangible assets, $123 to other tangible assets and $2,842 to investment in affiliates.

The Company s consolidated financial statements include the results of operations and balance sheet, accounted for on a consolidated basis except for Zig, which is accounted for on an equity basis due to the significant influence of the management of the operation obtained through ownership interest and contractual rights. During this period, the incremental effect of the aggregated operations of these acquisitions contributed $147 of net income to the Company s consolidated operating results.

2003 Acqusitions

Maxxcom Inc.

Effective July 31, 2003, the Company acquired an additional 26% ownership interest in the Maxxcom Inc. (Maxxcom), increasing its total ownership interest in this subsidiary from 74% to 100%. Maxxcom had established itself as a holding company of several well known and notable marketing communications businesses. The Company issued 2,473,185 shares of the Company s common stock to the selling shareholders of Maxxcom (valued at approximately $23,327 based on the share price on or about the announcement date), issued fully vested stock options and warrants to purchase 681,469 shares of the Company s common stock to option and warrant holders of Maxxcom (the fair value of which, using a Black-Scholes option pricing model, was approximately $2,530 based on the share price during the period on or about the announcement date) and incurred transaction costs of approximately $784. This acquisition was accounted for as a purchase and accordingly, the Company s consolidated financial statements, which have consolidated Maxxcom s financial results since 2000, reflect a further 26% ownership participation subsequent to the additional acquisition on July 31, 2003.

The purchase price was allocated based on the fair value of the net assets acquired as follows:

	Previously Reported	Adjustments	As Reported
Goodwill ($0 is tax deductible)	$ 20,855	$ (1,700)	$ 19,155
Intangible assets customer contract relationships		1,700	1,700
Elimination of minority interest	5,786		5,786
Total purchase price	$ 26,641	$	$ 26,641

Other 2003 + Prior Year Acquisitions

During the year ended December 31, 2003, the Company acquired several other ownership interests in existing subsidiaries. The Company acquired an additional 1.52% ownership interest in Toronto based Allard Johnson Communications Inc., increasing its total ownership interest in this subsidiary to 54.3%. The Company also acquired an additional 6.17% ownership interest in Westport, Connecticut based Source Marketing, increasing its total ownership interest in this subsidiary to 87.67%. Also during the year, the Company acquired further equity interests in several subsidiaries, increasing the Company s ownership to 100% in each case. The Company acquired the remaining 5.96% in Minneapolis based Colle & McVoy, Inc, the remaining 38.7% in London based Interfocus Network Limited (re-named Mr.Smith Agency in 2004) and the remaining 15% in Toronto based Metaca Corporation. Additionally, a further $500 was paid in 2004 related to the previously accrued $698 contingent consideration in 2003. All of these acquired interests, except for Metaca Corporation, which is a secure products business, are related to marketing communications businesses.

The aggregate purchase price of the net assets acquired in these transactions was approximately $3,945. The purchase price was allocated based on the fair value of the net assets acquired. Specifically, $2,668 was allocated to goodwill of which $1,163 was tax deductible.

The Company s consolidated financial statements include the results of operations and balance sheet, accounted for on a consolidated basis, with the exception of Interfocus Network Limited which is accounted for as a discontinued operation. During the year ended December 31, 2003, the aggregated operations of these other acquisitions had no material effect on net income in, the Company s consolidated operating results.

Pro Forma Results of Operations:

The following unaudited pro forma results of operations of the Company for the years ended December 31, 2004 and 2003, respectively, assume that the acquisition of the operating assets of the businesses acquired during 2004 had occurred on January 1, 2004 and 2003, respectively. These unaudited pro forma results are not necessarily indicative of either the actual results of operations that would have been achieved had the companies been combined during these periods, nor are they necessarily indicative of future results of operations.

	Years Ended December 31, 2004	2003
Revenues	$ 326,954	$ 331,051
Net income (loss)	(2,011)	13,693
Earnings (loss) per share:		
Basic net income (loss)	$ (0.09)	$ 0.77
Diluted net income (loss)	$ (0.09)	$ 0.70

5. Inventories

The components of inventories at December 31, are listed below:

	2004	2003
Work-in-process	$ 6,601	$ 3,992
Raw materials and supplies	4,191	3,743
Total	$ 10,792	$ 7,735

6. Fixed Assets

The following is a summary of the fixed assets as of December 31:

	2004			2003		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	$ 337	$	$ 337	$ 312	$	$ 312
Buildings	2,546	829	1,717	2,337	700	1,637
Computers, furniture and fixtures	51,961	33,981	17,980	41,660	27,653	14,007
Machinery and equipment	37,342	14,289	23,053	29,830	11,536	18,294
Leasehold improvements	21,522	9,244	12,278	9,825	6,405	3,420
	$ 113,708	$ 58,343	$ 55,365	$ 83,964	$ 46,294	$ 37,670

Included in fixed assets are assets under capital leases with a cost of $14,639 (2003 $11,682) and accumulated depreciation of $4,960 (2003 $5,089). Depreciation expense for the years ended December 31, 2004, 2003 and 2002 was $10,199, $8,485, and $11,222, respectively.

7. Investments in Affiliates

The investment in affiliated companies, which are accounted for using the equity method, is represented by the following at December 31:

	2004	2003
Net current assets	$ 5,436	$ 7,258
Fixed assets	7,303	21,851
Other long-term assets	256	38
Other long-term liabilities	(8,405)	(9,670)
Interests of other shareholders	(2,484)	(10,926)
Company s interest	2,106	8,551
Goodwill and other intangibles, net	8,665	27,811
Net investments	$ 10,771	$ 34,362

Accumulated amortization of intangibles included in goodwill and other intangibles above is $125 and $0 at December 31, 2004 and 2003, respectively.

The results of operations of affiliated companies for the years ended December 31 were:

	2004	2003	2002
Revenue	$ 52,657	$ 99,132	$ 31,633
Income before taxes	11,750	19,976	7,115
Income taxes	4,415	5,193	2,693
Net income	$ 7,335	$ 14,783	$ 4,422
Company s share of equity in earnings	$ 3,651	$ 4,929	$ 2,142

The Company s share of equity in earnings is net of intangible amortization of $125, $0 and $0 for the years ended December 31, 2004, 2003, and 2002, respectively.

8. Financial Instruments

Financial assets, which include cash and cash equivalents and accounts receivable, have carrying values which approximate fair value due to the short-term nature of these assets. Financial liabilities with carrying values approximating fair value due to short-term maturities include accounts payable, accruals and other liabilities, advance billings, and deferred acquisition consideration. Bank debt and long-term debt are variable rate debt, the carrying value of which approximates fair value. The fair value of financial commitments, guarantees and letters of credit, are based on the stated value of the underlying instruments. Guarantees have been issued in conjunction with the disposition of businesses in 2001 and 2003 and letters of credit have been issued in the normal course of business.

9. Variable Interest Entities

In December 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 Consolidation of Variable Interest Entities Revised (FIN 46R), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights, and accordingly, whether it should consolidate the entity. The Company was required to apply FIN 46R to such variable interest entities (VIEs) commencing with the quarter ended March 31, 2004. In addition, the Company is required, upon the occurrence of certain triggering events, to reconsider whether an entity is a VIE.

(i) The Company acquired a 49% voting interest in Crispin Porter + Bogusky, LLC (CPB), a marketing services business, in 2001 and has accounted for its investment under the equity method of accounting. The equity carrying value of the investment in CPB as at June 30, 2004 was $18,110. Pursuant to the terms of the CPB Shareholders Agreement, the Company is entitled to 49% of earnings, plus an additional 8.5% of annual earnings in excess of $4,171. While CPB is a VIE, prior to September 22, 2004, the Company was not the primary beneficiary of its operations and thus, was not permitted to consolidate CPB under FIN 46R.

Effective September 22, 2004, in connection with the refinancing of the Company s bank credit facilities, the CPB Shareholders Agreement was amended to permit all of the assets of CPB to be pledged by the Company as security for its new bank credit facilities and in addition, earlier in the third quarter, certain of the other investors in CPB became officers of a subsidiary of the Company. As a result of these changes, the Company became the primary beneficiary of CPB and is required to consolidate its operations under FIN 46R, commencing September 22, 2004.

Under FIN 46R, for VIEs that must be consolidated, the assets, liabilities and minority interest of the VIE initially would be measured at their fair value as if the initial consolidation had resulted from a business combination on that date. Based on an independent valuation of the fair values of the assets, liabilities and non-controlling interests of CPB, the Company accounted for the following amounts in its balance sheet as at September 22, 2004 in connection with the consolidation of this VIE:

Assets:	
Cash and cash equivalents	$
Receivables and other current assets	32,854
Goodwill	27,654
Customer relationships and other intangible assets	31,500
Other assets	6,138
	98,146
Liabilities:	
Accounts payable and other current liabilities	17,542
Advance billings	18,205
Other liabilities	1,579
Minority Interest	43,285
	80,611
Net investment	$ 17,535

Upon consolidation, the Company eliminated its previously recorded investment in affiliate. The liabilities recognized as a result of consolidating CPB do not represent additional claims on the Company s general assets, rather, they represent claims against the specific assets of the VIE. While assets recognized as a result of consolidating CPB do not represent additional assets that could be used to satisfy claims against the Company s general assets, as a result of the amendments to the CPB Shareholders Agreement and the Company s bank credit facility entered into September 22, 2004, the assets recognized have been pledged as security for the Company s borrowings under its bank credit facilities.

As a result of consolidating CPB with effect from September 22, 2004, included in the Company s results of operations from that date to December 31, 2004 is the following with respect of CPB:

Revenue services	$ 13,307
Operating expenses:	
Cost of services sold	546
Office and general expenses	8,475
Depreciation and amortization	1,238
	10,259
Operating profit	3,048
Interest expense, net	16
Income taxes	703
Minority interest	1,687
Net income	$ 642

(ii) Based upon a review of the provisions of FIN 46R, the Company has identified Banjo, a business in which the Company acquired a majority voting interest in the second quarter of 2004, as a variable interest entity for which the Company is the primary beneficiary. The Company has also identified an investee in which the Company has a 45% investment as a variable interest entity for which the Company is the primary beneficiary, thereby requiring consolidation. To December 31, 2004 the Company has funded $1.5 million to this start-up venture to finance the development of proprietary content-driven marketing material. The venture, which commenced operations in the second quarter of 2004, has no significant assets or liabilities and no revenues, and amounts expended by the venture have been principally in respect of salaries and related costs, and general and other operating costs.

In addition the Company has identified Trapeze Media Limited as a variable interest entity, however the Company is not the primary beneficiary and Trapeze is therefore not consolidated. To date, the results of operations of Trapeze have not been material to the Company s consolidated financial statement. See Note 18(c).

