MDC PARTNERS INC
Form S-1/A
April 14, 2006

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As filed with the Securities and Exchange Commission on April 14, 2006

Registration No. 333-132761

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 1 to
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MDC Partners Inc.

(Exact name of registrant as specified in its charter)

Canada	**7311**	**98-0364441**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

45 Hazelton Avenue, Toronto, Ontario, M5R2E3
(416) 960-9000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

950 Third Avenue, New York, NY, 10022
(646) 429-1809
(Name and address, including zip code, of agent for service)

Copies to:
Mitchell Gendel
General Counsel & Corporate Secretary
MDC Partners Inc.
950 Third Avenue, New York, NY, 10022
(646) 429-1803

Approximate date of commencement of proposed sale of the securities to the public:
As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ý

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Security(1)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(4)
8.00% Convertible Unsecured Subordinated debentures due June 30, 2010	$36,723,000 (C$45,000,000)(2)	100%	$36,723,000 (C$45,000,000)	$4,133.08(5)
Class A subordinate voting shares, no par value	3,214,287(3)			

(1) This estimate is made pursuant to Rule 457(c) of the Securities Act solely for the purpose of determining the registration fee.

(2) U.S. dollars amounts have been translated into Canadian dollars at C$1.225 per $1.00, which was the exchange rate on June 28, 2005 and represents the proceeds received by the Company.

(3) The number of shares of common stock registered hereunder is based upon the maximum number of shares of common stock that are issuable upon conversion of the debentures. This registration statement is registering the resale of the debentures and the underlying Class A subordinate voting shares into which the debentures are convertible. Pursuant to Rule 416 under the Securities Act, the number of shares of common stock registered hereby shall include an indeterminate number of additional shares of common stock that may be issuable as a result of antidilution adjustments. Any shares of common stock issued upon conversion of the debentures will be issued for no additional consideration.

(4) Pursuant to Rule 457(i), there is no additional filing fee with respect to the shares of common stock issuable upon conversion of the debentures because no additional consideration will be received in connection with the exercise of the conversion privilege.

(5) Previously paid.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. The selling security holders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not is an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated April 14, 2006

PROSPECTUS

$36,723,000 (C$45,000,000)

MDC PARTNERS INC.

8.00% Convertible Unsecured Subordinate Debentures due June 30, 2010
and
Class A Subordinate Voting Shares Issuable upon Conversion of the Debentures

This prospectus relates to $36,723,000 (C$45,000,000) aggregate principal amount of 8.00% convertible unsecured subordinated debentures (denominated in Canadian $'s) due June 30, 2010, which MDC Partners Inc. previously issued and sold in reliance on an exemption from registration under the Securities Act of 1933, as amended.

The debentures and the Class A subordinate voting shares into which the debentures are convertible may be offered and sold from time to time pursuant to this prospectus by the holders of those securities or by their transferees, pledgees, donees, or successors, all of which are referred to in this prospectus as selling security holders. The selling security holders may sell the securities directly to purchasers or through underwriters, broker-dealers or agents. If required at the time of a particular offering of securities by a selling security holder, a supplement to this prospectus will be circulated setting forth the name or names of any underwriters, broker-dealers or agents, any discounts, commissions or other terms constituting compensation for underwriters and any discounts, commissions or concessions that will be allowed or reallowed or paid to agents or broker-dealers.

The debentures bear interest at the rate of 8.00% per year, subject to the payment of additional amounts in certain circumstances described herein under "Description of Debentures Registration Rights." For the period from January 1, 2006 to June 30, 2006, additional amounts equal to a 0.5% increase in the annual interest rate in the debentures will be payable to holders as described therein. Interest on the debentures is payable on June 30 and December 31 of each year, beginning December 31, 2005. The debentures will mature on June 30, 2010.

MDC's outstanding Class A subordinate voting shares are listed on the Toronto Stock Exchange under the symbol "MDZ.SV.A" and on the Nasdaq Stock Market ("Nasdaq") under the symbol "MDCA". As of March 15, 2006, the last reported sale price of the Class A subordinate voting shares was $8.18 on NASDAQ and C$9.40 on the Toronto Stock Exchange. No public market has existed in the United States for the debentures prior to the effective date of the registration statement of which this prospectus is a part. The debentures are listed on the Toronto Stock Exchange under the symbol "MDZ.DB."

Investing in the debentures and the Class A subordinate voting shares involves risks. See "Risk Factors" beginning on page 8.

We will not receive any of the proceeds from the sale of the debentures or the Class A subordinate voting shares by any of the selling security holders. The debentures and the Class A subordinate voting shares may be offered and sold from time to time directly by the selling security holder or alternatively through underwriters or broker-dealers or agents. The debentures and the Class A subordinate voting shares may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at varying prices determined at the time of sale, or at negotiated prices. See "Plan of Distribution."

Neither the Securities and Exchange Commission, any state securities commission nor any other United States regulatory authority has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is [ ], 2006

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We are not, and the selling security holders are not, making an offer to sell these debentures or the common stock where such an offer or sale is not permitted.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of when this prospectus is delivered or when any sale of the debentures or our Class A subordinate voting shares occurs.

Except as the context otherwise requires, references in this prospectus to "MDC," the "Company," "we," "our" or "us" are to MDC Partners Inc. and its consolidated subsidiaries, or their predecessors, as the context requires. References to "C$" are to Canadian dollars.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. It does not contain all of the information that may be important to you. You should read the entire prospectus carefully, including the section describing the risks of investing in the debentures or our Class A subordinate voting shares entitled "Risk Factors" and our financial statements and related notes included elsewhere in this prospectus, before deciding to buy the debentures.

MDC Partners Inc. was formed in 1986 pursuant to the Business Corporations Act (Ontario). In December 1986, MDC amalgamated with Branbury Explorations Limited, and became a public company. Today, MDC is a leading provider of marketing communications services and secure transaction products and services to customers in more than 10 countries. MDC has operating units in the United States, Canada, Australia, the United Kingdom and Mexico, and conducts its businesses through two operating groups: the Marketing Communications Group and the Secure Products International Group.

MDC's principal executive office is located at 45 Hazelton Avenue, Toronto, Ontario, M5R 2E3, and its telephone number at that address is (416) 960-9000. MDC's web site is located at www.mdc-partners.com. The information on MDC's web site is not part of this prospectus.

The Securities

Debentures Offered	$36,723,000 (C$45,000,000) aggregate principal amount of 8.00% convertible unsecured subordinate debentures due June 30, 2010. Each debenture was issued at a price of $816 (C$1,000) per debenture and has a principal amount of $816 (C$1,000).
Stated Maturity	June 30, 2010
Interest and Payment Date	8.00% per annum, which is payable semi-annually, in arrears, on June 30 and December 31 in each year, commencing with December 31, 2005 to holder of record at the close of business on the business day immediately preceding such interest payment date. Interest will be payable based on a 365-day year. Effective January 1, 2006 until the end of the six-month period in which a registration statement for the resale of the debentures is declared effective by the SEC, the debentures will bear interest at an annual rate of 8.50%, subject to an additional 0.5% increase in certain circumstances.
Conversion Privilege	The debentures will be convertible at the holder's option into fully-paid, non-assessable and freely tradeable Class A subordinate voting shares, subject to the restrictions on transfer, at a conversion price of C$14.00 per Class A subordinate voting share being a ratio of approximately 71.4286 Class A subordinate voting shares per C$1,000 principal amount of debentures. Holders converting their Debentures shall be entitled to receive accrued and unpaid interest in respect thereof for the period up to, but excluding, the date of conversion from the latest interest payment date. Notwithstanding the foregoing, no debentures may be converted during the ten business days preceding June 30 and

	December 31 in each year, commencing December 31, 2005, as the registers of the debenture trustee will be closed during such periods.
Payment on Redemption or Maturity	On redemption or at the maturity date, MDC will repay the indebtedness represented by the debentures by paying to the debenture trustee an amount equal to the principal amount of the outstanding debentures, together with accrued and unpaid interest thereon. MDC may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to any required regulatory approvals, unless an event of default (as hereinafter defined) has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the debentures which are to be redeemed or which have matured by issuing Class A subordinate voting shares, in whole or in part, to the holders of the debentures.
Interest Payment Election	Unless an event of default has occurred and is continuing, MDC may elect, from time to time, subject to applicable regulatory approval, to issue and deliver Class A subordinate voting shares to the debenture trustee in order to raise funds to satisfy all or any part of our obligations to pay interest on the debentures in accordance with the indenture, in which event holders of the debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Class A subordinate voting shares by the debenture trustee.
Redemption and Purchases	The debentures may not be redeemed by MDC on or before June 30, 2008. Thereafter, but prior to June 30, 2009, the debentures may be redeemed, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, on not more than 60 days' and not less than 30 days' prior written notice, provided that the volume weighted average trading price of the Class A subordinate voting shares on the Toronto Stock Exchange for at least 20 trading days in any consecutive 30 day period ending on the fifth trading day prior to the date on which notice of redemption is given is not less than 125% of the conversion price. From July 1, 2009 until the maturity of the debentures, the debentures may be redeemed by MDC at a price equal to the principal amount thereof plus accrued and unpaid interest, if any, on not more than 60 days' and not less than 30 days' prior written notice.
Subordination	The payment of the principal of, and interest on, the debentures will be subordinated in right of payment to the prior payment in full in cash of all of MDC's senior indebtedness. The debentures are also effectively subordinated to all of MDC's existing and future obligations (other than subordinated indebtedness ranking *pari passu* to the debentures).

	The indenture does not limit the ability of MDC or of its subsidiaries to incur additional indebtedness, including indebtedness that ranks senior to the debentures, or from mortgaging, pledging or charging its real or personal property or properties to secure any indebtedness.
Change of Control	Upon the occurrence of a change of control (as defined in the indenture governing the debentures) of MDC involving the acquisition of voting control or direction over 50% or more of the outstanding Class A subordinate voting shares by any person or group of persons acting jointly or in concert prior to June 30, 2008, MDC shall be required to make an offer to purchase all of the then outstanding debentures on a date which is not later than 30 days following the date upon which the debenture trustee delivers a change of control notice to holders of debentures, at a price equal to 100% of the principal amount thereof plus an amount equal to the interest payments not yet received on the debentures calculated from the date of the change of control to June 30, 2008, discounted at the Government of Canada yield (as defined herein). Upon the occurrence of a change of control on or after June 30, 2008, we shall be required to make an offer to purchase all of the then outstanding debentures on the change of control date at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest to the purchase date.
CDS Eligibility	The debentures were issued in fully registered book-entry form and are represented by one or more permanent global certificates deposited with a custodian for and registered in the name of a nominee of The Canadian Depository for Securities Limited ("CDS"). Beneficial interests in any such securities are shown on, and transfers will be effected only through, records maintained by CDS and its direct and indirect participants. Any such interest may not be exchanged for certificated securities, except in limited circumstances. See "Description of Debentures Book Entry System."
Registration Rights	MDC has, for the benefit of holders, filed with the SEC a resale registration statement, of which this prospectus is a part, covering resales of the debentures and the Class A subordinate voting shares issuable upon conversion of the debentures. MDC will use its reasonable best efforts to cause the resale registration statement to become effective as promptly as practicable and keep such shelf registration statement effective until the earliest of (i) the sale pursuant to Rule 144 under the Securities Act or a shelf registration statement of all the debentures and the Class A subordinate voting shares issuable upon conversion of the debentures and (ii) the expiration of the holding period applicable to such securities held by entities that are not affiliates of MDC under Rule 144(k) under the Securities Act, or any successor provision, subject to certain permitted exceptions. In the event

	that MDC does not maintain such an effective registration statement, additional amounts shall be payable on the debentures. See "Description of Debentures Registration Rights."
Trading	Upon the effective date of the registration statement of which this prospectus is a part, MDC does not expect the debentures to be listed on any U.S. national securities exchange or in any automated quotation system. The debentures are listed on the Toronto Stock Exchange under the symbol "MDZ.DB."
Class A subordinate voting shares	MDC's outstanding Class A subordinate voting shares are listed on the Toronto Stock Exchange under the symbol "MDZ.SV.A" and on the Nasdaq under the symbol "MDCA."
Use of Proceeds	MDC will not receive any of the proceeds of the sale by the selling security holders of the debentures or the common stock into which the debentures may be converted. MDC used all of the net proceeds of the initial placement to repay outstanding indebtedness under its credit facility.
Governing Law	Each of the indenture and the debentures are governed by, and construed in accordance with, the laws of the Province of Ontario applicable to contracts executed and to be performed entirely in such Province, save as regards matters provided for in such provisions of the Trust Indenture Act of 1939 (the "TIA") as are required under the TIA to be part of and to govern indentures qualified under the TIA, which matters shall be performed in accordance with and be governed by U.S. federal laws governing the TIA.
Risk Factors	You should carefully consider the information under "Risk Factors" beginning on page 8 before making an investment in the debentures or the Class A subordinate voting shares issuable upon conversion of the debentures.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table sets forth MDC's summary financial data and other operating information. The summary financial data in the table are derived from MDC's audited year-end consolidated financial statements, which are prepared in accordance with U.S. GAAP. The financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included for the fiscal year ended December 31, 2005, included elsewhere in this prospectus.

	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
	(dollars in thousands, except per share data)				
OPERATING DATA					
Revenues	$ 443,462	$ 316,812	$ 278,777	$ 363,719	$ 477,727
Operating profit (loss)	$ 22,588	$ 5,152	$ (5,982)	$ 31,352	$ (61,828)
Income (loss) from continuing operations	$ (8,522)	$ 4,991	$ 13,702	$ 97,823	($ 71,533)
Stock-based compensation included in income (loss) from continuing operations	$ 3,272	$ 8,388	$ 6,182		
EARNINGS (LOSS) PER SHARE					
Basic					
Continuing operations	$ (0.37)	$ 0.23	$ 0.77	$ 5.78	$ (4.24)
Diluted					
Continuing operations	$ (0.37)	$ 0.22	$ 0.70	$ 3.87	$ (4.24)
FINANCIAL POSITION					
Total assets	$ 507,315	$ 437,341	$ 321,539	$ 349,677	$ 545,512
Total long-term debt	$ 123,240	$ 53,538	$ 150,142	$ 179,694	$ 374,509

RISK FACTORS

An investment in the debentures and our Class A subordinate voting shares involves a high degree of risk. You should carefully consider the following information about these risks, together with the other information contained in this prospectus, before deciding to buy the debentures. Any of the risks described below could adversely affect MDC's business, financial condition or operating results. The market price of the debentures or the Class A subordinate voting shares could decline if one or more of these risks and uncertainties develop into actual events. You could lose all or part of your investment.

Risks Related to MDC's Business

The following factors could adversely affect MDC's revenues, results of operations or financial condition. See also "Special Note Regarding Forward-Looking Disclosure."

MDC competes for clients in highly competitive industries.

MDC's Marketing Communications Group operates in a highly competitive environment in an industry characterized by numerous firms of varying sizes, with no single firm or group of firms having a dominant position in the marketplace. Competitive factors include creative reputation, management, personal relationships, quality and reliability of service and expertise in particular niche areas of the marketplace. In addition, because a firm's principal asset is its people, barriers to entry are minimal, and relatively small firms are, on occasion, able to take all or some portion of a client's business from a larger competitor.

While many of MDC's client relationships are long-standing, companies put their advertising and marketing services businesses up for competitive review from time to time, including at times when clients enter into strategic transactions. To the extent that the Marketing Communications Group fails to maintain existing clients or attract new clients, MDC's business, financial condition and operating results may be affected in a materially adverse manner.

MDC's Secure Products International Group competes primarily on the basis of quality, customer service, design capability and price. A number of MDC's competitors have greater resources than those available to us, which resources may enable them to aggressively pursue and compete for the business of our Secure Products International Group.

The loss of lines of credit could adversely affect MDC's liquidity and our ability to implement MDC's acquisition strategy and fund any put options if exercised.

As of December 31, 2005, MDC had approximately $81.7 million outstanding under its revolving credit facility in the form of borrowings and letters of credit (the "Credit Facility"). MDC uses amounts available under the Credit Facility, together with cash flow from operations, to fund its working capital needs, to fund the exercise of put option obligations and to fund our strategy of making selective acquisitions of ownership interests in entities in the marketing communications services industry.

MDC amended its Credit Facility five times in 2005, and again on January 17, 2006. Certain of these amendments to the Credit Facility 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources," for a more detailed discussion of these amendments to the Credit Facility.

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 over the next twelve months. If, however, events were to occur which result in MDC losing all or a substantial portion of its lines of credit under the Credit Facility, MDC would be required to seek other sources of liquidity. If MDC was unable to replace this source of liquidity, its ability to fund its working capital needs and any contingent obligations with respect to put options would be adversely affected.

MDC may not realize the benefits it expects from past acquisitions or acquisitions MDC may make in the future.

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

The success of acquisitions or strategic investments depends on the effective integration of newly acquired businesses into MDC's current operations, including the recent Zyman Group acquisition. Such integration is subject to risks and uncertainties, including realization of anticipated synergies and cost savings, the ability to retain and attract personnel and clients, the diversion of management's attention from other business concerns, and undisclosed or potential legal liabilities of the acquired company. MDC may not realize the strategic and financial benefits that it expects from any of its past acquisitions, or any future acquisitions.

MDC's business could be adversely affected if it loses key clients or executives.

MDC's strategy has been to acquire ownership stakes in diverse marketing communications businesses to minimize the effects that might arise from the loss of any one client or executive. The loss of one or more clients could materially affect the results of individual companies within the Marketing Communication Group. Management succession is very important to the ongoing results of MDC's Marketing Communications Group because, as in any service business, the success of a particular agency is dependent upon the leadership of key executives and management personnel. If key executives were to leave, the relationships that MDC has with its clients could be lost. Within the Secure Products International Group, the postage stamp business derives a significant portion of its revenue from government contracts, which are generally awarded in a competitive bidding process. The loss of any of these contracts could have a material adverse effect on the sales and earnings of Ashton-Potter, MDC's postage stamp production subsidiary.

MDC's ability to generate new business from new and existing clients may be limited.

To increase its revenues, MDC needs to obtain additional clients or generate additional demand for its services from existing clients. MDC's ability to generate initial demand for its services from new clients and additional demand from existing clients is subject to such clients' and potential clients' requirements, pre-existing vendor relationships, financial condition, strategic plans and internal resources, as well as the quality of MDC's employees, services and reputation and the breadth of its services. To the extent MDC cannot generate new business from new and existing clients due to these limitations, it will limit MDC's ability to grow its business and to increase its revenues.

MDC's revenues are susceptible to declines as a result of general adverse economic developments.

The marketing communications services industry is cyclical and is subject to the negative effects of economic downturns. MDC's advertising and marketing services subsidiaries and affiliates, and its

Secure Products International Group, are also exposed to the risk of clients changing their business plans and/or reducing their marketing budgets. As a result, if the U.S. and Canadian economies weaken, our businesses, financial condition and operating results are likely to be adversely affected.

MDC's business could be adversely affected if it loses or fails to attract key employees.

Employees, including creative, research, media, account and practice group specialists, and their skills and relationships with clients, are among MDC's most important assets. An important aspect of MDC's competitiveness is its ability to retain key employee and management personnel. Compensation for these key employees is an essential factor in attracting and retaining them, and MDC may not offer a level of compensation sufficient to attract and retain these key employees. If MDC fails to hire and retain a sufficient number of these key employees, it may not be able to compete effectively.

MDC is exposed to the risk of client media account defaults.

MDC's Marketing Communications Group often incurs expenses on behalf of its clients in order to secure a variety of media time and space, in exchange for which it receives a fee. The difference between the gross cost of the media and the net revenue earned by us can be significant. While MDC takes precautions against default on payment for these services (such as advance billing of clients) and has historically had a very low incidence of default, MDC is still exposed to the risk of significant uncollectible receivables from its clients.

MDC's results of operations are subject to currency fluctuation risks.

Although MDC's financial results are reported in U.S. dollars, a portion of its revenues and operating costs are denominated in Canadian dollars. As a result, fluctuations in the exchange rate between the U.S. dollar and other currencies, particularly the Canadian dollar, may affect MDC's financial results and competitive position.

MDC is subject to regulations that could restrict its activities or negatively impact its revenues.

Advertising and marketing communications businesses are subject to government regulation, both domestic and foreign. There has been an increasing tendency in the United States on the part of advertisers to resort to litigation and self-regulatory bodies to challenge comparative advertising on the grounds that the advertising is false and deceptive. Moreover, there has recently been an expansion of specific rules, prohibitions, media restrictions, labeling disclosures and warning requirements with respect to advertising for certain products. Representatives within government bodies, both domestic and foreign, continue to initiate proposals to ban the advertising of specific products and to impose taxes on or deny deductions for advertising which, if successful, may have an adverse effect on advertising expenditures and consequently MDC's revenues.

MDC is still implementing its plan to eliminate material weaknesses in its internal control over financial reporting.

MDC is required to review and assess its disclosure controls and procedures and its internal controls over financial reporting, pursuant to the Sarbanes-Oxley Act of 2002. As disclosed more fully in Item 9A on MDC's Form 10-K for the year ended December 31, 2005, management's assessment has identified the existence of material weaknesses in disclosure controls and procedures and internal controls over financial reporting. MDC is still remediating its material weaknesses in its disclosure controls and procedures and its internal control over financial reporting. These weaknesses may adversely affect MDC's ability to record, process, summarize and report financial data and, by themselves or in combination, result in a more than a remote likelihood that a material misstatement in or omission from its financial statements and other financial reporting will not be prevented or detected by MDC's employees in the normal course of performing their assigned functions. Despite the ongoing dedication of significant resources to remediate these material weaknesses, MDC has determined that additional work will be required to remediate these material weaknesses in its internal control over financial reporting and cannot assure that these material weaknesses will be fully remediated in the near term.

Material weaknesses in our internal control over financial reporting require MDC to perform additional analyses and pre- and post-closing procedures that, if not performed effectively, may prevent MDC from reporting its financial results in an accurate and timely manner. As a result of such material weaknesses, MDC's internal control over financial reporting might not prevent or detect all misstatements, including immaterial misstatements and misstatements created by collusion or fraud.

In light of these material weaknesses and the inherent limitations of internal control over financial reporting, management has concluded that MDC's disclosure controls and procedures are not effective. Therefore, MDC is performing additional analyses and other pre and post-closing procedures to ensure that MDC's consolidated financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles in the United States. These procedures include monthly analytic reviews of subsidiaries' financial results, and quarterly certifications by senior management of subsidiaries regarding the accuracy of reported financial information. MDC also vigorously enforces its policies and the Code of Conduct applicable to its employees. If the additional analyses and pre- and post-closing procedures are not performed effectively, if actions to remediate these material weaknesses are not successfully implemented or if other material weaknesses are identified in the future, MDC's ability to report its quarterly and annual financial results on a timely and accurate basis could be adversely affected.

Risks Relating to the Debentures

There are no restrictive covenants in the indenture relating to MDC's ability to incur future indebtedness or complete other financial transactions.

The indenture governing the debentures does not contain any financial or operating covenants or restrictions on the payment of dividends, the incurrence of indebtedness, transactions with affiliates, incurrence of liens or the issuance or repurchase of securities by MDC or any of its subsidiaries. MDC therefore may incur additional debt, including secured indebtedness senior to the debentures, or indebtedness at the subsidiary level to which the debentures would be structurally subordinated. A higher level of indebtedness would increase the risk that MDC may default on its debt obligations. MDC cannot assure you that it will be able to generate sufficient cash flow to pay the interest on MDC's debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt. The indenture contains no covenants or other provisions to afford protection to holders of the debentures upon the occurrence of a designated event except to the extent described under "Description of Debentures Change of Control."