28

10. Goodwill and Intangible Assets

As of December 31 the gross and net amounts of acquired intangible assets were as follows:

	2004	2003
Goodwill:		
Beginning of the year	$ 83,199	$ 152,383
Acquired goodwill	35,596	25,691
Reduction for disposition		(75,619)
Variable interest entity consolidation	27,654	
Reduction on change in estimate	(1,898)	
Goodwill charges		(10,012)
Foreign currency translation	1,943	(9,244)
Balance end of the year	$ 146,494	$ 83,199
Intangibles:		
Trademarks (indefinite lived)	$ 17,780	$
Customer relationships gross	$ 28,857	$
Less accumulated amortization	(2,773)	
Customer relationships net	$ 26,084	$
Other intangibles gross	$ 3,781	$
Less accumulated amortization	(372)	
Other intangibles net	$ 3,409	$
Total intangible assets	$ 50,418	
Less accumulated amortization	(3,145)	
Total intangible assets net	$ 47,273	$

In accordance with the Company s accounting policy, a review of the carrying value to fair market value of goodwill and intangible assets was performed. As a result of this review, in 2003, the Company recorded an impairment charge related to goodwill in the Secure Products International Group of $10,012.

The weighted average amortization periods for customer relationships and other intangible assets are 6 years and 7 years, respectively and 6 years in total. The amortization expense of amortizable intangible assets for the year ended December 31, 2004, was $3,145 (2003 $0; 2002 $0) before tax and the estimated amortization expense for the five succeeding years before tax, per year is:

Year	Amortization
2005	$ 6,183
2006	$ 6,183
2007	$ 5,540
2008	$ 5,513
2009	$ 4,804

11. Income Taxes

The components of the Company s income (loss) from continuing operations before income taxes, equity in affiliates and minority interests and cumulative effect of a change in accounting policy, by taxing jurisdiction for the years ended December 31, were:

	2004	2003	2002
Income:			
US	$ 1,102	$ 3,777	$ 36,564
Non- U.S	7,963	15,274	91,009
	$ 9,065	$ 19,051	$ 127,573

The provision (benefit) for income taxes by taxing jurisdiction for the years ended December 31, were:

	2004	2003	2002
Current tax provision:			
US federal	$ (18)	$ 903	$ (1,625)
U.S state and local	655	122	(287)
Non- US	2,318	115	2,963
	2,955	1,140	1,051
Deferred tax provision (benefit):			
US federal	(1,642)	(601)	4,176
US state and local	(262)	(74)	208
Non- US	(808)	5,305	19,737
	(2,712)	4,630	24,121
Income tax provision (benefit)	$ 243	$ 5,770	$ 25,172

A reconciliation of income tax expense (benefit) using the statutory Canadian federal and provincial income tax rate compared with actual income tax expense (benefit) for the years ended December 31, is as follows:

	2004	2003	2002
Income (loss) from continuing operations before income taxes, equity in affiliates and minority interest and cumulative effect of a change in accounting policy	$ 9,065	$ 19,051	$ 127,573
Statutory income tax rate	36.12 %	36.62 %	38.62 %
Tax expense (benefit) using statutory income tax rate	3,274	6,976	49,269
Other taxes	2,164	(130)	485
Non-deductible goodwill charges		3,666	
Non-deductible stock-based compensation	3,129	259	
Other non-deductible expense	590	163	168
Change to valuation allowance on items affecting taxable income	2,322	3,595	668
Non-taxable income and gains	(8,115)	(6,998)	(24,755)
Minority interests	(3,178)	(2,033)	(1,425)
Change in enacted tax rates	324		
Other, net	(267)	272	762
Income tax expense	$ 243	$ 5,770	$ 25,172
Effective income tax rate	2.7 %	30.3 %	19.7 %

30

Income taxes receivable were $535 and $825 at December 31, 2004 and 2003, respectively, and were included in accounts receivable on the balance sheet. Income taxes payable were $357 and $112 at December 31, 2004 and 2003, respectively, and were included in accrued and other liabilities on the balance sheet.

The tax effects of significant temporary differences representing deferred tax assets and liabilities at December 31, were as follows:

	2004	2003
Deferred tax assets:		
Capital assets and other	$ 1,435	$ 1,958
Net operating loss carry forwards	33,719	27,068
Goodwill amortization	3,963	6,153
Interest deductibility	5,248	3,697
Restructuring charge		554
Share issue costs	486	853
Capital loss carry forwards	3,300	327
Accounting reserves	11,616	6,408
Gross deferred tax asset	59,767	47,018
Less: valuation allowance	(42,555)	(31,283)
Net deferred tax assets	17,212	15,735
Deferred tax liabilities:		
Capital assets and other	(3,345)	(2,843)
Deferred finance charges	(46)	(286)
Goodwill amortization	(1,792)	(1,043)
Total deferred tax liabilities	(5,183)	(4,172)
Net deferred tax asset	$ 12,029	$ 11,563
Disclosed as:		
Deferred tax assets	$ 12,883	$ 11,563
Deferred tax liabilities	854	
	$ 12,029	$ 11,563

The Company has US federal net operating loss carry forwards of $13,311 and non-US net operating loss carry forwards of $71,408 that expire in years 2005 through 2024, and indefinite loss carry forwards of $8,266. The Company has tax benefits from net operating loss carry forwards for state taxing jurisdictions of approximately $2,341.

The valuation allowance has been recorded to reduce our deferred tax asset to an amount that is more likely than not to be realized, and is based upon the uncertainty of the realization of certain non-US and state deferred tax assets. The increase in the Company s valuation allowance charged to the statement of operations for each of the years ended December 31, 2004, 2003, and 2002 was $8,939, $3,866, and $1,430, respectively.

Deferred taxes are not provided for temporary differences representing earnings of non-Canadian subsidiaries that are intended to be permanently reinvested. The potential deferred tax liability associated with these undistributed earnings is not material.

12. Discontinued Operations

In November 2004, the Company s management reached a decision to discontinue the operations of a component of its business. This component is comprised of the Company s UK based marketing communications business, a wholly owned subsidiary Mr. Smith Agency, Ltd. (formerly known as Interfocus Networks Limited). The Company decided to dispose of the operations of this business due to its unfavorable economics. Substantially all of the net assets of the discontinued business were sold during the fourth quarter of 2004 with the disposition of all activities of Mr. Smith and remaining sale of assets was substantially complete by the end of the first quarter of 2005. No significant one-time termination benefits were incurred or are expected to be incurred. No further significant other charges are expected to be incurred.

Included in discontinued operations in the Company s consolidated statement of operations for the years ended December 31 were the following:

	Years Ended December 31, 2004	2003	2002
Revenue	$ 3,733	$ 6,733	$ 7,353
Operating loss	$ (6,060)	$ (1,521)	$ (15,848)
Gain (loss) on disposal of net assets	$ 145	$ 14	$
Interest expense and other	$ 20	$ 59	$ 10
Income taxes (recovery)	$	$ (232)	$
Minority interest recovery	$	$ 63	$ 460
Net loss from discontinued operations	$ (5,935)	$ (1,271)	$ (15,398)

With the exception of a tax benefit received in 2003, the effective tax rate reconciles to the statutory rate through the recording of a valuation allowance.

As of December 31, the carrying value on the Company s balance sheet of the assets and liabilities to be disposed were as follows:

	2004	2003
Assets held for sale:		
Cash and cash equivalents	$ 405	$ 595
Receivables and other current assets	217	3,366
Expenditures billable to clients		1,464
Fixed assets		1,105
Total assets	$ 622	$ 6,530
Liabilities related to assets held for sale:		
Accounts payable and other current liabilities	$ 867	$ 4,567
Advance billings, net		2,082
	$ 867	$ 6,649

13. Comprehensive Income

Total comprehensive income and its components for the years ended December 31, were:

	2004	2003	2002
Net income (loss) for the year	$ (2,157)	$ 12,431	$ 34,509
Unrealized gain on marketable securities, net of tax		2,640	
Reclassification adjustment for realized loss on marketable securities		(2,640)	
Foreign currency cumulative translation adjustment	5,548	(11,215)	5,240
Comprehensive income for the year	$ 3,391	$ 1,216	$ 39,749

14. Bank Debt, Long-Term Debt and Convertible Notes

At December 31, the Company s long-term indebtedness was comprised as follows:

	2004	2003
Bank debt(a)	$ 6,026	$
MDC revolving credit facility(a)	46,000	
Maxxcom credit facility(a)(b)		30,718
Adjustable rate exchangeable securities(c)		30,318
Maxxcom subordinated debenture(a)		39,849
Convertible Notes(d)		37,794
Note payable and other bank loans(e)	79	4,249
	52,105	142,928
Obligations under capital leases(f)	7,459	7,214
	59,564	150,142
Less: bank debt	6,026	
Less: current portion	3,218	16,378
	$ 50,320	$ 133,764

Interest expense related to long-term debt for the years ended December 31, 2004, 2003 and 2002 was $6,411, $13,731 and $18,787, respectively.

(a) MDC Revolving Credit Facility

On June 10, 2004, MDC Partners Inc. entered into a revolving credit facility with a syndicate of banks providing for borrowings of up to C$25.0 million ($18.7 million) originally maturing in May of 2005, it was extinguished and replaced in September 2004. The facility was available for general corporate purposes including acquisitions, however, it could not be used to repay existing debt or to provide financial assistance to businesses securing such debt. This facility bore interest at variable rates based upon LIBOR, Canadian bank prime or US bank base rate, at the Company s option. Based on the level of debt relative to certain operating results, the interest rates on loans were calculated by adding between 175 to 275 basis points to the LIBOR and Bankers Acceptance based interest rate loans and between 75 to 175 basis points to all other loan interest rates. The provisions of the facility contained various covenants pertaining to debt to EBITDA (earnings before interest taxes, depreciation and amortization) ratios, debt to capitalization ratio, and the maintenance of certain interest coverage and minimum shareholders equity levels. The facility was secured by a pledge of the Company s assets principally comprised of ownership interests in its subsidiaries and by the underlying assets of the businesses comprising the Company s Secure Products International operating segment and KBP .

On September 22, 2004, MDC Partners Inc. and certain of its wholly-owned subsidiaries entered into a revolving credit facility with a syndicate of banks providing for borrowings of up to $100 million (including swing-line advances of up to $10 million) maturing in September 2007 (the Credit Agreement). This facility bears interest at variable rates based upon the Eurodollar rate, US bank prime rate, US base rate, and Canadian bank prime rate, at the Company s option. Based on the level of debt relative to certain operating results, the interest rates on loans are calculated by adding between 200 and 275 basis points on Eurodollar and Bankers Acceptance based interest rate loans, and between 50 and 125 basis points on to all other loan interest rates. The provisions of the facility contain various covenants pertaining to a minimum ratio of debt to net income before interest, income taxes, depreciation and amortization (EBITDA), a maximum debt to capitalization ratio, the maintenance of certain liquidity levels and minimum shareholders equity levels. The facility restricts, among other things, the levels of capital expenditures, investments, distributions, dispositions and incurrence of other debt. The facility is secured by a senior pledge of the Company s assets principally comprised of ownership interests in its subsidiaries and by the underlying assets of the businesses comprising the Company s Secure Products International operating segment and by a substantial portion of the underlying assets of the businesses comprising the Company s Marketing Communications operating segment, the underlying assets being carried at a value represented by the total assets reflected on the Company s consolidated balance sheet at December 31, 2004. At December 31, 2004, the aggregate amount of swing line advances, plus outstanding checks (disclosed as Bank debt in Current Liabilities on the balance sheet) was $6,026, and the unused portion of the total facility was $45,117.