MDC may be unable to generate sufficient cash flow to satisfy its debt service obligations.

MDC's ability to generate cash flow from operations to make interest payments on the debentures will depend on its future performance, which will be affected by a range of economic, competitive and business factors. MDC cannot control many of these factors, including general economic conditions and the health of industry in which it operates. If MDC's operations do not generate sufficient cash flow from operations to satisfy its debt service obligations, MDC may need to borrow additional funds to make these payments or undertake alternative financing plans, such as refinancing or restructuring MDC's debt, or reducing or delaying capital investments and acquisitions. Additional funds or alternative financing may not be available to MDC on favorable terms, or at all. MDC's inability to generate sufficient cash flow from operations or obtain additional funds or alternative financing on acceptable terms could have a material adverse effect on its business, financial condition and results of operations.

MDC may be unable to repay or purchase the principal amount of the debentures.

At maturity, the entire outstanding principal amount of the debentures will become due and payable by MDC. In addition, if a change of control occurs, as defined in the indenture, each holder of the debentures may require that MDC purchase all or a portion of that holder's debentures. MDC may not have sufficient funds or will not be able to arrange for additional financing to pay the principal amount or purchase price due. In that case, MDC's failure to repay the debentures at maturity or to purchase any tendered debentures would constitute an event of default under the indenture. In addition, the terms of the debentures provide that in certain circumstances, MDC will have the right to repay the principal of the debentures using newly issued shares, rather than cash.

MDC cannot assure you that an active trading market will develop for the debentures.

Prior to the sale of the private placement of the debentures, there was no established trading market for the debentures. MDC have no plans to list the debentures on a U.S. national securities exchange. MDC has been advised by the initial purchaser of the debentures that such purchaser currently intends to make a market in the debentures, but it is not obligated to do so. Any market-making activity, if initiated, may be discontinued at any time, for any reason or for no reason, without notice. If the initial purchaser of the debentures ceases to act as the market maker for the debentures, MDC cannot assure you another firm or person will make a market in the debentures. The liquidity of any market for the debentures will depend upon the number of holders of the debentures, MDC's results of operations and financial condition, the market for similar securities, the interest of securities dealers in making a market in the debentures and other factors. An active or liquid trading market for the debentures may not develop.

MDC will use its reasonable best efforts to cause the resale registration statement to be declared effective under the Securities Act. Effective January 1, 2006 until the end of the six-month period in which a registration statement for the resale of the debentures is declared effective by the SEC, the debentures will bear interest at an annual rate of 8.50%, subject to an additional 0.5% increase in certain circumstances. However, MDC cannot assure you that the registration statement will be declared effective or that there will be an active trading market for the debentures. If the resale registration statement is not declared effective, this could adversely affect the liquidity and price of the debentures and common stock issuable upon conversion of the debentures. If MDC does not comply with its registration obligations with respect to the debentures and the Class A subordinate voting shares issuable upon conversion of the debentures, MDC will be obligated to pay additional amounts to the holders of the debentures. Selling security holders who sell debentures or Class A subordinate voting shares pursuant to a resale registration statement may be subject to certain restrictions and potential liability under the Securities Act. See "Description of Debentures Registration Rights."

If a market were to develop, the debentures could trade at prices that may be lower than their initial offering price depending on many factors, including the market price of the Class A subordinate voting shares into which the debentures are convertible, prevailing interest rates, MDC's operating results and the market for similar securities.

MDC expects that the trading value of the debentures will be significantly affected by the price of MDC's common stock.

The market price of the debentures is expected to be significantly affected by the market price of MDC's Class A subordinate voting shares. This may result in greater volatility in the trading value of the debentures than would be expected for any non-convertible debt securities MDC may issue.

The debentures are subordinated to all of MDC's senior indebtedness and effectively subordinated to all indebtedness of MDC's subsidiaries.

The debentures are MDC's unsecured subordinated obligations and are not guaranteed by any of MDC's subsidiaries. Accordingly, the debentures are subordinated to all of MDC's current and future senior indebtedness, including secured indebtedness. In addition, MDC's right to receive any distribution of assets of any subsidiary upon that subsidiary's liquidation, reorganization or otherwise, is subject to the prior claims of creditors of that subsidiary, except to the extent MDC is also recognized as a creditor of that subsidiary. As a result, the debentures are effectively subordinated to the claims of such creditors.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus contains forward-looking statements, including within the meaning of Section 27A of the U.S. Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934. When used in this prospectus, such statements may use such words as "anticipate," "believe," "continue," "may," "project," "should," "estimate," "plan" and "expect" and other similar expressions. MDC's representatives may also make forward-looking statements orally from time to time. Statements in this document that are not historical facts, including statements about MDC's beliefs and expectations, recent business and economic trends, potential acquisitions, estimates of amounts for deferred acquisition consideration and "put" option rights, constitute forward-looking statements. These statements are based on current plans, estimates and projections, and are subject to change based on a number of factors, including those outlined in this section. Forward-looking statements speak only as of the date they are made, and MDC undertakes no obligation to update publicly any of them in light of new information or future events, if any. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statements. Such risk factors include, but are not limited to, the following:

- risks associated with effects of national and regional economic conditions;
- the Company's ability to attract new clients and retain existing clients;
- the financial success of the Company's clients;
- the Company's ability to remain in compliance with its debt agreements;
- risks arising from identified and potential future material weaknesses in internal control over financial reporting;
- the Company's ability to retain and attract key employees;
- the successful completion and integration of acquisitions which complement and expand the Company's business capabilities; and
- foreign currency fluctuations.

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

Investors should carefully consider these risk factors and the additional risk factors outlined in more detail under "Risk Factors" in this prospectus. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, planned or expected, and accordingly readers should not place undue reliance on forward-looking statements. Although the forward-looking statements contained in this prospectus are based on what MDC believes to be reasonable assumptions, MDC cannot assure prospective investors that actual results, performance or achievements will be consistent with these forward-looking statements.

USE OF PROCEEDS

MDC will not receive any of the proceeds of the sale by the selling security holders of the debentures or the common stock into which the debentures may be converted. MDC used all of the net proceeds of the initial placement to repay outstanding indebtedness under its credit facility.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth MDC's historical ratios of earnings to fixed charges for the periods indicated:

	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Ratio of Earnings to Fixed Charges	2.04	2.42	2.11	6.13	[a]

(a) No ratio is presented for 2001 as the earnings were $93,178 less than the fixed charges

In computing the ratio of earnings of fixed charges, "earnings" consist of pretax income from continuing operations, interest expenses and other adjustments.

For purposes of the "earnings" computation, other adjustments include adding minority interest in earnings of consolidated subsidiaries, dividends received from equity-method investees, amortization of capitalized interest and the interest component of rental expense and subtracting equity income of investees.

"Fixed Charges" consist of interest expense and other adjustments. Other adjustments include capitalized interest costs and the interest component of rental expense.

PRICE RANGE OF THE CLASS A SUBORDINATE VOTING SHARES

Quarterly high and low sales prices per share of MDC's Class A subordinate voting shares, as reported by the Nasdaq composite and The Toronto Stock Exchange, respectively, for each quarter in the years ended December 31, 2005 and 2004 as follows:

	High	Low
Nasdaq National Market		
($ per share)		
Quarter Ended		
March 31, 2004	17.63	11.04
June 30, 2004	16.55	11.14
September 30, 2004	13.05	10.07
December 31, 2004	12.95	9.72
March 31, 2005	11.89	9.30
June 30, 2005	10.37	7.45
September 30, 2005	10.05	6.80
December 31, 2005	7.60	5.35
The Toronto Stock Exchange		
(C$ per share)		
Quarter Ended		
March 31, 2004	22.25	14.42
June 30, 2004	20.65	15.09
September 30, 2004	17.00	13.21
December 31, 2004	16.08	11.01
March 31, 2005	13.91	10.25
June 30, 2005	12.75	9.00
September 30, 2005	10.85	8.20
December 31, 2005	8.75	6.27

As of March 31, 2006, the last reported sale price of the Class A subordinate voting shares was $8.54 on NASDAQ and C$9.91 on the Toronto Stock Exchange.

Quarterly high and low sales prices per debenture of MDC's debentures, as reported by The Toronto Stock Exchange, for each quarter that the Debentures were outstanding as follows:

	High	Low
The Toronto Stock Exchange		
(C$ per $100 face amount of debentures)		
Quarter Ended		
June 30, 2005	99.00	97.26
September 30, 2005	99.00	96.00
December 31, 2005	98.00	65.00

As of March 31, 2006, the last reported sale price of the 8% Debentures was C$94.00 on the Toronto Stock Exchange.

DIVIDEND POLICY

MDC has not declared nor paid any dividends on its Class A subordinate voting shares since its incorporation in 1986. In addition, MDC's Credit Facility prohibits MDC from declaring and paying cash dividends. Accordingly, it is expected that no dividends will be paid by MDC on the Class A subordinate voting shares or the Class B shares in the foreseeable future. Any future payment of dividends will be determined by the board of directors of MDC Partners Inc. on the basis of MDC's earnings, financial requirements and other relevant factors.

SELECTED CONSOLIDATED FINANCIAL DATA

MDC's selected consolidated financial data set forth below should be read together with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and MDC's consolidated historical financial statements, which were prepared in accordance with U.S. GAAP, and respective notes included elsewhere in this prospectus. The selected consolidated historical income statement data of MDC for each of the years in the three-year period ended December 31, 2005 and balance sheet data as of December 31, 2005 and 2004 have been derived from MDC's audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated historical income statement date of MDC for each of the years in the two-year period ended December 31, 2002 and balance sheet data as of December 31, 2003, 2002 and 2001 have been derived from MDC's audited consolidated financial statements that are not included in this prospectus. The data set forth below are not necessarily indicative of results to be expected for any future period.

	Year Ended December 31,				
	2005	2004	2003	2002	2001
	(dollars in thousands, except per share data)				
OPERATING DATA					
Revenues	$ 443,462	$ 316,812	$ 278,777	$ 363,719	$ 477,727
Operating profit (loss)	$ 22,588	$ 5,152	$ (5,982)	$ 31,352	$ (61,828)
Income (loss) from continuing operations	$ (8,522)	$ 4,991	$ 13,702	$ 97,823	($ 71,533)
Stock-based compensation included in income (loss) from continuing operations	$ 3,272	$ 8,388	$ 6,182		
EARNINGS (LOSS) PER SHARE					
Basic					
Continuing operations	$ (0.37)	$ 0.23	$ 0.77	$ 5.78	$ (4.24)
Diluted					
Continuing operations	$ (0.37)	$ 0.22	$ 0.70	$ 3.87	$ (4.24)
FINANCIAL POSITION					
Total assets	$ 507,315	$ 437,341	$ 321,539	$ 349,677	$ 545,512
Total long-term debt	$ 123,240	$ 53,538	$ 150,142	$ 179,694	$ 374,509

Several significant factors that should be considered when comparing the annual results shown above are as follows:

As discussed in the notes to the consolidated financial statements, as required by Statement of Financial Accounting Standard 142, "Goodwill and Other Intangibles ("SFAS 142"), beginning with MDC's 2002 operating results, goodwill and other intangible assets that have indefinite lives were no longer amortized due to a change in US GAAP. The following table shows the impact of excluding goodwill amortization in 2001.

		2001
Income (loss) from continuing operations	$	(71,533)
Add back goodwill amortization		11,244
Net income (loss) from continuing operations before goodwill amortization	$	(60,289)
Earnings (loss) per share from continuing operations:		
Basic as reported	$	(4.24)
Basic before goodwill amortization	$	(3.57)
Diluted as reported	$	(4.24)
Diluted before goodwill amortization	$	(3.57)

Year Ended December 31, 2005

On June 28, 2005, MDC completed an issuance in Canada of C$45.0 million of convertible unsecured subordinated debentures (amounting to $38.7 million as of December 31, 2005). The debentures mature on June 30, 2010. The debentures bear interest at an annual rate of 8.00% payable semi-annually, in arrears, on June 30 and December 31 of each year, commencing December 31, 2005. Effective January 1, 2006 until the end of the six-month period in which a registration statement for the resale of the debentures is declared effective by the SEC, additional amounts are payable on the debentures such that the debentures will bear interest at an annual rate of 8.50%, subject to an additional 0.5% increase in certain circumstances.

On April 1, 2005, MDC, through a wholly-owned subsidiary, purchased 61.6% of the total outstanding membership units of Zyman Group, LLC for a purchase price equal to $52.4 million paid in cash, plus the issuance of 1,139,975 class A shares of MDC valued at approximately $11.2 million. On an annual basis, the Company receives a 20% priority return calculated based on its total investment in Zyman Group, which as of December 31, 2005 approximates a priority return of $12.7 million.

Year Ended December 31, 2004

During 2004, MDC sold its remaining 20% interest in Custom Direct, Inc. ("CDI") with a resulting reduction in long-term debt and a net gain of $15.0 million. See Note 15 of the notes to consolidated financial statements included herein.

MDC acquired interests in several Marketing Communication businesses, which contributed $56.1 million of revenue, $2.9 million of income from continuing operations and $120.6 million of assets.

Effective September 22, 2004, MDC consolidated Crispin Porter + Bogusky, LLC ("CPB") as a variable interest entity. Prior to that date, CPB had been accounted for on an equity basis since acquired by MDC in 2001. As a result of the change in accounting, from September 22, 2004, CPB contributed revenues of $13.3 million and increased MDC's assets by approximately $80.0 million.

Year Ended December 31, 2003

During 2003, MDC disposed of 80% of its interest in CDI and retired the remaining 10.5% senior subordinated notes. The divestitures and debt repayment resulted in a gain of $42.1 million. CDI contributed $48.5 million of revenue and $6.1 million of income from continuing operations in 2003. See Note 15 of the notes to consolidated financial statements included herein.

Effective January 1, 2003, MDC prospectively adopted fair value accounting for stock based awards as prescribed by SFAS No. 123 "Accounting for Stock-Based Compensation."

MDC also incurred impairment charges of $10.0 million and $8.1 million relating to goodwill and fixed assets, respectively.

Year Ended December 31, 2002

During 2002, MDC sold its remaining interests in Davis + Henderson, Ashton Potter Packaging, AE McKenzie, House of Questa, and Spectron and retired $112.5 million of its 10.5% senior subordinated debentures. The divestitures, debt repayment and a financial derivative gain resulted in a gain of $113.4 million. The above divested operations contributed $51.4 million of revenue and $8.1 million of income from continuing operations in 2002.

Effective January 1, 2002 MDC adopted Financial Accounting Statement 142, "Goodwill and Other Intangibles," whereby goodwill and other intangible assets that have indefinite lives are no longer amortized but tested for impairment at least annually.

MDC also incurred a $3.4 million write-down of fixed assets in 2002.

Year Ended December 31, 2001

During 2001, MDC commenced a restructuring process to maximize the returns in its core businesses and construct an orderly exit from non-core activities, resulting in a charge of $121.5 million. MDC recorded a gain of $62.3 million on the sale of 45.5% of a Secure Products International Group subsidiary, Davis + Henderson. MDC recorded amortization of goodwill in the amount of $11.2 million. MDC also completed the acquisition of five Marketing Communication businesses, which did not have a significant impact on the results of operations in the year acquired but increased total assets by $54.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion together with "Selected Consolidated Financial Data" and our consolidated financial statements and related notes included elsewhere in this prospectus. The discussion contains forward-looking statements involving risks, uncertainties and assumptions that could cause our results to differ materially from expectations. Factors that might cause such differences include those described under "Risk Factors," "Special Note Regarding Forward-Looking Statements" and elsewhere in this prospectus.

Unless otherwise indicated, references to the "Company" mean MDC Partners Inc. and its subsidiaries, and references to a fiscal year means the Company's year commencing on January 1 of that year and ending December 31 of that year (e.g., fiscal 2005 means the period beginning January 1, 2005, and ending December 31, 2005).

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

Executive Summary

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

MDC manages the business by monitoring several financial and non-financial performance indicators. The key indicators that we review focus on the areas of revenues and operating expenses. Revenue growth is analyzed by reviewing the components and mix of the growth, including: growth by major geographic location; existing growth by major reportable segment (organic); growth from currency changes; and growth from acquisitions.

MDC conducts its businesses through two operating groups: the Marketing Communications Group and the Secure Products International Group. Within the Marketing Communications Group, there are three reportable operating segments: Strategic Marketing Services ("SMS"), Customer Relationship Management ("CRM") and Specialized Communications Services ("SCS"). Within the Secure Products International Group, the reportable operating segments include the Secure Cards Business ("SCB") and the Secure Paper Business ("SPB"). In addition, MDC has a "Corporate Group" which provides certain administrative, accounting, financial and legal functions.

Marketing Communications Group

Through its operating "partners" in the Marketing Communications Group, MDC provides advertising, consulting and specialized communication services to clients throughout the United States, Canada, Mexico and Europe.

The operating companies within the Marketing Communications Group earn revenue from agency arrangements in the form of retainer fees or commissions; from short-term project arrangements in the form of fixed fees or per diem fees for services; and from incentives or bonuses. Additional information about revenue recognition appears in Note 2 of the notes to the annual consolidated financial statements.

MDC's Marketing Communications Group measures operating expenses in two distinct cost categories: cost of services sold, and office and general expenses. Cost of services sold is primarily comprised of employee compensation related costs and direct costs related primarily to providing services. Office and general expenses are primarily comprised of rent and occupancy costs and administrative service costs including related employee compensation costs.

Because we are a service business, we monitor these costs on a percentage of revenue basis. Cost of services sold tend to fluctuate in conjunction with changes in revenues, whereas office and general expenses, which are not directly related to servicing clients, tend to decrease as a percentage of revenue as revenues increase because a significant portion of these expenses are relatively fixed in nature.

Secure Products International Group

The Secure Products Group provides 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.

Success in the Secure Products Group requires companies to offer their customers innovative products, highly reliable service, and consistent delivery of highly specialized, secure products on a price-competitive basis. The Company has strong relationships with its customers, has partnered with experienced management, and has invested in leading edge technology, providing it with the expertise and cost structures to meet customer needs.

MDC measures operating expenses within the Secure Products Group in two distinct cost categories, cost of products sold, and office and general expenses. Cost of products sold is a mixture of direct labor and direct material costs. Material costs are primarily paper and petroleum-based products. Office and general expenses are primarily comprised of rent and occupancy costs and administrative service costs including related employee compensation costs. Each product within the Secure Products Group requires unique security development, production, and finishing characteristics. The core value is the ability of MDC to deliver, achieve and maintain the trust clients place in the Company to develop, produce, and finish products securely and accurately. The facilities are generally segregated into a secure production facility, finishing area, and office, general and administration.

Because of the nature of the products MDC produces, which require a combination of production and services, management monitors direct costs as a percentage of revenue. A material portion of the Company's costs are fixed, and therefore income can fluctuate as the production levels and timing of deliveries fluctuates.

Certain Factors Affecting Our Business

Acquisitions and Dispositions. MDC's strategy includes acquiring ownership stakes in well-managed businesses with strong reputations in the industry. MDC has entered into a number of acquisition and disposal transactions in 2005, 2004 and 2003, which affected revenues, expenses, operating income and net income. Additional information regarding material acquisitions is provided in Note 4 "Acquisitions" in the notes to the consolidated financial statements included in this Prospectus.

Foreign Exchange Fluctuations. MDC's financial results and competitive position are affected by fluctuations in the exchange rate between the US dollar and the Canadian dollar, as described in "Risk Factors MDC's results of operations are subject to currency fluctuation risks." See also "Quantitative and Qualitative Disclosures About Market Risk Foreign Exchange." Further information is provided in "Foreign Currency Translation" in Note 2 of the notes to consolidated financial statements included in this Prospectus.

Seasonality. Historically, with some exceptions, the Marketing Communications Groups' fourth quarter generates the highest quarterly revenues in a year. The fourth quarter has historically been the period in the year in which the highest volumes of media placements and retail related consumer marketing occur.

Other important factors that could affect our results of operations are set forth in "Risk Factors." As of the quarter ended September 30, 2005, the Company changed the composition of its reportable segments as set out in Note 16 of the notes to the consolidated financial statements included herein. Accordingly, to reflect this change in composition, the Company has restated the previously reported segment information for the comparable periods in 2004 and 2003 to reflect this changed segment composition.

Summary of Key Transactions

Zyman Group Acquisition

On April 1, 2005, MDC, 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 and 1,139,975 Class A shares of MDC. In addition, MDC may be required to pay up to an additional $12 million in cash and Class A shares to the sellers if Zyman Group achieves specified financial targets for the 12 month periods ending June 30, 2006 and 2007. MDC's acquisition of the Zyman Group enabled MDC to expand its capabilities in the areas of strategic marketing knowledge and solutions.

During the first five years following MDC's acquisition of the Zyman Group, MDC's allocation of profits of the Zyman Group may differ from its proportionate share of ownership. On an annual basis, the Company receives a 20% priority return calculated based on its total investment in Zyman Group, which as of December 31, 2005 approximates a priority return of $12.7 million. Thereafter, based on calculations set forth in the operating agreement of Zyman Group (the "LLC Agreement"), the Company's share of remaining Zyman Group profits in excess of a predetermined threshold, may be disproportionately less than its equity ownership in Zyman Group. Specifically, on an annual basis, if Zyman operating results exceed a defined operating margin, the Company would be entitled to 25% of the excess margins in the first two years of the LLC Agreement and 30% of the excess margins in the following three years of the LLC Agreement, rather than the Company's equity portion of 61.6%. After the first five years, the earnings of the Zyman Group will be allocated in a proportion equal to the respective equity interests of the members.

8% Convertible Debentures

MDC completed an issuance in Canada of C$45.0 million of convertible unsecured subordinated debentures (amounting to $38.7 million as of December 31, 2005). The debentures mature on June 30, 2010. The debentures bear interest at an annual rate of 8.00% payable semi-annually, in arrears, on June 30 and December 31 of each year, commencing December 31, 2005. Effective January 1, 2006 until the end of the six-month period in which a registration statement for the resale of the debentures is declared effective by the SEC, additional amounts are payable on the debentures such that the debentures will bear interest at an annual rate of 8.50%, subject to an additional 0.5% increase in certain circumstances.

Crispin Porter + Bogusky, LLC

Effective September 22, 2004, the financial statements of Crispin Porter + Bogusky, LLC ("CPB"), a non-controlled affiliate that was previously accounted for under the equity method, have been consolidated with MDC's financial statements from that date as a variable interest entity.