This Credit Agreement is available for general corporate purposes, including acquisitions. Funds from this facility were initially used to repay in full and cancel the Maxxcom credit facility maturing September 30, 2004, the Maxxcom subordinated debenture maturing September 2005, the MDC Partners revolving credit facility entered into in June 2004 and maturing May 2005, and certain subsidiaries current bank loans.

The Company has classified the swing-line component of this revolving credit facility as a current liability in accordance with EITF 95-22, Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Arrangement . This component, reflected as bank debt on the balance sheet, is classified as a current liability in accordance with EITF 95-22 since the swing-line contains a lock box arrangement that requires the cash receipts of the Company to be used to repay amounts outstanding under the swing-line and the entire credit facility is subject to subjective acceleration clauses. Management believes that no conditions have occurred that would result in subjective acceleration by the lenders, nor do they believe that any such conditions will exist over the next twelve months. The weighted average interest rate on these current portions of debt was 6.4% and 9.2% as of December 31, 2004 and 2003, respectively.

On December 22, 2004, and again on March 14, 2005, the Company amended certain of the terms and conditions of its Credit Facility. Pursuant to such amendments, the lenders under the Credit Facility agreed, among other things, to (i) extend the due date for the Company to deliver to the lenders its interim and annual financial statements; (ii) amend the pricing grid; (iii) modify the Company s total debt ratio, fixed charge ratio and capital expenditures covenants; and (iv) waive any potential default that may have occurred as a result of the Company s failure to comply with its total debt ratio and fixed charge coverage ratio covenants. These amendments were necessary in order to avoid an event of default under the Credit Facility and to permit the Company to continue to borrow under the Credit Facility. The Company is currently in compliance with all of the terms and conditions of its amended Credit Facility.

On April 1, 2005, the Company amended its Credit Facility in order to finance the Zyman Group acquisition. See Note 21.

As at December 31, 2004, $3,752 (2003 $8,318) of the consolidated cash position is held by subsidiaries, which, although available for the subsidiaries use, does not represent cash that is available for use to reduce MDC Partners Inc. indebtedness.

(b) Maxxcom Credit Facility

During the second quarter of 2004, the Company reached agreements with its senior credit lenders to amend the terms of the credit facility of its subsidiary, Maxxcom Inc., to eliminate the scheduled quarterly borrowing reductions after March 31, 2004 and to change the facility s maturity date from March 31, 2005 to September 30, 2004. As a result of this amendment, the Company was not required to make a debt repayment in the second quarter of $5.2 million (C$7.0 million). This credit facility has been fully extinguished. (See also Note 16 Gain on Sale of Assets and Settlement of Long-term Debt, and Note 21 Subsequent Events.)

(c) Exchangeable Securities

On December 8, 2003, the Company issued $26,344 (C$34,155) of adjustable rate exchangeable securities due December 31, 2028 for cash proceeds of $24,450 (C$31,700). Based on the performance of Custom Direct Income Fund (the Fund) for the period ended December 31, 2003, the Company was entitled to exchange its shares of Custom Direct, Inc. for units of the Fund.

In February 2004, the Company sold its remaining 20% interest in the Fund through the exchange of its interest in the Fund for the settlement of the adjustable rate exchangeable securities. (See Note 16)

(d) Convertible Notes

The 7% convertible notes were convertible at the option of the holder into Class A subordinate voting shares at a rate of 49.261 Class A subordinate voting shares per one thousand Canadian dollars of notes. The 7% convertible notes were redeemable by the Company at par. The Company had the option to satisfy the obligation to repay the principal amount of the notes on redemption or at maturity in freely tradable Class A subordinate voting shares. The notes were unsecured and ranked subordinate to all other indebtedness.

On May 5, 2004, the Company settled in full the 7% Convertible Notes with $34,919 from issuance of 2,582,027 Class A subordinate voting shares.

(e) Other

Other long-term debt at December 31, 2004 relates to two bank loans borrowed by a subsidiary. Included in long-term debt of $4,249, as at December 31, 2003, were bank loans of a subsidiary. These loans were repaid in 2004 with drawings under the Company s September 22, 2004 credit facility.

(f) Capital Leases

Future minimum capital lease payments for the years ended December 31 and in aggregate are as follows:

Period	Amount
2005	$ 3,626
2006	2,022
2007	1,241
2008	1,113
2009	200
2010 and thereafter	183
	8,385
Less: imputed interest	926
	7,459
Less: current portion	3,200
	$ 4,259

35

15. Share Capital

The authorized share capital of the Company is as follows:

(a) Authorized Share Capital

Class A Shares

An unlimited number, subordinate voting shares, carrying one vote each, entitled to dividends equal to or greater than Class B shares, convertible at the option of the holder into one Class B share for each Class A share after the occurrence of certain events related to an offer to purchase all Class B shares.

Class B Shares

An unlimited number, carrying 20 votes each, convertible at any time at the option of the holder into one Class A share for each Class B share.

Preference Shares

An unlimited number, non-voting, issuable in series.

The Company has not paid dividends on any class of shares during the three years ended December 31, 2004.

(b) 2004 Share Capital Transactions

During the year ended December 31, 2004, the Company acquired and cancelled, pursuant to a normal course issuer bid, 1,070,000 Class A subordinate voting shares for $12,476. The premium paid on the repurchase of the Class A subordinate voting shares, in the amount of $3,757, was charged to retained earnings.

During the third quarter, the Company issued 90,164 Class A subordinate voting shares for nil proceeds as additional consideration related to the maintenance of the market value of the same securities issued as purchase consideration for an acquisition completed in the first quarter of 2004. Including these 90,164 shares, 1,243,753 Class A subordinate voting shares were issued during 2004 as purchase consideration for acquisitions.

On May 5, 2004, the Company settled in full the $34,919 (C$48,000) of 7% Convertible Notes with the issuance of 2,582,027 Class A subordinate voting shares.

On March 17, 2004, the Company completed a private placement issuing 120,919 shares at an average price of $11.65 per share and issued 120,919 warrants with exercise prices ranging from C$15.72 to C$19.13 and expiring in March 2009. The Company undertook the private placement as a means to provide the Company s Board of Directors, Board of Advisors and potential Board members the ability to increase their share holdings in the Company in order to further align their interests with those of the Company. As a result of the offering, a stock-based compensation charge in the amount of $1.0 million was taken in the first quarter to account for the fair value of the benefits conveyed to the recipients of the awards on the granting of warrants and the issuing of shares at a price less than the trading value on the day of issuance.

On February 26, 2004 the Company s then controlling shareholder, Miles S. Nadal (the Company s Chairman and Chief Executive Officer) gave formal notice to the Company s Board of Directors that he had initiated the process to effect conversion of 100% of his Class B multiple voting shares into Class A subordinate voting shares on a one-for-one basis, without any cash or non-cash consideration. The conversion was completed during the first quarter of 2004. Mr. Nadal s equity interest in the Company prior to the conversion was approximately 20.2%, and he controlled 44.9% of the voting rights attached to the corporation. Prior to the conversion Mr. Nadal owned 447,968 Class B multiple voting shares, which represented 99% of the Class B shares and carry 20 votes per share, in addition to 3,400,351 Class A subordinate voting shares, which carry one vote per share. After the conversion, both Mr. Nadal s equity interest and voting interest in the Company were approximately 20.2%, or 3,848,319 Class A subordinate voting shares.

(c) 2003 Share Capital Transactions

During the year ended December 31, 2003, the Company acquired and cancelled 1,274,816 Class A subordinate voting shares for $13,662. The premium paid on the repurchase of the Class A subordinate voting shares, in the amount of $5,531, was charged to retained earnings. Also during 2003, the Company issued 2,720,409 Class A subordinate voting shares as purchase consideration for acquisitions in the current and prior years.

(d) Employee Share Option Incentive Plan

The Company has an employee share option incentive plan, which currently may grant up to 1,890,786 options to employees, officers, directors and consultants of the Company. All the options granted are for a term of five years from the date of the grant and vest 20% on the date of grant and a further 20% on each anniversary date. In addition, the Company granted 534,960 options, on the privatization of Maxxcom, with a term of no more than 10 years from initial date of grant by Maxxcom and vest 20% in each of the first two years with the balance vesting on the third anniversary of the initial grant.

Information related to share option transactions over the past three years is summarized as follows:

	Options Outstanding		Options Exercisable	
	Number Outstanding	Weighted Average Price per Share	Number Outstanding	Weighted Average Price per Share
Balance, December 31, 2001	1,857,845	$ 7.46	1,314,736	$ 7.33
Granted	812,000	3.47		
Expired and cancelled	(420,217)	5.76		
Balance, December 31, 2002	2,249,628	6.45	1,353,344	7.63
Granted	614,000	5.94		
Granted on privatization of Maxxcom	534,960	6.24		
Exercised	(458,987)	6.35		
Expired and cancelled	(872,873)	9.46		
Balance, December 31, 2003	2,066,728	6.60	870,979	7.82
Granted	169,052	11.01		
Exercised	(241,755)	9.32		
Expired and cancelled	(119,410)	12.08		
Balance, December 31, 2004	1,874,615	$ 6.78	977,900	$ 6.65

Share options outstanding as at December 31, 2004 are summarized as follows:

		Options Outstanding			Options Exercisable	
Range of Exercise Prices		Outstanding Number	Weighted Average Contractual Life	Weighted Average Price per Share	Exercisable Number	Weighted Average Price per Share
$ 3.21	$ 4.50	744,474	2.8	$ 4.45	428,754	$ 4.43
$ 4.51	$ 6.50	499,902	3.3	$ 6.04	196,030	$ 6.04
$ 6.51	$ 9.00	237,883	5.5	$ 7.43	175,101	$ 7.38
$ 9.01	$12.70	383,645	3.3	$ 11.39	173,115	$ 11.20
$16.60	$46.95	8,711	4.6	$ 29.20	4,900	$ 38.94

(e) Share Appreciation Rights

During 2003, the Compensation Committee of the Board of Directors approved a stock appreciation rights compensation program for senior officers and directors of the Company. Stock appreciation rights have a term of four years and vest one-third on each anniversary date. During the year ended December 31, 2003, 1,650,479 stock appreciation rights were granted with rights prices ranging from $3.85 to $7.71 with an average price of $5.76. In 2003, the Company recorded compensation expense of $4,102 with respect to stock appreciation rights.