Results of Operations for the Years Ended December 31, 2005, 2004 and 2003 are presented below:

For the Year Ended December 31, 2005

	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Secure Cards Business	Secure Paper Business	Corporate	Total
	(thousands of United States dollars)						
Revenue	$ 217,329	$ 67,240	$ 78,793	$ 31,707	$ 48,393	$	$ 443,462
Cost of services sold	$ 106,997	$ 51,913	$ 52,901	$	$	$	$ 211,811
Cost of products sold	$	$	$	$ 17,595	$ 32,281	$	$ 49,876
Depreciation and amortization	$ 18,311	$ 3,578	$ 892	$ 1,931	$ 2,409	$ 362	$ 27,483
Goodwill charges	$	$	$ 473	$	$	$	$ 473
Operating Profit (Loss)	$ 32,888	$ 1,322	$ 11,249	$ (235)	$ 2,864	$ (25,500)	$ 22,588
Other Income (Expense):							
Other income							$ 615
Foreign exchange loss							$ (887)
Interest expense, net							$ (8,891)
Income from continuing operations before income taxes, equity in affiliates and minority interest							$ 13,425
Income taxes							$ 2,157
Income from continuing operations before equity in affiliates and minority interests							$ 11,268
Equity in earnings of non-consolidated affiliates							$ 1,402
Minority interests in income of consolidated subsidiaries	$ (18,160)	$ (84)	$ (2,948)	$	$	$	$ (21,192)
Loss from continuing operations							$ (8,522)
Income from discontinued operations							$ 573
Net loss							$ (7,949)
Stock-based compensation	$ 519	$ 81	$	$	$	$ 2,672	$ 3,272

For the Year Ended December 31, 2004 (Restated)

	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Secure Cards Business	Secure Paper Business	Corporate	Total
	(thousands of United States dollars)						
Revenue	$ 123,780	$ 59,673	$ 63,620	$ 26,282	$ 43,457	$	$ 316,812
Cost of services sold	$ 71,100	$ 43,746	$ 44,119	$	$	$	$ 158,965
Cost of products sold	$	$	$	$ 13,171	$ 29,130	$	$ 42,301
Depreciation and amortization	$ 5,601	$ 3,451	$ 960	$ 1,801	$ 1,688	$ 237	$ 13,738
Operating Profit (Loss)	$ 17,981	$ 3,629	$ 7,743	$ (2,827)	$ 3,320	$ (24,694)	$ 5,152
Other Income (Expense):							
Other income							$ 14,844
Foreign exchange loss							$ (498)
Interest expense, net							$ (8,105)
Income from continuing operations before income taxes, equity in affiliates and minority interest							$ 11,393
Income taxes							$ 818
Income from continuing operations before equity in affiliates and minority interests							$ 10,575
Equity in earnings of non-consolidated affiliates							$ 3,651
Minority interests in income of consolidated subsidiaries	$ (6,591)	$ (245)	$ (2,399)	$	$	$	$ (9,235)
Income from continuing operations							$ 4,991
Loss from discontinued operations							$ (7,148)
Net loss							$ (2,157)
Stock-based compensation	$ 131	$ 130	$ 78	$	$	$ 8,049	$ 8,388

For the Year Ended December 31, 2003 (Restated)

	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Secure Cards Business	Secure Paper Business	Corporate	Total
	(thousands of United States dollars)						
Revenue	$ 62,828	$ 46,079	$ 55,943	$ 29,291	$ 84,636	$	$ 278,777
Cost of services sold	$ 35,630	$ 31,890	$ 38,388	$	$	$	$ 105,908
Cost of products sold	$	$	$	$ 13,589	$ 43,065	$	$ 56,654
Depreciation and amortization	$ 1,408	$ 2,742	$ 858	$ 1,308	$ 1,754	$ 415	$ 8,485
Goodwill and fixed assets impairment charges	$	$	$ 834	$ 6,812	$ 10,492	$	$ 18,138
Operating Profit (Loss)	$ 10,004	$ 3,779	$ 6,587	$ (9,835)	$ 1,184	$ (17,701)	$ (5,982)
Other Income (Expense):							
Other income							$ 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							$ 5,770
Income from continuing operations before Equity in affiliates and minority interests							$ 13,281
Equity in earnings of non-consolidated affiliates							$ 4,929
Minority interests in income of consolidated subsidiaries	$ (2,563)	$ (1,586)	$ (1,895)	$ 1,536	$	$	$ (4,508)
Income from continuing operations							$ 13,702
Loss from discontinued operations							$ (1,271)
Net income							$ 12,431
Stock-based compensation	$	$ 330	$	$	$	$ 5,852	$ 6,182

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

On a consolidated basis, revenue was $443.5 million for the year ended 2005, representing a 40% increase compared to revenue of $316.8 million for the year ended 2004. This increase relates primarily to acquisitions in both 2004 and 2005 in the Marketing Communications Group, together with the consolidation of CPB from September 22, 2004, and organic growth.

Operating profit for the year ended 2005 was $22.6 million, compared to $5.2 million for the year ended 2004. The increase in operating income in 2005 was primarily the result of an increase in revenue attributable to both the Marketing Communications Group and Secure Products International Group, and a decrease in stock-based compensation expense offset in part by increased compliance costs associated with Sarbanes-Oxley legislation and the establishment of a corporate office in New York.

The net loss for 2005 increased from $2.2 million in 2004, to $7.9 million in 2005, as a result of the items described above offset primarily by the 2004 gain of $15.0 million of the Company's divestiture of its remaining interest in Custom Direct, Inc.

Marketing Communications Group

Revenues in 2005 attributable to the Marketing Communications Group, which consists of three reportable segments Strategic Marketing Services ("SMS"), Customer Relationship Management ("CRM"), and Specialized Communications Services ("SCS"), were $363.4 million compared to $247.1 million in 2004, representing a year-over-year increase of 47%.

The components of revenue growth for 2005 are shown in the following table:

	Revenue	
	$000's	%
Year ended December 31, 2004	$ 247,073	
Acquisitions and effect of CPB	$ 93,138	38%
Organic	$ 19,700	8%
Foreign exchange impact	$ 3,451	1%
Year ended December 31, 2005	$ 363,362	47%

The Marketing Communications Group had organic growth of $19.7 million or 8% in 2005, primarily attributable to new business wins and additional revenues from existing clients, particularly in the US.

For 2005, Marketing Communications revenue was $363.4 million compared to $247.1 million in 2004, representing an increase of $116.3 million, or 47%. Of the revenue growth, $56.8 million was attributable to acquisitions completed by the Company during 2004 and 2005, of which $45.4 million related to Zyman. The Company acquired a controlling interest in kirshenbaum bond + partners, LLC, during the first quarter of 2004, controlling interests in henderson bas, Hello Design, LLC, Bruce Mau Design Inc., and Banjo, LLC, during the second quarter of 2004, VitroRobertson, LLC during the third quarter of 2004, and the Zyman Group, LLC during the second quarter of 2005. A weakening of the US dollar versus the Canadian dollar in 2005 compared to 2004 resulted in increased contributions from the division's Canadian and UK-based operations by approximately $3.5 million. Additionally, revenue increased $36.4 million in 2005 as a result of the change in accounting of CPB described above.

The positive organic growth, combined with acquisitions and the effect of the accounting treatment given to CPB, resulted in a shift in the geographic mix of revenues, due to an increase in the percentage of revenue growth attributable to US operations versus Canadian and UK-based operations compared to the geographic mix experienced in 2004.

This shift in the geographic mix in revenues is demonstrated in the following table:

	2005	2004
US	84%	79%
Canada	14%	18%
UK	2%	3%

The operating income of the Marketing Communications Group increased by approximately 55% to $45.5 million from $29.4 million, with operating margins of 12.5% for 2005 compared to 11.9% in 2004. The increase in operating margins was primarily reflective of a decrease in direct costs and staff costs as a percentage of revenue, offset by increases in general and other operating costs related to administrative salaries including severance, increased amortization relating to the Zyman acquisition and the application of consolidation accounting to the results of CPB during 2005 versus equity accounting until September 22, 2004.

Secure Products International Group

Secure Products International consists of two reportable segments the Secure Cards Business ("SCB") and the Secure Paper Business ("SPB"). Revenues of Secure Products International were $80.1 million in 2005, representing an increase of 15% compared to 2004. A weakening in the US dollar, versus the Canadian and Australian dollars, in 2005 compared to 2004 resulted in increased contributions from the segment's Canadian and Australian-based operations of $3.3 million in 2005 compared to 2004. Organic growth for the year was $7.0 million or 10% due to an increase in the volume of stamps produced due to the 2006 US Postal Service rate increase, an increase in tickets produced due to the end of the National Hockey League ("NHL") lockout and an increase in the volume of secure cards produced.

The components of the revenue growth for 2005 are:

	Revenue	
	$000's	**%**
Year ended December 31, 2004	$ 69,739	
Organic growth	7,048	10%
Foreign exchange impact	3,313	5%
Year ended December 31, 2005	$ 80,100	15%

Secure Products International Group had operating income of $2.6 million in 2005 compared to operating income of $0.5 million in 2004. This increase results primarily from the increase in revenue noted above offset by decreases in gross margins from 39% in 2004 to 38% in 2005, and increased depreciation and amortization expense, additional severance costs and additional costs associated with the establishment of a management team dedicated to the Secure Products International Group.

Marketing Communications Group

Strategic Marketing Services ("SMS")

Revenues attributable to SMS in 2005 were $217.3 million compared to $123.8 million in 2004. The year-over-year increase of $93.5 million or 76% was attributable primarily to the acquisitions of kirshenbaum bond & partners, LLC in during the first quarter of 2004, VitroRobertson, LLC during the third quarter of 2004 and Zyman Group, LLC during the second quarter of 2005 and the previously discussed change in the accounting of CPB, which has been consolidated since September 22, 2004. A weakening of the US dollar versus the Canadian dollar in 2005 compared to 2004 resulted in a 1% increase in contributions from the division's Canadian-based operations. Organic growth for 2005 was approximately 3% compared to 2004 primarily due to new business wins in the US.

The operating income of SMS improved by approximately 83% to $32.9 million from $18.0 million in 2004, while operating margins increased to 15.1% for 2005 from 14.5% in 2004. These increased profits were primarily reflective of the Zyman acquisition and the application of consolidation accounting of the results of CPB for the full year 2005 versus equity accounting until September 22, 2004 and a decrease in staff costs as a percentage of revenue partially offset by an increase in the amortization of intangibles related to both the Zyman and CPB transactions, severance costs and a stock-based compensation charge in 2005.

Customer Relationship Management ("CRM")

Revenues reported by the CRM segment in 2005 were $67.2 million, an increase of $7.5 million or 13% compared to the $59.7 million reported for 2004. This growth was due primarily to higher volumes from existing clients.

Operating income earned by CRM decreased by approximately $2.3 million to $1.3 million for 2005 from $3.6 million for the previous year. Operating margins were 2.0% for 2005 as compared to 6.1% in 2004. The decrease was primarily the result of a decrease in gross margins primarily from higher costs incurred relating to the implementation of a new service contract with one of the segment's large clients, and an increase in staff costs that was not fully offset by the increase in revenues generated. Administration expenses as a percentage of revenue were consistent in both periods.

Specialized Communications Services ("SCS")

SCS generated revenues of $78.8 million for 2005, $15.2 million or 24% higher than 2004. Acquisitions accounted for an increase of approximately 7%, while organic growth, reflective of new business wins, was approximately 14% for the 2005 year compared to 2004. Revenues of the division's Canadian and UK-based operations increased 4% compared to 2004 as a result of a weakening of the US dollar versus the Canadian dollar.

Similarly, the operating income of SCS increased by approximately 45% to $11.2 million from $7.7 million in 2004 due primarily to the increase in revenue and a decrease of total staff costs as a percentage of revenue, partially offset by an increase in direct costs and a slight increase in administrative expense as a percentage of revenue due primarily to severance payments. Consequently, operating margins increased to 14% for 2005, as compared to 12% in 2004.

Secure Products International Group

Secure Cards Business ("SCB")

Revenues from SCB for 2005 were $31.7 million, representing an increase of $5.4 million or 21% over the $26.3 million recorded in 2004. Increased volumes produced growth of approximately 15% for 2005 compared to 2004. The division's Canadian and Australian-based operations reported a 6% increase in revenues related to a weakening of the US dollar versus the Canadian dollar in 2005 compared to 2004.

SCB incurred an operating loss of $0.2 million for the 2005, an improvement of $2.6 million from the operating loss of $2.8 million reported for 2004. Profits generated from an increase in revenues and a decrease in general and other operating costs primarily related to administrative salaries, were partially offset by an increase in the cost of products sold as a percentage of revenue from 50% in 2004 to 55% in 2005, additional severance costs and additional costs associated with the establishment of a management team dedicated to the Secure Products International Group in the third quarter of 2005. The decrease in gross margin percentage is primarily related to a shift in product/customer mix.

Secure Paper Business ("SPB")

Revenues recorded by SPB for 2005 were $48.4 million, an increase of $5.0 million or 12% compared to 2004. The increase in revenues of 7%, attributable primarily to an increase in the volume of stamps produced, due to a 2006 stamp rate increase and an increase in tickets produced following the end of the NHL strike. In addition, the impact of a weakening of the US dollar versus the Canadian dollar in 2005 compared to 2004 on the revenues of SPB's Canadian-based operations contributed a 4% increase.

SPB earned operating income of $2.9 million for 2005, compared to operating income earned of $3.3 million in 2004. The decrease in operating income was attributable to a change in the mix of products sold to lower margin products,, higher overall operating costs including an increase in salaries of the ticketing operation and salary and related costs of the establishment of a management team for the Secure Products International Group in the third quarter of 2005.

Corporate

Operating losses related to the Company's Corporate and Other operations totaled $25.5 million compared to $24.7 million in 2004. Excluding the effects of the recovery of $2.7 million in litigation related accruals in 2004, overhead costs decreased by $1.5 million. This decrease was primarily due to a reduction of stock-based compensation of $5.4 million, offset by the establishment of a corporate office in New York and increased compliance costs associated with Sarbanes-Oxley legislation. Stock-based compensation was $2.7 million in 2005 versus $8.0 million in 2004. The $5.4 million decrease primarily related to charges recorded in 2004 relating to the Company amending its stock appreciation rights plan to amend the method of settlement from cash exclusively to cash or equity at the option of the Company.

Other Income (Expense) and Settlement of Long-Term Debt

The other income recorded in 2005 of $0.6 million related primarily to the second quarter settlement of a loan held by Corporate operations which was previously provided for, offset by fixed asset dispositions. The 2004 gain of $14.8 million primarily related to the first quarter divestiture of the Company's remaining interest in Custom Direct, Inc, net of a loss on the settlement of the exchangeable debentures and the fair value adjustments on the related embedded derivative.

Foreign Exchange Gain (Loss)

The foreign exchange loss was $0.9 million for 2005 compared to the loss of $0.5 million recorded in 2004 and was due primarily to a strengthening in the Canadian dollar compared to the US dollar on the US dollar denominated balances of Canadian subsidiaries. At December 31, 2005, the exchange rate was 1.16 Canadian dollars to one US dollar, compared to 1.20 at the end of 2004.

Net Interest Expense

Net interest expense for 2005 was $8.9 million, an increase of $0.8 million over the $8.1 million net interest expense incurred during 2004. This increase relates primarily to higher outstanding debt combined with higher interest rates in 2005 due to the acquisition of the Zyman Group and the issuance of the 8% Debentures. Interest expense was reduced on a year-to-date basis by $0.2 million related to the mark-to-market adjustment of a swap agreement. See "Liquidity and Capital Resources".. Interest income decreased by $0.3 million due to better utilization of cash balances to repay debt.

Income Taxes

Income tax expense in 2005 was $2.2 million compared to an expense of $0.8 million for 2004. The Company's effective tax rate was substantially lower than the statutory tax rate due to minority interest charges in both 2005 and 2004.

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

In 2004, the effective rate was lower than the statutory rate because the Company did not recognize a tax charge related to the gain on sale of an affiliate as a result of available tax losses for which a full valuation allowance had previously been recorded.

Equity in Affiliates

Equity in affiliates represents the income attributable to equity-accounted affiliate operations. For 2005, income of $1.4 million was recorded, $2.3 million lower than the $3.7 million earned in 2004. This decrease was primarily due to the consolidation of CPB, which has been consolidated in the

Company's financial statements since September 22, 2004, but was previously accounted for under the equity method.

Minority Interests

Minority interest expense was $21.2 million for 2005, up $12.0 million from the $9.2 million of minority interest expense incurred during 2004, primarily due to the earnings of CPB which have been recorded on a consolidated basis since September 22, 2004, and other recent acquisitions.

Discontinued Operations

The income from discontinued operations for 2005 amounted to $0.6 million versus a loss of $7.1 million for 2004. Discontinued operations is comprised of the wholly-owned UK-based marketing communications subsidiary, Mr. Smith Agency, Ltd. ("Mr. Smith") and a variable interest entity whose operations had been consolidated by the Company, LifeMed Media, Inc. ("LifeMed").

In November 2004, the Company's management reached a decision to discontinue Mr. Smith due to its unfavorable operating performance. 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. The remaining sale of assets was completed by the end of the second quarter of 2005. A gain of $0.4 million was recognized in the second and third quarters of 2005 as a result of receivables previously written off being recovered and unsecured liabilities being written off on liquidation. No significant one-time termination benefits were incurred. No further significant charges are expected to be incurred.

During July 2005, LifeMed completed a private placement issuing approximately 12.5 million shares at a price of $0.4973 per share. LifeMed received net proceeds of approximately $6.2 million. Consequently, the Company's ownership interest in LifeMed was reduced to 18.3% from this transaction. As a result of the equity transaction of LifeMed, the Company recorded an equity gain of $1.3 million. This gain represents the Company's recovery of previously recorded losses in excess of the Company's original investment and the losses recorded that were in excess of the minority shareholders original investment. The Company no longer has any significant continuing involvement in the management or operations of LifeMed, and has not participated in the purchase of significant new equity offerings by LifeMed. Consequently, as of July 2005, the Company no longer consolidates the operations of LifeMed, and commenced accounting for its remaining investment in LifeMed on a cost basis and has reported the results of operations of LifeMed as discontinued operations for all periods presented in the consolidated statement of operations.

Net Income

As a result of the foregoing, the net loss recorded for 2005 was $7.9 million or a loss of ($0.34) per diluted share, compared to the net loss of $2.2 million or ($0.09) per diluted share reported for 2004.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

On a consolidated basis, revenue was $316.8 million for the year ended 2004, representing a 14% increase compared to revenue of $278.8 million for the year ended 2004. This increase relates primarily to acquisitions in the Marketing Communications Group, together with the consolidation of CPB from September 22, 2004 and organic growth offset in part by the divestiture of Custom Direct, Inc. ("CDI").

Operating profit for the year ended 2004 was $5.2 million compared to an operating loss of $6.0 million for the year ended 2003. The increase in operating income in 2004 was primarily the result of 2003 impairment write-offs of goodwill and fixed assets, a 2004 one-time recovery of litigation accruals and an increase in operating income related to an improvement in revenues (as discussed above), offset by increased stock-based compensation expense, increased compliance costs associated with Sarbanes-Oxley legislation and an increase in Corporate overhead costs relating to the merger of head offices upon the privatization of Maxxcom Inc., and the establishment of a corporate office in New York.

The net loss of $2.2 million in 2004, compared to net income of $12.4 million in 2003, is a result of the above offset by a gain on the divestiture of CDI of $43.8 million in 2003, compared to the gain of the remaining interest in CDI of $14.8 million in 2004.

Marketing Communications Group

Marketing Communications revenue was $247.1 million in 2004 compared to revenue of $164.9 million in 2003, representing a year over year increase of $82.2 million or 50%. The revenue growth is primarily the result of the acquisition of several businesses. During the first quarter of 2004, the Company acquired a controlling interest in KBP. During the second quarter of 2004, the Company acquired controlling interests in henderson bas, Hello Design, LLC, Bruce Mau Design Inc., and Banjo, LLC. During the third quarter of 2004, the Company acquired VitroRobertson, LLC. These acquired operations contributed approximately $56.0 million of revenue during the year. Additionally, effective September 22, 2004, the Company consolidated the operations of CPB. CPB's revenue included in the Company's 2004 consolidated results was approximately $13.2 million. Excluding the revenue derived from these acquisitions and the consolidation of CPB during 2004, organic growth was approximately $9.7 million or 6% over 2003. A weakening of the US dollar versus the Canadian dollar throughout 2004 as compared to 2003 resulted in increased revenue contributions from the division's Canadian and UK-based operations by approximately $3.3 million.

The components of revenue growth for 2004 are shown in the following table:

	Revenue		
		$000's	**%**
Year ended December 31, 2003	$	164,850	
Acquisitions and effect of CPB	$	69,183	42%
Organic	$	9,708	6%
Foreign exchange impact	$	3,332	2%
Year ended December 31, 2004	$	247,073	50%

The positive organic growth, particularly in revenues from US operations, combined with acquisitions and the consolidation of CPB, resulted in a shift in the geographic mix of revenues, which is demonstrated in the following table:

	Revenue	
	2004	**2003**
US	79%	72%
Canada	18%	23%
UK	3%	5%

The operating income of the Marketing Communications Group increased by approximately 44% to $29.4 million from $20.4 million, with operating margins of 11.9% for 2004 compared to 12.4% in 2003. The decrease in operating margins was primarily reflective of increases in general and other operating costs related to administrative salaries, increased amortization relating to the application of consolidation accounting of the results of CPB during 2004 versus equity accounting until

September 22, 2004 offset by a decrease in direct costs and staff costs on a percentage of revenue and in 2003, the Company had a goodwill impairment charge of $0.8 million.

Secure Products International Group

Revenues recorded by the Secure Products International Group for 2004 were $69.7 million, representing a decrease of $44.2 million, or 39%, compared to 2003. The decrease was primarily due to the divestiture of Custom Direct, Inc. ("CDI"). The remaining operations of the Secure Products International Group generated a year-over-year improvement of 2%, or $1.1 million. This growth was a result of a weakening of the US dollar versus the Canadian dollar throughout 2004 as compared to 2003 which resulted in increased revenue contributions from the division's Canadian and Australian based operations by approximately $3.8 million. Revenues decreased from 2003 by $2.8 million primarily as a result of a decrease in volume of cards produced.

The Secure Products International Group contributed operating profit of $0.5 million, an improvement of $9.2 million from the 2003 operating loss of $8.7 million. Excluding the impact of disposed operations, and after adjusting the 2003 results for impairment charges of fixed assets and goodwill of $17.3 million, this represents a decrease of $0.5 million from the operating profit earned related to the remaining operations, primarily as a result of a decrease in the operating income attributable to the card operations partially offset by the increased profits earned by the stamp business. Operating profit generated by the ticket business increased marginally from the prior year, despite the impact of the NHL lockout on ticket revenues, due primarily to improved operating efficiencies.

Marketing Communications Group

Strategic Marketing Services

Revenues attributable to SMS in 2004 were $123.8 million compared to $62.8 million in 2003. The year-over-year increase of $61.0 million or 97% was attributable primarily to the acquisitions of kirshenbaum bond & partners, LLC in during the first quarter of 2004 and VitroRobertson, LLC during the third quarter of 2004 and the previously discussed change in the accounting of CPB, which has been consolidated since September 22, 2004. A weakening of the US dollar versus the Canadian dollar in 2004 compared to 2003 resulted in a 2% increase in contributions from the division's Canadian-based operations. Revenue decreased in 2004 by $3.1 million compared to 2003 primarily due to a net loss of business.

The operating income of SMS improved by approximately 80% to $18.0 million from $10.0 million in 2003, while operating margins decreased to 14.5% for 2004 from 15.9% in 2003. These increased profits were primarily reflective of the acquisitions and the application of consolidation accounting of the results of CPB 2004 versus equity accounting until September 22, 2004 and a decrease in staff costs as a percentage of revenue partially offset by an increase in the amortization of intangibles related to CPB.

Customer Relationship Management

Revenues reported by the CRM segment in 2004 were $59.7 million, an increase of $13.6 million or 30% compared to the $46.1 million reported for 2003. This growth was due primarily to higher volumes from existing clients.

The operating income earned by CRM decreased by approximately $0.2 million to $3.6 million for 2004 from $3.8 million in 2003. Operating margins were 6% for 2004 as compared to 8% in 2003. The decrease was primarily the result of a decrease in gross margins primarily from higher costs incurred to serve one of Accent Marketing's large clients.

Specialized Communications Services

SCS generated revenues of $63.6 million for 2004, $7.7 million or 14% higher than 2003. Acquisitions accounted for an increase of approximately 11%. Revenues decreased $0.8 million due to a net loss of business. Revenues of the division's Canadian-and UK-based operations increased 3% compared to 2003 as a result of a weakening of the US dollar versus the Canadian dollar.