During the second quarter of 2004, the Company amended its share appreciation rights (SAR) plan to amend the method of settlement from cash exclusively to cash or equity settlement at the option of the Company. The amendment caused the existing SAR awards to be modified, triggering a remeasurement date for accounting purposes. The modification is accounted for as a settlement of the old awards through the issuance of new awards. As a result, the Company measured the settlement value of the SARs immediately prior to the modification date and adjusted the previously accumulated amortized expense and liability based on the revised calculation. The settlement value of $6,142 was reclassed from accounts payable and accrued liabilities to additional paid-in capital. The Company then measured the fair value of the equity settleable SAR awards using the Black-Scholes option pricing model on the date of modification. The excess of the fair value calculated using the Black-Scholes option pricing model over the settlement value of $5,046 will be accounted for as additional compensation expense over the remaining vesting period of the SAR awards.

SAR s granted and outstanding are as follows:

	SAR s Outstanding		SAR s Excercisable	
	Weighted Average Number Outstanding	Weighted Average Price per share	Number Outstanding	Price Per Share
Balance at December 31, 2002				
Granted	1,650,479	$ 5.33		
Balance at December 31, 2003	1,650,479	5.33		
Granted	295,000	10.85		
Exercised	(5,000)	3.57		
Balance at December 31, 2004	1,940,479	$ 7.02	548,493	$ 6.21

38

SAR s outstanding as at December 31, 2004 are summarized as follows:

	SAR s Outstanding			SAR s Exercisable	
Range of Exercise Prices	Outstanding Number	Weighted Average Contractual Life	Weighted Average Price per Share	Exercisable Number	Weighted Average Price per Share
\$ 4.00 \$ 6.05	855,000	2.1	\$ 4.38	285,000	\$ 4.38
\$ 6.06 \$ 8.50	795,479	2.6	\$ 8.19	263,493	\$ 8.19
\$ 8.51 \$12.00	280,000	3.5	\$ 11.56		
\$12.01 \$13.05	10,000	3.2	\$ 13.31		

(f) Restricted Stock Units

During the year ended December 31, 2004, the Company issued 50,000 restricted stock units of which 16,500 vest on each of the first and second anniversary dates with the remaining 17,000 vesting on September 6, 2007.

(g) Warrants

The Company measures the fair value of warrants using the Black-Scholes option pricing model on the date of grant.

Warrants outstanding as at December 31, 2004 are summarized as follows:

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Contractual Life	Weighted Average Price per Share	Exercisable Number	Weighted Average Price per Share
\$10.90 \$12.50	257,146	1.5	\$ 10.92	257,146	\$ 10.92
\$12.51 \$13.00	345,180	4.1	\$ 12.82	270,094	\$ 12.87
\$13.01 \$14.50	163,640	4.2	\$ 13.24	106,300	\$ 13.08
\$14.51 \$16.30	254,706	4.2	\$ 15.59	14,619	\$ 15.92

During the year ended December 31, 2003, the Company issued 507,146 warrants with a weighted average exercise price of \$10.61 and terms of three to five years. These warrants were issued as compensation to a lender and to an advisor.

During the year ended December 31, 2004, the Company issued 736,186 warrants with a weighted average exercise price of \$13.56 and a term of five years. Of these warrants, 240,173 were issued as acquisition consideration and 496,013 (including 120,919 issued on the private placement) were issued as compensation for services and treated as such for accounting purposes.

Information related to warrant transactions over the past three years is summarized as follows:

	Warrants Outstanding		Warrants Exercisable	
	Number Outstanding	Weighted Average Price Per Share	Number Outstanding	Weighted Average Price Per Share
Balance, December 31, 2001	200,000	$ 9.42	200,000	$ 9.42
Expired and cancelled	(200,000)	9.42		
Balance, December 31, 2002				
Granted	250,000	11.92		
Granted on privatization of Maxxcom	257,146	9.34		
Balance December 31, 2003	507,146	11.01	507,146	11.01
Granted	736,186	13.55		
Expired and cancelled	(222,660)	14.04		
Balance, December 31, 2004	1,020,672	$ 13.10	648,159	$ 12.20

The Company has reserved a total of 4,605,052 Class A shares in order to meet its obligations under various conversion rights, warrants and employee share related plans. At December 31, 2004 there were 161,763 shares available for future option grants.

16. Gain on Sale of Assets and Settlement of Long-term Debt

The gain on sale of assets and settlement of long-term debt for the years ended December 31 were as follows:

	2004	2003	2002
CDI Transactions(a):			
Loss on settlement of exchangeable debentures	$ (9,569)	$	$
Fair value adjustment on embedded derivative	3,974	(3,974)	
Gain on sale of equity interests in Custom Direct, Inc.	21,906	51,030	
Loss on settlement of long-term debt(b)	(1,274)	(4,908)	
Gain (loss) on sale of assets(c)	(193)	1,644	108,985
Unrealized financial derivative gain(d)			4,437
	$ 14,844	$ 43,792	$ 113,422

(a) In February 2004, the Company sold its remaining 20% interest in Custom Direct Income Fund (the Fund) through the exchange of its interest in the Fund for the settlement of the adjustable rate exchangeable debentures issued on December 1, 2003 with a face value of $26,344. Based on the performance of the Fund for the period ended December 31, 2003, the Company was entitled to exchange its shares of Custom Direct, Inc. (CDI) for units of the Fund. On February 13, 2004, the adjustable rate exchangeable debentures were exchanged for units of the Fund in full settlement of the adjustable rate exchangeable debentures.

At the date of settlement, the fair value of the CDI units for which the debentures were exchangeable was $33,991, which exceeded the issue price of the debentures by $7,647. The total loss on settlement of the exchangeable debenture of $9,569 includes $1,922 in respect of the write off of unamortized deferred financing costs.

The embedded derivative within the exchangeable debentures had a fair value of nil at the date of issuance and an unrealized loss of $3,974 as at December 31, 2003. From January 1, 2004 to the date of settlement, the accrued loss on the derivative increased by $3,673 to a total of $7,647 at the date of settlement. The resulting fair value adjustment of $3,974 in 2004 represents the increase to the accrued loss net of the amount realized on settlement.

The fair value of the units of the Fund on February 13, 2004 received by the Company exceeded the Company s equity carrying value of the 20% interest in Custom Direct, Inc., of $12,085, accordingly the Company recognized a gain on the sale of the CDI equity of $21,906. In the second quarter of 2003, the Company completed an Initial Public Offering (IPO) of the Fund and sold 80% of its interest in CDI to the Fund for cash and units of the Fund representing an 18.9% interest. Such units were sold in July 2003 for cash consideration equivalent to the IPO price per share. The net gain on asset dispositions includes charges for incentive payments to management, including management of divested subsidiaries, in the amount of $10,737.

As described in Note 14, during the third quarter of 2004, the Company repaid the Maxxcom credit facility, Maxxcom subordinated debentures and certain other bank borrowings. The loss on settlement principally represents the write off of unamortized deferred financing costs.

(b) On June 30, 2003, the Company completed the repurchase of the remaining 10.5% senior subordinated Notes for 103.5% of the face value of the Notes, resulting in a loss on redemption of $4,908, including the write-off of $1,672 of unamortized deferred financing costs.

(c) During 2002, the Company disposed of its remaining interest in Davis + Henderson, A.E. McKenzie Co. Inc., The House of Questa Limited, Spectron Security Print Pty Ltd., Ashton-Potter Packaging and Cybersight Acquisition Co., Inc. for aggregate gross proceeds of approximately $189,000. The net gain on asset dispositions includes charges for incentive payments to management, including management of divested subsidiaries, in the amount of $1,239.

(d) Prior to 2003, the Company used interest rate and cross currency swaps to hedge a portion of its debt obligations and future interest payments. The Company had not designated these derivative instruments as hedging transactions. The Company did not enter into derivative contracts for trading purposes. As at December 31, 2002 all such derivative instruments had been terminated.

17. Segmented Information

Marketing Communications services, through the Company s network of entrepreneurial firms, include advertising and media, customer relationship management, and marketing services. These firms provide communications services to similar type clients on a global, national and regional basis. The businesses, which are evaluated as a group, have similar cost structures and are subject to the same general economic and competitive risks.

Secure Products International operations provide security products and services in three primary areas: electronic transaction products such as credit, debit, telephone and smart cards; secure ticketing products such as airline, transit and event tickets; and stamps, both postal and excise. As these businesses have similar types of clients, cost structure, risks and long-term financial results, these operations are evaluated as a group.

The significant accounting polices of these segments are the same as those described in the summary of significant accounting policies included in these notes to the consolidated financial statements, except as where indicated.

Many of the Company s marketing communications businesses have significant other equity holders and, in some cases, the Company operates the entity in a fashion similar to a joint venture with these other equity holders. The Company s segment managers oversee the entities as active managers regardless of the Company s ownership interest. Within the marketing communications industry, the monitoring of operating costs, such as salary and related costs, relative to revenues, among other things, are key performance indicators. Consequently, the Company s segment managers review, and analyze these elements of the entities rather than being solely focused on return from any one specific investment.

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

Year Ended December 31, 2004:

	Marketing Communications	Secure Products International	Corporate & Other	Total
Revenue	$ 247,073	$ 69,739	$	$ 316,812
Operating Expenses:				
Cost of services sold*	160,703			160,703
Cost of products sold		42,301		42,301
Office and general expense**	49,675	23,457	26,804	99,936
Other charges (recoveries)	(343)		(2,350)	(2,693)
Depreciation and amortization	10,018	3,489	236	13,743
	220,053	69,247	24,690	313,990
Operating Profit (Loss)	$ 27,020	$ 492	$ (24,690)	2,822
Other Income (Expense):				
Gain on sale of assets and settlement of long-term debt				14,844
Foreign exchange loss				(498)
Interest expense, net				(8,103)
Income from Continuing Operations Before Income Taxes, Equity in Affiliates and Minority Interest				9,065
Income Taxes				243
Income from Continuing Operations Before Equity in Affiliates and Minority Interests				8,822
Equity in Affiliates				3,651
Minority Interests in Income of Consolidated Subsidiaries				(8,695)
Income from Continuing Operations				3,778
Loss on discontinued operations				(5,935)
Net Income (Loss)				$ (2,157)
Capital expenditures	$ 8,232	$ 7,242	$ 78	$ 15,552
Goodwill and intangibles	$ 193,708	$ 59		$ 193,767
Total assets	$ 379,342	$ 46,267	$ 12,246	$ 437,855

*Includes stock-based compensation	$ 339	$	$	$ 339
**Includes stock-based compensation	$	$	$ 8,049	$ 8,049

42

Year Ended December 31, 2003:

	Marketing Communications	Secure Products International	Corporate & Other	Total
Revenue	$ 164,850	$ 113,927	$	$ 278,777
Operating Expenses:				
Cost of services sold*	112,312			112,312
Cost of products sold		56,654		56,654
Office and general expenses**	29,005	45,006	13,826	87,837
Other charges			1,333	1,333
Depreciation and amortization	5,008	3,062	415	8,485
Write-down of fixed assets		8,126		8,126
Goodwill charges		10,012		10,012
	146,325	122,860	15,574	284,759
Operating Profit (Loss)	$ 18,525	$ (8,933)	$ (15,574)	(5,982)
Other Income (Expense):				
Gain on sale of assets				43,792
Foreign exchange loss				(2,023)
Interest expense, net				(16,736)
Income from Continuing Operations Before Income Taxes, Equity in Affiliates and Minority Interest				19,051
Income Taxes (Recovery)				5,770
Income from Continuing Operations Before Equity in Affiliates and Minority Interests				13,281
Equity in Affiliates				4,929
Minority Interests in Income of Consolidated Subsidiaries				(4,508)
Income from Continuing Operations				13,702
Loss on Discontinued Operations				(1,271)
Net Income				$ 12,431
Capital expenditures	$ 4,783	$ 11,728	$ 3	$ 16,514
Goodwill and intangibles	$ 83,144	$ 55		$ 83,199
Total assets	$ 200,606	$ 51,103	$ 69,830	$ 321,539

*Includes stock-based compensation	$330	$	$	$330
**Includes stock-based compensation	$	$	$5,852	$5,852

Year Ended December 31, 2002:

	Marketing Communications	Secure Products International	Corporate & Other	Total
Revenue	$ 144,944	$ 212,998	$ 5,777	$ 363,719
Operating Expenses:				
Cost of services sold	102,380			102,380
Cost of products sold		98,304	3,255	101,559
Office and general expenses	24,581	77,139	6,998	108,718
Other charges		5,097		5,097
Depreciation and amortization	5,093	5,556	573	11,222
Write-down of fixed assets	576	2,815		3,391
	132,630	188,911	10,826	332,367
Operating Profit (Loss)	$ 12,314	$ 24,087	$ (5,049)	31,352
Other Income (Expense):				
Gain on sale of assets and settlement of long-term debt				113,422
Foreign exchange gain				4,380
Interest expense, net				(21,581)
Income from Continuing Operations Before Income Taxes, Equity in Affiliates and Minority Interests				127,573
Income Taxes (Recovery)				25,172
Income from Continuing Operations Before Equity in Affiliates and Minority Interests				102,401
Equity in Affiliates				2,142
Minority Interests in Income of Consolidated Subsidiaries				(6,720)
Income from Continuing Operations				97,823
Loss on discontinued operations				(15,398)
Cumulative effect of a change in accounting policy				(47,916)
Net Income				$ 34,509
Capital expenditures	$ 2,745	$ 4,160	$ 96	$ 7,001
Goodwill and intangibles	$ 56,945	$ 95,438		$ 152,383
Total assets	$ 190,554	$ 148,650	$ 10,473	$ 349,677

A summary of the Company s revenue by geographic area, based on the location in which the goods or services originated, for the years ended December 31, is set forth in the following table.

	United States	**Canada**	**Australia & the United Kingdom**	**Total**
Revenue				
2004	$ 215,941	$ 78,893	$ 21,978	$ 316,812
2003	175,313	83,233	20,231	278,777
2002	215,070	127,933	20,716	363,719

During the year ended December 31, 2004, service revenues provided to the Marketing Communications segment s customer, International Business Machine Corporation (IBM), represented approximately 10% of the Company s total consolidated revenues.

A summary of the Company s long-lived assets, comprised of fixed assets, net, as at December 31, is set forth in the following table.

	United States	**Canada**	**Australia & the United Kingdom**	**Total**
Long-lived Assets				
2004	$ 29,662	$ 20,316	$ 5,387	$ 55,365
2003	15,546	17,861	4,263	37,670
2002	18,293	21,515	3,297	43,105

18. Related Party Transactions

(a) The Company incurred fees totaling $2,805 (2003 $8,006, 2002 $2,435) to companies controlled by its Chairman, President and Chief Executive Officer of the Company in respect of services rendered pursuant to a management services agreement which provides for a minimum annual fee of C$950 through November 2007.

(b) In 2000 the Company agreed to provide to its Chairman, President and Chief Executive Officer (CEO) Miles S. Nadal a bonus of C$10 million ($8.3 million) in the event that the average market price of the Company s Class A subordinate voting shares is C$30 ($25) per share or more for more than 20 consecutive trading days (measured as of the close of trading on each applicable date). This bonus is payable until the date that is three years after the date on which Mr. Nadal is no longer employed by the Company for any reason. The after-tax proceeds of such bonus are to be applied first as repayment of any outstanding loans due to the Company from this officer and his related companies in the amount of C$6,820 ($5,674) and C$3,000 ($2,495), respectively, as at December 31, 2004, both of which have been fully provided for in the Company s accounts.

(c) In 2000, the Company purchased 1,600,000 shares in Trapeze Media Limited (Trapeze) for $215. At the same time, the Company s CEO purchased 4,280,000 shares of Trapeze for $576, the Company s former Chief Financial Officer and a Managing Director of the Company each purchased 50,000 Trapeze shares for $7 and a Board Member of the Company purchased 75,000 shares of Trapeze for $10. In 2001, the Company purchased an additional 1,250,000 shares for $161, and the Company s CEO purchased 500,000 shares for $64. In 2002, the Company s CEO purchased 3,691,930 shares of the Company for $470. All of these purchases were made at identical prices (i.e., C$.20/share). In 2003, the Company and the CEO exchanged their shares in Trapeze for non-voting shares.

In 2002, 2003 and 2004, the Company s CEO advanced an aggregate amount equal to $171 (C$205) to Trapeze, and such loans were secured by Trapeze s assets. In 2004, Trapeze repaid $108 (C$130) of the amounts owed to the Company s CEO. In February 2005, the Company s CEO provided Trapeze with a $203 (C$250) line of credit. The line of credit accrues interest at annual interest rate equal to

15%. At March 21, 2005, Trapeze had borrowed $41 (C$50) under this line of credit. In addition, in 2004 and 2003, Trapeze paid $20 and $18, respectively, in fees for accounting and other services to an entity affiliated with the Company s CEO.

(d) The Company also incurred fees totaling $276, $252 and $223 in 2004, 2003 and 2002, respectively, to a company controlled by a director of the Company in respect of services provided related to the monetization of Custom Direct Inc. and Davis + Henderson.

(e) A subsidiary of the Company charged fees of $59 and $21 in 2004 and 2003, respectively, to a trust of which an officer of the Company is a trustee.

19. Commitments, Contingencies and Guarantees

Litigation. During the year ended December 31, 2004 the Company revised its estimate regarding a probable loss associated with certain legal claims and recorded a recovery of $2,350. Management s best estimate of the range of exposure is now nil.

Deferred Acquisition Consideration. In addition to the consideration paid by the Company in respect of certain of its acquisitions, additional consideration may be payable based on the achievement of certain threshold levels of earnings. Should the current level of earnings be maintained by these acquired companies, additional consideration of approximately $360 would be expected to be owing in 2005 and $2,245 in 2006, of which approximately $5 and $702, respectively, could be payable in shares of the Company at the Company s discretion.

Put Options. Owners of interests in certain Marketing Communications 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 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 period 2005 to 2013. 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.

The Company has not received any notices to exercise such rights that are not currently reflected on the Company s balance sheet.

Guarantees. In connection with certain dispositions of assets and/or businesses in 2001 and 2003, 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 relate to a liability retained by the Company. These types of indemnification guarantees typically extend for a number of years.

In connection with the sale of the Company s investment in CDI, the amounts of indemnification guarantees were limited to the total sale price of approximately $84 million. For the remainder, the Company s potential liability for these indemnifications are not subject to a limit as the underlying agreements do not always specify a maximum amount and the amounts are dependent upon the outcome of future contingent events.

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.

For guarantees and indemnifications entered into after January 1, 2003, in connection with the sale of the Company s investment in CDI, the Company has estimated the fair value of its liability, which was insignificant, and included such amount in the determination of the gain or loss on the sale of the business.

Leases. The Company and its subsidiaries lease certain facilities and equipment. Gross premises rental expense amounted to $14,045 for 2004, $10,968 for 2003 and $11,348 for 2002, which was reduced by sublease income of $921 in 2004, $898 in 2003 and $607 in 2002. Where leases contain escalation clauses or other concessions, the impact of such adjustments is recognized on a straight-line basis over the minimum lease period.

Minimum rental commitments for the rental of office and production premises and equipment under non-cancellable leases, some of which provide for rental adjustments due to increased property taxes and operating costs for 2005 and thereafter, are as follows:

Period	**Amount**
2005	$ 15,007
2006	13,234
2007	10,783
2008	10,260
2009	9,431
2010 and thereafter	17,065
	$ 75,780

20. New Accounting Pronouncements

The following recent pronouncements were issued by the Financial Accounting Standards Board (FASB):

In November 2003, the EITF reached a consensus on Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments (EITF 03-01). EITF 03-01 established additional disclosure requirements for each category of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115), investments in a loss position. Effective for years ended after December 15, 2003, the adoption of this EITF requires the Company to include certain quantitative and qualitative disclosures for debt and marketable equity securities classified as available-for-sale or held-to-maturity under SFAS 115 that are impaired at the balance sheet date for which an other-than-temporary impairment has not been recognized. Additionally, certain qualitative disclosures should be made to clarify a circumstance whereby an investment s fair value that is below cost is not considered other-than-temporary. In October 2004, the EITF temporarily delayed the effective date of the recognition and measurement provisions of EITF 03-01 until such time as a proposed FASB Staff Position provides guidance on the application of those provisions. The effective provisions of this consensus do not have a material impact on the Company s consolidated financial statements.

In October 2004, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue 04-1 Accounting for Preexisting Relationships between the Parties to a Business Combination (EITF 04-1). EITF 04-1 requires that a business combination between two parties that have a preexisting relationship be evaluated to determine if a settlement of a preexisting relationship exists.

EITF 04-1 is effective prospectively for business combinations consummated in reporting periods beginning after October 13, 2004. The adoption of EITF 04-1 did not have an impact on the Company s consolidated results of operation or financial position.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment to ARB No. 43, Chapter 4. This statement amends the guidance in Accounting Research Bulletin (ARB) No. 43 , Chapter 4, Inventory Pricing , to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). ARB 43 previously stated that these expenses may be so abnormal as to require treatment as current period charges. SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal . In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Prospective application of this statement is required beginning January 1, 2006. The Company does not expect its financial statements to be significantly impacted by this statement.

In December 2004, the FASB issued SFAS No. 123R Share Based Payment . Effective for years and interim periods ended after June 15, 2005, the adoption of this SFAS (SFAS 123R) requires the Company to recognize compensation costs for all equity-classified awards granted, modified or settled after the effective date using the fair-value measurement method. In addition, public companies using the fair value method will recognize compensation expense for the unvested portion of awards outstanding as of the effective date based on their grant date fair value as calculated under the original provisions of SFAS 123. Due to the limited number of unvested awards granted prior to 2003 and outstanding as of the effective date, the provisions of this pronouncement is not expected to have a material impact on the Company s consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29. This statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. Prospective application of this statement is required beginning January 1, 2006. The Company does not expect its financial statements to be significantly impacted by this statement.

21. Subsequent Events

Amendments to the Credit Facility

On December 22, 2004, and again on March 14, 2005, the Company amended certain of the terms and conditions of its Credit Facility. Pursuant to such amendments, the lenders under the Credit Facility agreed, among other things, to (i) extend the due date for the Company to deliver to the lenders its interim and annual financial statements; (ii) amend the pricing grid; (iii) modify the Company s total debt ratio, fixed charge ratio and capital expenditures covenants; and (iv) waive any potential default that may have occurred as a result of the Company s failure to comply with its total debt ratio and fixed charge coverage ratio covenants. These amendments were necessary in order to avoid an event of default under the Credit Facility and to permit the Company to continue to borrow under the Credit Facility. The Company is currently in compliance with all of the terms and conditions of its amended Credit Facility. See Note 14(a).

In order to finance the Zyman Group acquisition, as described below, the Company entered into an additional amendment to its Credit Facility on April 1, 2005. This most recent amendment provided for, among other things, (i) an increase in the total revolving commitments available under the Credit Agreement from $100 million to $150 million, (ii) permission to consummate the Acquisition, (iii) mandatory reductions of the total revolving commitments by $25 million on June 30, 2005, $5 million on September 30, 2005, $10 million on December 31, 2005 and $10 million on March 31, 2006, (iv) reduced flexibility to consummate acquisitions going forward and (v) modification to the fixed charges ratio and total debt ratio financial covenants.

The Company is currently in compliance with all of the terms and conditions of its amended Credit Facility, and management believes that the Company will be in compliance with covenants through December 31, 2005.

On March 31, 2005, the Company received a limited waiver from the lenders under its Credit Facility, pursuant to which the lenders agreed to give the Company until April 15, 2005 to deliver its financial statements for the quarter and year ended December 31, 2004.

Zyman Group Acquisition

On April 1, 2005, the Company, through a wholly-owned subsidiary, purchased approximately 61.6% of the total outstanding membership units of Zyman Group, LLC (Zyman Group) for a purchase price equal to $52.4 million in cash plus the issuance of and 1,139,975 class A shares of the Company valued at approximately $11.4 million. In addition, the Company may be required to pay up to an additional $12 million to the sellers if Zyman Group achieves specified financial targets for fiscal years 2005 and/or 2006. As part of this transaction, approximately 10% of the total purchase price was delivered to an escrow agent to be held in escrow for one year in order to satisfy potential future indemnification claims by the Company against the sellers under the purchase agreement.

In connection with the Zyman Group acquisition, the Company, Zyman Group and the other unitholders of Zyman Group entered into a new Limited Liability Company Agreement (the LLC Agreement). The LLC Agreement sets forth certain economic, governance and liquidity rights with respect to Zyman Group. Zyman Group will initially have seven managers, four of which were appointed by the Company. Pursuant to the LLC Agreement, the Company will have the right to purchase, and may have an obligation to purchase, additional membership units of Zyman Group from the other members of Zyman Group, in each case, upon the occurrence of certain events during certain specified time periods.

22. Canadian GAAP Reconciliation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (US GAAP) which differ in certain respects from generally accepted accounting principles in Canada.

Effective January 1, 2004 under Canadian securities requirements, the Company is required to provide a reconciliation setting out the differences between US and Canadian GAAP as applied to the Company s financial statements for the interim and annual periods through fiscal 2005.

During the third quarter of fiscal 2003, the Company changed its reporting currency from Canadian dollars to US dollars. The change in reporting currency had no impact on the measurement of earnings under Canadian GAAP.

The reconciliation from US to Canadian GAAP, of the Company s results of operations for the years ended December 31, 2004, 2003 and 2002, the Company s financial position as at December 31, 2004 and 2003 are set out below:

Convertible Notes

Under US GAAP, the convertible Notes are classified entirely as debt. Accordingly, interest expense is recorded based upon the effective interest rate associated with the underlying debt.

Under Canadian GAAP, in accordance with EIC 71, Financial Instruments that May be Settled at the Issuer s Option in Cash or its Own Equity Instruments, the Company has classified the convertible

Notes as equity as the Company has the ability and intent to satisfy the obligation on redemption or maturity in freely tradeable Class A shares. Under Canadian GAAP, the Company has recorded an amount in long-term and current debt representing the present value of the future interest payments owing on the convertible debt. The interest in respect of the convertible debt is recorded as a credit on account of the equity portion of the compound financial instrument such that the equity component is accreted to the face of the convertible debt upon maturity.

This difference results in a reclassification on the balance sheet between long-term debt and equity, and a reduction in the interest expense for the amount of the accretion that is not expensed for Canadian GAAP purposes.

Convertible Notes 2004 Adjustments

During the quarter ended June 30, 2004, the Notes were converted to equity. Therefore, the adjustments reflected in 2004 pertain only to the interest adjustment up to the date of conversion and the accumulated reclassification from retained earnings to share capital.

Proportionate Consolidation of Affiliates

Under US GAAP, the Company has joint control of a joint venture that is required to be accounted for using the equity method. Under Canadian GAAP, this joint venture is accounted for using the proportionate consolidation method whereby the Company consolidates on a line-by-line basis their interest in the financial position and results of operations and cash flows of the joint venture.

Stock-based Compensation 2004 Adjustment

Under US GAAP, the Company accounted for the modification of the SAR awards as a settlement, measuring the incremental value of the awards based on the fair value of the modified awards on the date of modification. Under Canadian GAAP, the Company measures the incremental value based on the fair value of the award on the date of grant. The difference in measurement date results in a lower amount of additional compensation recorded under Canadian GAAP and a corresponding lower amount credited to additional paid-in capital.

Exchangeable Debentures

Under Canadian GAAP, EIC 117 FASB Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, prohibits the bifurcation of the embedded derivative in the exchangeable debentures. In addition under EIC 56, Exchangeable Debentures until such time as the exchange right is no longer contingent upon future events, no adjustment to the carrying value of the debentures is necessary. In February 2004, the debentures became exchangeable for CDI units and at that time the carrying value of the debenture was required to be increased by $7,647 to reflect the underlying market value of the CDI units, for which the debentures are exchangeable, with a corresponding change to earnings.

Under US GAAP, the Company must recognize in earnings each period the changes in the fair value of the embedded derivative within the contingently exchangeable debenture and such amount cannot be deferred. This results in a loss on the derivative of $3,974 in the fourth quarter of 2003 and a further loss in the first quarter of 2004 of $3,673 immediately prior to settlement.

As a result of this difference, under Canadian GAAP, the resulting loss on the settlement of the exchangeable securities in the year ended December 31, 2004 is lower than that reported under US GAAP by $3,974, the amount of the change in fair value of the embedded derivative recognized in the prior period.

Goodwill Charge

Historically, under US GAAP, the Company expensed as incurred certain costs related to existing plant closures where production was shifted to acquired facilities. Historically, under Canadian GAAP, the expenditures were accrued as part of the business acquired and allocated to goodwill. Accordingly the timing of the recognition of such costs in the statement of operations is different under Canadian GAAP. The resulting gain on sale of such assets in the year ended December 31, 2004 is lower under Canadian GAAP than under US GAAP by $2,780.

In 2002 under US GAAP, the transitional impairment charge incurred on adoption of SFAS No. 142 is recorded through the statement of operations as a cumulative effect of a change in accounting policy. Impairment charges related to discontinued operations are included in the loss on discontinued operations. Under Canadian GAAP, the transitional impairment charge was charged to opening retained earnings.

Foreign Exchange

Under US GAAP and Canadian GAAP, foreign currency translation adjustments are not included in determining net income for the period but are disclosed and accumulated in a separate component of consolidated equity. Under US GAAP, such adjustments remain in this separate component of consolidated equity until sale or until complete, or substantially complete, liquidation of the net investment, including the intercompany balances of a long term investment nature, that generated the adjustment. However, under Canadian GAAP, an appropriate portion of the foreign currency translation adjustments accumulated in the separate component of consolidated equity is included in the determination of net income when there is any reduction in the related net investment resulting in a loss for Canadian GAAP purposes of $5,186 for the years ended December 31, 2004.

Other Adjustments

Other adjustments represent cumulative translation differences as a result of timing differences between recognition of certain expenses under US and Canadian GAAP. Accumulated other comprehensive income under US GAAP represents the cumulative translation adjustment account, the exchange gains and losses arising from the translation of the financial statements of self sustaining foreign subsidiaries under Canadian GAAP.

New Accounting Pronouncements under Canadian GAAP

Consolidation of Variable Interest Entities

In September 2004, the CICA revised Accounting Guideline (AcG-15), Consolidation of Variable Interest Entities (VIEs) to be substantially consistent with FIN 46R. AcG-15 is effective for interim or annual periods beginning on or after November 1, 2004. The Company early adopted AcG-15 for Canadian GAAP purposes effective January 1, 2004. See Note 9 of the consolidated financial statements for the impact the effective provisions of the equivalent US GAAP requirements, FIN 46R, had on the Company s consolidated financial statements.

Asset Retirement Obligations

Effective January 1, 2004, the Company retroactively adopted the new CICA Handbook Section 3110, Asset Retirement Obligations, which establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated retirement costs. This section applies to legal obligations associated with the retirement of tangible long-lived assets that results from their acquisition, lease, construction, development or normal operation. This standard is effective on a retroactive basis with restatement of prior periods. The adoption of this standard did not have any impact on the consolidated financial statements.

Generally Accepted Accounting Principles

In July 2003, the CICA issued Handbook Section 1100, Generally Accepted Accounting Principles. This section establishes standards for financial reporting in accordance with Canadian GAAP. It describes what constitutes Canadian GAAP and its sources. This section also provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when the primary sources of Canadian GAAP are silent. This standard is effective January 1, 2004. The adoption of this standard did not have any impact on the consolidated financial statements.

Revenue Recognition

In December 2003, the Emerging Issues Committee released EIC-141, Revenue Recognition, and EIC-142, Revenue Arrangements with Multiple Deliverables, which are effective on a prospective basis for 2004. EIC-141 incorporates the principles and guidance under SEC Staff Accounting Bulletin 101and EIC-142 addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue generating activities. The adoption of these standards did not have any impact on the consolidated financial statements.

New Accounting Pronouncements Not Yet Adopted

Financial Instruments

In January 2005, the CICA issued Section 3855, Financial Instruments Recognition and Measurement, Section 1530, Comprehensive Income, and Section 3865, Hedges. The new standards will be effective for interim and annual financial statements commencing in 2007. Earlier adoption effective January 1, 2005 is permitted. Most significantly for the Company, the new standards will require presentation of a separate statement of comprehensive income. Foreign exchange gains and losses on the translation of the financial statements of self-sustaining subsidiaries previously recorded in a separate section of shareholders equity will be presented in comprehensive income. The Company has not yet determined the impact of these standards on the consolidated financial statements prepared in accordance with Canadian GAAP.