Similarly, the operating income of SCS increased by approximately 17% to $7.7 million from $6.6 million in the previous year due primarily to the increase acquisitions partially offset by a moderate increase in direct costs and salaries and due to the goodwill impairment charge of $0.8 million incurred in 2003. Consequently, operating margins remained at 12%.

Secure Products International Group

Secure Cards Business

Revenues from SCB for 2004 were $26.3 million, representing a decrease of $3.0 million or 10% over $29.3 million recorded in 2003. Net decreased volumes resulted in decreased revenue of $5.3 million, this was offset in part by the weakening of the US by $2.3 million. While the operations of the Australian card business increased the Canadian card business experienced a decrease in volumes from existing customers and the full year effect of the loss of certain customers in 2003.

SCB incurred an operating loss of $2.8 million for the 2004, a decrease of $7.0 million from the operating loss of $9.8 million reported for 2003. During 2003, SCB incurred an impairment charge relating to goodwill and fixed assets of $6.8 million. Excluding these impairment charges operating income decreased by $0.2 million resulting from an increase in the cost of products sold as a percentage of revenue from 46% in 2003 to 50% in 2004 and additional severance costs.

Secure Paper Business

Revenues recorded by SPB for 2004 were $43.5 million, a decrease of $41.2 million or 49% compared to the same prior-year period. This decrease was primarily related to the divestiture of CDI which represent $45.2 million of revenues. Excluding the divestiture of CDI the remaining businesses had organic growth of 3%, attributable primarily to an increase in the volume of stamps produced under the USPS contracted awarded in 2003, offset by the NHL lockout. In addition, the impact of a weakening of the US dollar versus the Canadian dollar in 2004 compared to 2003 on the revenues of the division's Canadian-based operations contributed a 2% increase.

SPB earned operating income of $3.3 million for 2004 compared to the operating income earned of $1.2 million in 2003. Excluding the impact of the divestiture of CDI and a goodwill and a fixed asset impairment charge of $3.5 million, operating income increased $3.4 million due to increased production and efficiency variances relating to stamps produced offset in part by an increase in salaries of the ticketing operation.

Corporate

Operating Costs

Operating costs related to the Company's Corporate and Other operations totaled $24.7 million compared to $17.7 million in 2003. The increase of $7.0 million was largely the result of increased compliance costs associated with US GAAP reporting and Sarbanes-Oxley legislation, the merger of head offices upon the privatization of Maxxcom Inc., an increase in the provision for stock-based compensation, and an increase in overhead costs including the establishment of a corporate office in New York. Salaries and benefits, included in office and general expenses, increased $6.1 million from the previous year, and included $8.0 million of stock-based compensation expense in 2004 versus

$5.9 million in 2003. Other charges of $1.3 million recorded in 2003 relate to the severance incurred in the third quarter of that year on the privatization of Maxxcom. The $2.7 million other recovery in 2004 relates to the reversal of a litigation-related accrual following a determination in the third quarter of 2004 that there would be no probable loss from this litigation matter.

Gain on Sale of Assets and Settlement of Long-Term Debt

The gain on sale of assets and settlement of long-term debt was $14.8 million for 2004 and primarily related to the gain on the divestiture of the remaining interest in CDI of $21.9 million, net of the loss on the settlement of the adjustable rate exchangeable securities of $9.6 million and fair value adjustment for the embedded derivative in the first quarter of $4.0 million. The Company also recognized a $1.3 million loss on settlement of long-term debt and a $0.2 million loss on sale of assets in 2004. This represented a significant decline from the $43.8 million prior-year gain, which related primarily to the disposition of the Company's former US check operations.

Foreign Exchange Loss

A foreign exchange loss of $0.5 million was recorded in 2004 compared to a loss of $2.0 million in 2003, due primarily to a strengthening in the Canadian dollar compared to the US dollar on the US dollar denominated monetary balances of Canadian subsidiaries. At December 31, 2004, the exchange rate was 1.20 Canadian dollars to one US dollar, compared to 1.30 at the end of 2003.

Interest Expense, Net

Interest expense, net, incurred during 2004 amounted to $8.1 million, compared to $16.7 million incurred during 2003. Interest expense decreased $8.9 million due primarily to the repayment of the 10.5% senior subordinated notes ("Notes") in 2003 and the redemption of the convertible debentures in 2004. Interest income was relatively unchanged.

Income Tax Expense

The 2004 income tax expense recorded was $0.8 million compared to $5.8 million for the prior year. Income taxes were 7.2% of income from continuing operations before income taxes, equity in affiliates and minority interests versus 30.3% in 2003. During 2004, the effective tax rate was substantially lower than the statutory tax rate as a result of minority interest income and because the Company did not recognize a tax charge related to the gain on sale of an affiliate as a result of available tax losses for which a full valuation allowance had previously been recorded.

Equity in Affiliates

Equity in affiliates represents the income attributable to equity-accounted affiliate operations. For 2004, income of $3.7 million was recorded. The decrease of $1.2 million from the $4.9 million earned in 2003 is principally due to the consolidation of CPB in the third quarter of 2004 and reduced operating results in other affiliates partially offset by greater income generated by CPB prior to its consolidation. As a result of a change in the relationship between the Company and CPB and its officers, affected by the Company's Credit Facility entered into on September 22, 2004, the financial statements of CPB, a non-controlled affiliate that was previously accounted for under the equity method, have been consolidated with the Company's financial statements from that date as a variable interest entity.

Minority Interests

Minority interests in income of consolidated subsidiaries represents the share of earnings or loss owned by minority shareholders of subsidiary companies pursuant to their respective shareholder agreements. Minority interest expense recorded for the year was $9.2 million, an increase of $4.7 million compared to the $4.5 million in the previous year. This was primarily the result of improved performance of non-wholly owned entities in the Marketing Communications Group, acquisitions, and CPB which was consolidated from September 22, 2004 for the reasons described above. The 2003 results were affected by a recovery of $1.0 million related to Metaca and Maxxcom for the period in which those operations were not wholly-owned subsidiaries.

Discontinued Operations

In November 2004, the Company's management reached a decision to discontinue the operations of a component of its business, the Company's UK-based marketing communications business wholly-owned subsidiary, Mr. Smith Agency, Ltd. The Company decided to cease the operations of this business due to its unfavorable economics. The net assets of the discontinued business were disposed of during the fourth quarter of 2004 with the closure to be substantially completed by the end of the first quarter of 2005. The loss attributable to these discontinued operations was $5.9 million for 2004 compared to $1.3 million in 2003.

During July 2005, LifeMed completed a private placement reducing the Company's ownership interest in LifeMed to 18.3%. The Company no longer has any significant continuing involvement in the management or operations of LifeMed, and has not participated in the purchase of significant new equity offerings by LifeMed. Consequently, as of July 2005, the Company no longer consolidates the operations of LifeMed, and commenced accounting for its remaining investment in LifeMed on a cost basis and has reported the results of operations of LifeMed as discontinued operations for all periods presented in the consolidated statement of operations. This resulted in an additional loss in discontinued operations of $1.2 million.

Net Income (Loss) and Earnings (Loss) per Share (EPS)

Net loss reported for 2004 was $2.2 million compared to net income of $12.4 million achieved in 2003, primarily due to more significant asset sale gains in 2003. Diluted EPS was a loss of ($0.09) in 2004 compared to income of $0.65 in 2003. The diluted shares outstanding at 2003 included 3.4 million of shares related to the 7% Convertible Notes which were converted on May 5, 2004 through the issuance of approximately 2.6 million Class A subordinate voting shares.

Liquidity and Capital Resources

The following table provides information about the Company's liquidity position as of December 31,

Liquidity	**2005**	**2004**	**2003**
	(in thousands, except for long-term debt to shareholders' equity ratio)		
Cash and cash equivalents	$ 12,923	$ 22,644	$ 65,334
Working capital (deficit)	$ (99,935)	$ (35,854)	$ 39,850
Cash from operations	$ 4,670	$ 20,254	$ 12,328
Cash from investing	$ (67,404)	$ (27,679)	$ 80,277
Cash from financing	$ 52,316	$ (34,367)	$ (62,129)
Long-term debt to shareholders' equity ratio	0.81	0.37	1.90

As at December 31, 2005 and 2004, $5.3 million and $6.6 million, respectively, of the consolidated cash position was held by subsidiaries, which, although available for the subsidiaries' use, does not represent cash that is distributable as earnings to MDC for use to reduce its indebtedness. It is the Company's intent through its cash management system to reduce outstanding borrowings under the Credit Facility using available cash.

Working Capital

At December 31, 2005, the Company had a working capital deficit of $99.9 million compared to a deficit of $35.9 million at December 31, 2004. Excluding the effect of the $73.5 million revolving Credit Facility reclassification as of December 31, 2005, working capital improved by $9.4 million primarily due to seasonal shifts in amounts billed to clients and paid to suppliers, primarily media outlets.

The Company expects that available borrowings under the Credit Facility, and refinancings thereof, together with cash flows from operations, will be sufficient at any particular time to adequately fund working capital deficits should there be a need to do so from time to time.

Cash Flow

In 2005, the Company has separately disclosed the operating, investing and financing positions of the cash flows attributable to its discontinued operations, which in prior periods were reported on a combined basis as a single amount.

Operating Activities

Cash flow provided by operations, for 2005 was $4.7 million. This was attributable primarily to the net loss of $7.9 million, plus non-cash depreciation and amortization of $27.5 million and non-cash stock-based compensation of $3.3 million. This was partially offset by a decrease in accounts payable of $8.0 million and a decrease in advance billings of $7.5 million.

The cash flow provided by operations, amounted to $20.2 million for 2004. This was attributable primarily to a net loss of $2.2 million plus stock-based compensation of $8.4 million, depreciation and amortization of $13.7 million, amortization and write-off of deferred finance charges of $6.2 million and an increase in accounts payable, accruals, other liabilities and advanced billings of $32.1 million. This was partially offset by an increase in expenditures billable to clients of $16.1 million and a decrease in advance billings of $17.1 million. The increase of $7.9 million compared to the cash flow generated during 2003 of $12.3 million was primarily the result of improved operating profits generated by the Marketing Communications Group, partially offset by the impact of lower revenues and operating income related to Secure Products International Group and Corporate and Other.

Investing Activities

Cash flows used in investing activities were $67.4 million for 2005, compared with $27.7 million in 2004, and cash provided by investing activities in 2003 of $80.3 million.

Expenditures for capital assets in 2005 were $13.1 million. Of this amount, $10.5 million in expenditures were made by the Marketing Communications Group and $2.3 million related primarily to the purchase of manufacturing equipment by the Secure Products International Group. The remaining $0.3 million related to the purchase of corporate assets.

Expenditures for capital assets in 2004 were $15.6 million. Of this amount, $8.2 million of the expenditures were made by the Marketing Communications Group and $7.2 million related primarily to the purchase of manufacturing equipment by Secure Products International Group. Capital expenditures in 2003 totaled $16.5 million and consisted of the development of customer service centres, additional investment in new premises and applications software by the Marketing Communications Group and an increase in the purchase of manufacturing equipment across Secure Products International Group.

Cash flow used in acquisitions was $56.8 million in 2005 and primarily related to the purchase of the Zyman Group. Cash flow used in acquisitions was $17.6 million and $26.7 million in 2004 and 2003, respectively and related primarily to the investing activities of the Marketing Communications Group and deferred purchase payments. For further details relating to the Company's acquisitions, see Note 4 of the Company's consolidated financial statements included in this Prospectus.

Profit distributions received from non-consolidated affiliates amounted to $1.8 million for 2005 compared to $7.3 million in 2004. The $5.5 million decrease was primarily due to distributions from CPB in 2004 when it was accounted for on an equity basis. Since September 22, 2004, this entity has been consolidated as a variable interest entity. The distributions of non-consolidated affiliates totalled $7.3 million in 2004, and $4.3 million in 2003, reflecting significant growth in CPB in 2004 through September, after which CPB was consolidated as a variable interest entity.