Year Ended December 31, 2004

(thousands of United States dollars)

	US GAAP	Stock-based Compensation and Other	Embedded Derivative	Proportionate Consolidation of Affiliates	Canadian GAAP
Revenue:					
Services	$ 247,073	$	$	$ 23,383	$ 270,456
Products	69,739				69,739
	316,812			23,383	340,195
Operating Expenses:					
Cost of services sold	160,703			12,524	173,227
Cost of products sold	42,301				42,301
Office and general expenses	99,936	(2,050)		3,554	101,440
Other charges (recoveries)	(2,693)				(2,693)
Depreciation and amortization	13,743			526	14,269
	313,990	(2,050)		16,604	328,544
Operating Profit	2,822	2,050		6,779	11,651
Other Income (Expenses):					
Gain on sale of assets and settlement of long-term debt	14,844		(6,754)		8,090
Foreign exchange loss	(498)	(5,186)			(5,684)
Interest expense	(8,788)	718		(364)	(8,434)
Interest income	685			21	706
	6,243	(4,468)	(6,754)	(343)	(5,322)
Income (Loss) from Continuing Operations Before Income Taxes, Equity in Affiliates and Minority Interests	9,065	(2,418)	(6,754)	6,436	6,329
Income Taxes	243			2,389	2,632
Income (Loss) from Continuing Operations Before Equity in Affiliates and Minority Interests	8,822	(2,418)	(6,754)	4,047	3,697
Equity in Affiliates	3,651			(4,047)	(396)
Minority Interests in Income of Consolidated Subsidiaries	(8,695)				(8,695)
Income (Loss) from Continuing Operations	3,778	(2,418)	(6,754)		(5,394)
Loss on discontinued operations	(5,935)				(5,935)
Net Income (Loss)	$ (2,157)	$ (2,418)	$ (6,754)	$	$ (11,329)
Earnings (Loss) Per Common Share					
Basic					
Continuing Operations	$ 0.18				$ (0.29)
Discontinued Operations	(0.28)				(0.27)
Net Income (Loss)	$ (0.10)				$ (0.56)
Diluted					
Continued Operations	$ 0.17				$ (0.29)
Discontinued Operations	(0.26)				(0.27)
Net Income (Loss)	$ (0.09)				$ (0.56)

53

Year Ended December 31, 2003

(thousands of United States dollars)

	US GAAP	Stock-based Compensation and Other	Embedded Derivative	Proportionate Consolidation of Affiliates	Canadian GAAP
Revenue:					
Services	$ 164,850	$	$	$ 19,426	$ 184,276
Products	113,927				113,927
	278,777			19,426	298,203
Operating Expenses:					
Cost of services sold	112,312			10,155	122,467
Cost of products sold	56,654				56,654
Office and general expenses	87,837			3,708	91,545
Other charges	1,333				1,333
Depreciation and amortization	8,485	741		396	9,622
Write-down fixed assets	8,126				8,126
Goodwill charges	10,012				10,012
	284,759	741		14,259	299,759
Operating Profit (Loss)	(5,982)	(741)		5,167	(1,556)
Other Income (Expenses):					
Gain on sale of assets and settlement of long-term debt	43,792		(7,147)	89	36,734
Foreign exchange loss	(2,023)				(2,023)
Interest expense	(17,673)	1,692		(327)	(16,308)
Interest income	937			35	972
	25,033	1,692	(7,147)	(203)	19,375
Income (Loss) from Continuing Operations Before Income Taxes, Equity in Affiliates and Minority Interests	19,051	951	(7,147)	4,964	17,819
Income Taxes	5,770	319		1,885	7,974
Income (Loss) from Continuing Operations Before Equity in Affiliates and Minority Interests	13,281	632	(7,147)	3,079	9,845
Equity in Affiliates	4,929			(3,079)	1,850
Minority Interests in Income of Consolidated Subsidiaries	(4,508)				(4,508)
Income (Loss) from Continuing Operations	13,702	632	(7,147)		7,187
Loss on discontinued operations	(1,271)				(1,271)
Net Income (Loss)	$ 12,431	$ 632	$ (7,147)	$	$ 5,916
Earnings (Loss) Per Common Share:					
Basic					
Continuing Operations	$ 0.77				$ 0.34
Discontinued Operations	(0.07)				(0.07)
Net Income	$ 0.70				$ 0.27
Diluted					
Continuing Operations	$ 0.70				$ 0.33
Discontinued Operations	(0.05)				(0.07)
Net Income	$ 0.65				$ 0.26

Year Ended December 31, 2002

(thousands of United States dollars)

	US GAAP	Other	Embedded Derivative & Goodwill Charges	Proportionate Consolidation of Affiliates	Canadian GAAP
Revenue:					
Services	$ 144,944	$	$	$ 16,119	$ 161,063
Products	218,775				218,775
	363,719			16,119	379,838
Operating Expenses:					
Cost of services sold	102,380			9,190	111,570
Cost of products sold	101,559				101,559
Office and general expenses	108,718	(134)		2,885	111,469
Other charges	5,097				5,097
Depreciation and amortization	11,222	1,658		394	13,274
Write-down of fixed assets	3,391				3,391
	332,367	1,524		12,469	346,360
Operating Profit (Loss)	31,352	(1,524)		3,650	33,478
Other Income (Expenses):					
Gain on sale of assets and settlement of long-term debt	113,422	(3,209)	(4,437)		105,776
Foreign exchange gain	4,380				4,380
Interest expense	(22,104)	1,918		(261)	(20,447)
Interest income	523			28	551
	96,221	(1,291)	(4,437)	(233)	90,260
Income (Loss) from Continuing Operations Before Income Taxes, Equity in Affiliates and Minority Interests	127,573	(2,815)	(4,437)	3,417	123,738
Income Taxes	25,172	(2,751)	(1,775)	1,275	21,921
Income (Loss) from Continuing Operations Before Equity in Affiliates and Minority Interests	102,401	(64)	(2,662)	2,142	101,817
Equity in Affiliates	2,142			(2,142)	
Minority Interests in Income of Consolidated Subsidiaries	(6,720)				(6,720)
Income (Loss) from Continuing Operations	97,823	(64)	(2,662)		95,097
Income (Loss) on Discontinued Operations	(15,398)		14,561		(837)
Cumulative effect of a change in accounting policy	(47,916)		47,916		
Net Income (Loss)	$ 34,509	$ (64)	$ 59,815	$	$ 94,260
Earnings (Loss) Per Common Share					
Basic					
Continuing Operations	$ 5.78				$ 5.56
Discontinued Operations	(0.91)				(0.05)
Cumulative effect of a change in accounting policy	(2.83)				(0.00)
Net Income	$ 2.04				$ 5.51
Diluted					
Continuing Operations	$ 3.87				$ 3.73
Discontinued Operations	(0.60)				(0.04)
Cumulative effect of a change in accounting policy	(1.87)				(0.00)
Net Income	$ 1.40				$ 3.69

As at December 31, 2004

(thousands of United States dollars)

	US GAAP	Stock-based Compensation and Other	Proportionate Consolidation of Affiliates	Canadian GAAP
ASSETS				
Current Assets				
Cash and cash equivalents	$ 22,673	$	$ 1,978	$ 24,651
Accounts receivable, net	111,399		1,928	113,327
Expenditures billable to clients	8,296		299	8,595
Inventories	10,792			10,792
Prepaid expenses and other current assets	3,849		52	3,901
Total Current Assets	157,009		4,257	161,266
Fixed Assets, net	55,365		4,101	59,466
Investment in Affiliates	10,771		(8,289)	2,482
Goodwill	146,494		5,876	152,370
Intangibles	47,273		779	48,052
Deferred Tax Assets	12,883		21	12,904
Assets Held for Sale	622			622
Other Assets	7,438		106	7,544
Total Assets	$ 437,855	$	$ 6,851	$ 444,706
LIABILITES AND SHARHOLDERS EQUITY				
Current Liabilities				
Bank indebtedness	$ 6,026	$	$	$ 6,026
Accounts payable	77,425		1,467	78,892
Accruals and other liabilities	94,639		60	94,699
Advance billings	9,798		1,011	10,809
Current portion of long-term debt	3,218		125	3,343
Deferred acquisition consideration	1,775			1,775
Total Current Liabilities	192,881		2,663	195,544
Long-Term Debt	50,320		4,136	54,456
Liabilities Related to Assets Held for Sale	867			867
Other Liabilities	4,857		52	4,909
Deferred Tax Liabilities	854			854
Total Liabilities	249,779		6,851	256,630
Minority Interests	45,052			45,052
Shareholders Equity				
Share capital	164,065	1,296		165,361
Share capital to be issued	3,909			3,909
Additional paid-in capital	17,113	(2,050)		15,063
Retained earnings (deficit)	(45,083)	(4,432)		(49,515)
Accumulated other comprehensive income (loss)	3,020	5,186		8,206
Total Shareholders Equity	143,024			143,024
Total Liabilities and Shareholders Equity	$ 437,855	$	$ 6,851	$ 444,706

As at December 31, 2003

(thousands of United States dollars)

	US GAAP	Stock-based Compensation and Other	Embedded Derivative	Proportionate Consolidation of Affiliate	Canadian GAAP
ASSETS					
Current Assets					
Cash and cash equivalents	$ 65,334	$	$	$ 5,671	$ 71,005
Accounts receivable, net	56,485			11,095	67,580
Expenditures billable to clients	5,689			3,183	8,872
Inventories	7,735				7,735
Prepaid expenses	3,784			134	3,918
Other current assets	92			46	138
Total Current Assets	139,119			20,129	159,248
Fixed Assets, net	37,670			5,839	43,509
Investment in Affiliates	34,362		2,943	(22,159)	15,146
Goodwill	83,199			18,580	101,779
Deferred Tax Benefits	11,563				11,563
Assets Held for Sale	6,530				6,530
Other Assets	9,096			19	9,115
Total Assets	$ 321,539	$	$ 2,943	$ 22,408	$ 346,890
LIABILITIES AND SHAREHOLDERS EQUITY					
Current Liabilities					
Accounts payable	$ 35,180	$	$	$ 6,331	$ 41,511
Accruals and other liabilities	32,949			10,579	43,528
Advance billings	13,649			573	14,222
Current portion of long-term debt	16,378	2,160		108	18,646
Deferred acquisition consideration	1,113				1,113
Total Current Liabilities	99,269	2,160		17,591	119,020
Long-Term Debt	95,970		(3,974)	3,950	95,946
Convertible Notes	37,794	(33,011)			4,783
Liabilities Related to Assets Held for Sale	6,649				6,649
Other Liabilities	516			867	1,383
Total Liabilities	240,198	(30,851)	(3,974)	22,408	227,781
Minority Interests	2,432				2,432
Shareholders Equity					
Share capital	115,996	1,296			117,292
Additional paid-in capital	4,610	30,851			35,461
Retained earnings (deficit)	(39,169)	(1,346)	6,804		(33,711)
Accumulated other comprehensive income (loss)	(2,528)	50	113		(2,365)
Total Shareholders Equity	78,909	30,851	6,917		116,677
Total Liabilities and Shareholders Equity	$ 321,539	$	$ 2,943	$ 22,408	$ 346,890

57

Year Ended December 31, 2004

(thousands of United States dollars)

	US GAAP	Stock-based Compensation and Other	Embedded Derivative	Proportionate Consolidation of Affiliates	Canadian GAAP
Operating Activities					
Net income (loss)	$ (2,157)	$ (2,418)	$ (6,754)	$	$ (11,329)
Loss from discontinued operations	(5,935)				(5,935)
Income (loss) from continuing operations	3,778	(2,418)	(6,754)		(5,394)
Adjustments for non-cash items:					
Stock-based compensation	8,388	(2,050)			6,338
Depreciation and amortization	13,743			526	14,269
Amortization and write-off of deferred finance charges	6,212				6,212
Deferred income taxes	(2,712)			2,265	(447)
Foreign exchange	498	5,186			5,684
Gain on sale of assets	(18,741)		6,754		(11,987)
Earnings of non consolidated affiliates	(3,651)			4,047	396
Minority interest and other	(3,234)				(3,234)
Changes in non-cash working capital	20,221			(3,107)	17,114
	24,502	718		3,731	28,951
Investing activities					
Capital expenditures	(15,552)			(938)	(16,490)
Acquisitions, net of cash	(17,569)			377	(17,192)
Distributions from non consolidated affiliates	6,828			(6,650)	178
Other assets, net	(1,363)			(93)	(1,456)
	(27,656)			(7,304)	(34,960)
Financing activities					
Increase in bank indebtedness	6,026				6,026
Proceeds from issuance of long-term debt	63,405				63,405
Repayment of long-term debt	(94,961)	(718)		(107)	(95,786)
Issuance of share capital	3,639				3,639
Purchase of share capital	(12,476)				(12,476)
	(34,367)	(718)		(107)	(35,192)
Foreign exchange effect on cash and cash equivalents	(898)				(898)
Effect of discontinued operations	(4,242)				(4,242)
Net decrease in cash and cash equivalents	(42,661)			(3,680)	(46,341)
Cash and cash equivalents beginning of period	65,334			5,671	71,005
Cash and cash equivalents end of period	$ 22,673	$	$	$ 1,991	$ 24,664

Year Ended December 31, 2003

(thousands of United States dollars)

	US GAAP	Stock-based Compensation and Other	Embedded Derivative	Proportionate Consolidation of Affiliate	Canadian GAAP
Operating Activities					
Net income	$ 12,431	$ 632	$ (7,147)	$	$ 5,916
Loss from discontinued operations	(1,271)				(1,271)
Income (loss) from continuing operations	13,702	632	(7,147)		7,187
Adjustments for non-cash items					
Stock-based compensation	6,182				6,182
Depreciation and amortization	8,485	741		396	9,622
Amortization and write-off of deferred finance charges	3,897				3,897
Non-cash interest	4,557				4,557
Deferred income taxes	4,630	319		1,663	6,612
Foreign exchange gain	2,023				2,023
Gain on sale of assets	(43,792)		7,147	(89)	(36,734)
Write-down of fixed assets and other assets	8,126				8,126
Goodwill charges	10,012				10,012
Earnings of non consolidated affiliates	(4,929)			3,079	(1,850)
Minority interest and other	(1,164)				(1,164)
Changes in non-cash working capital	1,319			(2,049)	(730)
	13,048	1,692		3,000	17,740
Investing activities					
Capital expenditures, net	(16,514)			(1,712)	(18,226)
Proceeds of dispositions	115,184				115,184
Acquisitions, net of cash	(26,744)				(26,744)
Distributions from non consolidated affiliates	3,993			(1,710)	2,283
Other assets, net	4,560			(19)	4,541
	80,479			(3,441)	77,038
Financing activities					
Proceeds on issuance of long-term debt	37,472				37,472
Repayment of long-term debt	(88,970)	(1,692)		(99)	(90,761)
Issuance of share capital	3,031				3,031
Purchase of share capital	(13,662)				(13,662)
	(62,129)	(1,692)		(99)	(63,920)
Foreign exchange effect on cash and cash equivalents	5,536				5,536
Effect of discontinued operations	(922)				(922)
Increase in cash and cash equivalents	36,012			(540)	35,472
Cash and cash equivalents beginning of period	29,322			6,211	35,533
Cash and cash equivalents end of period	$ 65,334	$	$	$ 5,671	$ 71,005

59

Year Ended December 31, 2002

(thousands of United States dollars)

	US GAAP	Other	Embedded Derivative and Goodwill Changes	Proportionate Consideration of Affiliates	Canadian GAAP
Operating Activities					
Net income	$ 34,509	$ (64)	$ 59,815	$	$ 94,260
Loss from discontinued operations	(15,398)		14,561		(837)
Cumulative effect of change in accounting policy	(47,916)		47,916		
Income (loss) from continuing operations	97,823	(64)	(2,662)		95,097
Depreciation and amortization	11,222	1,322		394	12,938
Amortization and write-off of deferred finance charges	2,428				2,428
Non-cash interest	3,368				3,368
Deferred income taxes	24,121	(2,751)	(1,775)	1,275	20,870
Foreign exchange gain	(4,380)				(4,380)
Gain on sale of assets	(113,422)	3,209	4,437		(105,776)
Write-down of fixed assets	3,391				3,391
Earnings of non consolidated affiliates	(2,142)			2,142	
Minority interest and other	(3,214)				(3,214)
Changes in non-cash working capital	(3,391)			5,172	1,781
	15,804	1,716		8,983	26,503
Investing activities					
Capital expenditures	(7,001)			(253)	(7,254)
Proceeds of dispositions	173,682				173,682
Acquisitions, net of cash	(12,380)				(12,380)
Distributions from non consolidated affiliates	4,228			(4,228)	
Other assets, net	(1,505)	(134)			(1,639)
	157,024	(134)		(4,481)	152,409
Financing activities					
Proceeds on issuance of long-term debt	5,955				5,955
Repayment of long-term debt	(186,821)	(1,582)		(70)	(188,473)
	(180,866)	(1,582)		(70)	(182,518)
Foreign exchange effect on cash and cash equivalents	5,914				5,914
Effect of discontinued operations	(1,831)				(1,831)
Increase (decrease) in cash and cash equivalents	(3,955)			4,432	477
Cash and cash equivalents beginning of period	33,277			1,779	35,056
Cash and cash equivalents end of period	$ 29,322	$	$	$ 6,211	$ 35,533

60

MDC Partners Inc. and Subsidiaries

Quarterly Results of Operations (Unaudited)

The following table sets forth a summary of the Company s consolidated unaudited quarterly results of operations for the years ended December 31, 2004 and 2003, in thousands of dollars, except per share amounts.

	Quarters First	Second	Third	Fourth
Revenue Services:				
2004	50,336	57,488	62,108	77,141
2003	36,547	40,988	40,766	46,549
Revenue Products:				
2004	18,037	17,233	20,039	14,430
2003	43,314	33,084	19,214	18,315
Cost of services sold:				
2004	37,779	35,801	41,210	45,913
2003	24,866	27,251	28,146	32,049
Cost of products sold:				
2004	11,175	10,386	12,433	8,307
2003	18,507	14,932	12,509	10,706
Income (loss) from continuing operations:				
2004	9,865	3,152	(1,473)	(7,766)
2003	1,002	17,965	2,201	(7,466)
Net income (loss):				
2004	8,465	932	(2,874)	(8,680)
2003	212	17,637	2,280	(7,698)
Earnings (loss) per common share:				
Basic				
Continuing operations:				
2004	0.52	0.14	(0.07)	(0.35)
2003	0.06	1.06	0.12	(0.39)
Net income:				
2004	0.45	0.04	(0.13)	(0.39)
2003	0.01	1.04	0.12	(0.41)
Diluted				
Continuing operations:				
2004	0.47	0.13	(0.07)	(0.35)
2003	0.05	0.82	0.11	(0.39)
Net income:				
2004	0.41	0.04	(0.13)	(0.39)
2003	0.01	0.81	0.12	(0.41)

The above revenue, cost of services sold and cost of products sold have primarily been affected by both acquisitions and divestitures.

Income (loss) from continuing operations and net income (loss) have been affected as follows:

- 2003 second quarter affected by a gain on sale of assets of $44,625 offset by fixed asset and goodwill impairment charges of $8,126 and $10,012, respectively,

- 2003 third quarter affected by gain on sale of assets and other of $2,861,

- 2003 fourth quarter affected by loss on the settlement of debt of $5,352,

- 2004 first quarter affected by a gain on sale of assets of $16,322,

- 2004 third quarter affected by a recovery of charges of $2,350 and a loss on settlement of debt of $1,291.

PART II

Item 9A. *Controls and Procedures*

(a) 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 our Executive Vice President & Vice Chairman (Vice Chairman), 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.

We conducted an evaluation, under the supervision and with the participation of our management, including our CEO, our Vice Chairman 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(b) of the Exchange Act. Based on that evaluation, and in light of the Company s material weaknesses in internal control over financial reporting described below, the Company has concluded that its disclosure controls and procedures were not effective. Accordingly, the Company has performed additional analysis and procedures to ensure that its consolidated financial statements were prepared in accordance with US GAAP. These procedures included monthly analytic reviews of subsidiaries financial results, and quarterly certifications by senior management of subsidiaries regarding the accuracy of reported financial information. In addition, the Company performed additional procedures subsequent to December 31, 2004 to provide reasonable assurance that the financial statements were fairly presented in all material respects.

(b) Management s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2004. In making this assessment, we used the criteria set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). During this process, management identified material weaknesses in internal control over financial reporting.

A material weakness, as defined under standards established by the Public Company Accounting Oversight Board s (PCAOB) Auditing Standard No. 2, is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statements will not be prevented or detected.

Based on our assessment, management has concluded that, as of December 31, 2004, we did not maintain effective internal control over financial reporting due to the following material weaknesses:

Control Environment

The control environment did not sufficiently promote effective internal control over financial reporting throughout the management structure. The following control deficiencies, in aggregate, represent a material weakness in the Control Environment:

1. Ineffective education and communication with respect to the Code of Conduct, ineffective Whistleblowing procedures, and inconsistent implementation of management override controls;

2. Lack of human resource procedures, specifically, communication of responsibilities and accountabilities, training, and implementation of employee background checks;

3. Inconsistent assignment and application of authorities over the acquisition, disposition, and use of the Company s assets, including expenditures;

4. Incomplete implementation of management s fraud risk assessment and prevention program; and

5. Ineffective determination and application of US GAAP accounting policies, in certain circumstances.

None of these control deficiencies by themselves directly resulted in a misstatement to the financial statements, however, this material weakness was an important contributing factor in the other material weaknesses described below.

Financial Reporting Close Process

The Company s controls over the financial reporting close process were not consistently applied. As a result, the Company has a material weakness related to its ability to compile and review accurate financial statements on a timely basis. Specifically, these control deficiencies comprise instances of insufficient:

1.