In 2003, proceeds of dispositions received amounted to $115.2 million and primarily represented the net proceeds received from the public offering of CDI.

Cash flows from other assets in 2003 related primarily to the repayment of employee loans.

Financing Activities

During 2005, cash flows provided by financing activities amounted to $52.3 million, and consisted of proceeds related to the issuance of $36.7 million of 8% convertible debentures in the second quarter, and borrowings under the Credit Facility used to fund the acquisition of the Zyman Group. Payments made of $8.6 million consist of payments under capital leases, bank borrowings, and debt assumed in the Zyman Group acquisition. In addition, the Company incurred $3.3 million of finance costs related to both the debentures and the various amendments under the credit facility.

Cash flows used in financing activities during 2004 were $34.4 million and consisted of the proceeds from the issuance of long-term debt of $63.4 million, borrowing of $6.0 million under the credit facility, a repayment of $95.0 million of long-term debt, proceeds of $3.6 million from the issuance of share capital through a private placement and the exercise of options, and $12.5 million used to repurchase shares of the Company under a normal course issuer bid.

In 2003, cash flows used in financing activities amounted to $62.1 million. The net reduction in debt was $51.5 million, due primarily to the redemption of the Company's 10.5% Senior Subordinated Notes ("Notes") partially offset by the adjustable rate exchangeable securities and new indebtedness incurred by the Marketing Communications Group to fund the payment of deferred acquisition consideration and certain capital expenditures. The exercise of options provided $3.0 million. In addition, $13.7 million was used to repurchase and cancel shares of the Company.

Long-Term Debt

Long-term debt (including the current portion of long-term debt) as of December 31, 2005 was $123.2 million, an increase of $69.7 million compared with the $53.5 million outstanding at December 31, 2004, primarily the result of an increase of borrowings under the Credit Facility, the issuance of approximately $36.7 million of convertible debentures and debt assumed in the Zyman Group acquisition.

During 2004, 2005 and 2006, the Company amended or obtained waivers under the Credit Facility, as follows:

> On December 22, 2004 and March 14, 2005, the Company amended certain of the terms and conditions of the revolving credit facility ("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 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.

This amendment was 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.

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.

In order to finance the Zyman Group acquisition, the Company entered into an additional amendment to its Credit Facility on April 1, 2005. This 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 Zyman Group 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.

On May 9, 2005, the Company further amended the terms of its Credit Facility. Pursuant to such amendment, among other things, the lenders (i) modified the Company's total debt ratio covenant; and (ii) waived the default that occurred as a result of the Company's failure to comply with its total debt ratio covenant solely with respect to the period ended March 31, 2005.

On June 6, 2005, the Company further amended its Credit Facility to permit the issuance of 8% convertible unsecured subordinated debentures (see below). In addition, pursuant to this amendment, the lenders (i) modified the definition of "Total Debt Ratio" to exclude the 8% convertible unsecured subordinated debentures from such definition, (ii) required a reduction of the revolving commitments under the Credit Facility from $150.0 million to $116.2 million effective June 28, 2005, a reduction equal to the net proceeds received by the Company from the issuance of these debentures, (iii) imposed certain restrictions on the ability of the Company to amend the documentation governing the debentures, and (iv) modified the Company's fixed charges ratio covenant, effective upon issuance of these debentures.

On October 31, 2005, the Company further amended its Credit Facility. Pursuant to such amendment, among other things, the lenders (i) reduced the revolving commitments under the Credit Facility to $105 million, effective as of the date of the amendment, with a further reduction of $5 million on December 31, 2005; (ii) modified the Company's "total debt ratio" and "fixed charges ratio" covenants; (iii) effective April 15, 2006, added a 1.0% per annum facility fee on the amount of the revolving commitments under the Credit Facility in excess of $65 million, which fee will be payable beginning on April 15, 2006 and for so long as the revolving commitments under the Credit Facility are in excess of $65 million; and (iv) waived the default that may have occurred as a result of the Company's failure to comply with its total debt ratio covenant and fixed charges covenant with respect to the test period ended September 30, 2005. In addition, in the event of a sale of the Company's secure products business, the Company must repay advances under the Credit Facility by an amount equal to the net proceeds received by the Company from such sale ("Sale Net Proceeds"), and the revolving commitments under the facility would be reduced by an amount equal to the Sale Net Proceeds.

On January 17, 2006, the Company further amended its Credit Facility. Pursuant to such amendment, the lenders agreed to permit the Company to continue to fund capital contributions to an investment to which the Company had a contractual commitment, in an aggregate amount not exceeding $0.7 million.

The 2005 amendments to the Credit Facility were necessary in order to avoid an event of default under the Credit Facility, to finance the Zyman Group acquisition, 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, and management believes, based on its current financial projections, that the Company will be in compliance with covenants over the next twelve months. However, as a result of the need to obtain waivers and amend the Credit Facility in two of the past three reporting periods, the Company has determined that the most conservative accounting classification is for the outstanding debt under the Credit Facility to be classified as current. Notwithstanding this accounting classification, management believes that the Company will be in compliance with its financial covenants for at least the next twelve months. Although such debt has been classified as current, the maturity of the Credit Facility remains September 22, 2007.

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

Pursuant to the Credit Facility, the Company must comply with certain financial covenants including, among other things, covenants for (i) total debt ratio; (ii) fixed charges ratio; (iii) minimum liquidity; (iv) minimum net worth; and (v) limitations on capital expenditures, in each case as such term is specifically defined in the Credit Facility. For the period ended December 31, 2005, the Company's calculation of each of these covenants, and the specific requirements under the Credit Facility, respectively, were as follows:

	December 2005	
Total Debt Ratio		2.68 to 1.0
Maximum per covenant		3.20 to 1.0
Fixed Charges Ratio		1.88 to 1.00
Minimum per covenant		0.95 to 1.00
Minimum Liquidity	$	27.2 million
Minimum per covenant	$	11.2 million
Net Worth	$	151.6 million
Minimum per covenant	$	132 million
Capital Expenditures:		
Secured Products International Group	$	3.2 million
Maximum per covenant	$	3.5 million
Marketing Communications Group	$	10.3 million
Maximum per covenant	$	11.4 million

In 2006, certain of these financial covenants under the Credit Facility will become more restrictive. Specifically, the maximum Total Debt Ratio covenant under the Credit Facility will be as follows: March 31, 2006 2.95 to 1.0; June 30, 2006 2.75 to 1.0; and September 30, 2006 and thereafter 2.5 to 1.0. The minimum Fixed Charges Ratio covenant under the Credit Facility will be as follows: March 31, 2006 1.00 to 1.00; June 30, 2006 1.05 to 1.00; September 30, 2006 1.15 to 1.00; and December 31, 2006 and thereafter 1.25 to 1.00. These ratios are not based on generally accepted accounting principles and are not presented as alternative measures of operating performance or liquidity. They are presented here to demonstrate compliance with the covenants in the Company's Credit Facility, as non-compliance with such covenants could have a material adverse effect on us.

8% Convertible Unsecured Subordinated Debentures

On June 28, 2005, the Company completed a public offering in Canada of C$45.0 million of convertible unsecured subordinated debentures (amounting to $36.7 million at December 31, 2005). The Debentures will mature on June 30, 2010. The Debentures will bear interest at an annual rate of 8.00% payable semi-annually, in arrears, on June 30 and December 31 of each year, commencing December 31, 2005. The Company is required to use its reasonable best efforts to cause a resale registration statement to be declared effective as soon as practicable. MDC did not have an effective resale registration statement filed with the U.S. Securities and Exchange Commission (the "SEC") on December 31, 2005, and as a result, the Company is required to pay additional amounts on the debentures such that the rate of interest increased by 0.50% for the first six month period following December 31, 2005, and, if the Company does not have an effective resale registration statement filed with the SEC by June 30, 2006, the rate of interest will increase by an additional 0.50%. Such additional agreements will continue until the earlier of (a) the end of the six-month period in which the Company has an effective resale registration statement filed with the SEC, or (b) June 30, 2007, at which time the interest rate will return to 8.00%. Unless an event of default has occurred and is continuing, the Company may elect, from time to time, subject to applicable regulatory approval, to issue and deliver Class A subordinate voting shares to the debenture trustee in order to raise funds to satisfy all or any part of the Company's obligations to pay interest on the debentures in accordance with the indenture, in which event holders of the debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Class A subordinate voting shares by the debenture trustee. The amount received by a holder in respect of interest will not be affected by whether or not the Company elect to utilize this mechanism. See "Description of the Debentures Interest Payment Election"

The debentures will be convertible at the holder's option into fully-paid, non-assessable and freely tradeable Class A subordinate voting shares of the Company, at any time prior to maturity or redemption, subject to the restrictions on transfer, at a conversion price of C$14.00 ($12.06 at December 31, 2005) per Class A subordinate voting share being a ratio of approximately 71.4286 Class A subordinate voting shares per C$1,000 ($861 at December 31, 2005) principal amount of Debentures.

The debentures may not be redeemed by the Company on or before June 30, 2008. Thereafter, but prior to June 30, 2009, the debentures may be redeemed, in whole or in part from time to time, at a price equal to the principal amount of the debenture plus accrued and unpaid interest, provided that the volume weighted average trading price of the Class A subordinate voting shares on the The Toronto Stock Exchange during a specified period is not less than 125% of the conversion price. From July 1, 2009 until the maturity of the debentures, the debentures may be redeemed by the Company at a price equal to the principal amount of the debenture plus accrued and unpaid interest, if any. The Company may elect to satisfy the redemption consideration, in whole or part, by issuing Class A subordinate voting shares of the Company to the holders, the number of which will be determined by dividing the principal amount of the debenture by 95% of the current market price of the Class A subordinate voting shares on the redemption date. Upon the occurrence of a change of control of the Company involving the acquisition of voting control or direction over 50% or more of the outstanding Class A subordinate voting shares prior to June 30, 2008, the Company shall be required to make an offer to purchase all of the then-outstanding debentures at a price equal to 100% of the principal amount thereof plus an amount equal to the interest payments not yet received on the debentures calculated from the date of the change of control to June 30, 2008, discounted at a specified rate. Upon the occurrence of a change of control on or after June 30, 2008, the Company shall be required to make an offer to purchase all of the then-outstanding debentures at a price equal to 100% of the principal amount of the debentures plus accrued and unpaid interest to the purchase date.

Disclosure of Contractual Obligations and Other Commercial Commitments

The following table provides a payment schedule of present and future obligations. Management anticipates that the obligations outstanding at December 31, 2005 will be repaid with new financing, equity offerings and/or cash flow from operations (in thousands):

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
Long-term Indebtedness	$ 121,583	$ 4,247	$ 74,623	$ 42,713	$
Capital Lease Obligations	5,396	2,063	2,497	809	27
Operating Leases	70,953	15,920	25,290	20,001	9,742
Purchase Obligations	1,674	1,674			
Deferred Acquisition Consideration	4,124	1,741	2,383		
Management services agreement	1,740	950	790		
Total Contractual Obligations	$ 205,470	$ 26,595	$ 105,583	$ 63,523	$ 9,769

The following table provides a summary of other commercial commitments (in thousands) at December 31, 2005:

	Payments Due by Period				
Other Commercial Commitments	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
Lines of credit	$ 3,739	$ 3,739	$	$	$
Letters of credit	4,490	4,490			
Total Other Commercial Commitments	$ 8,229	$ 8,229	$	$	$

For further detail on MDC's long-term debt principal and interest payments, see Note 13 of the Company's consolidated financial statements included in this Prospectus. See also "Off-Balance Sheet Commitments" below.

Capital Resources

At December 31, 2005, the Company had utilized approximately $81.7 million of its Credit Facility in the form of drawings and letters of credit. Cash and undrawn available bank credit facilities (after giving effect to the October 31, 2005 amendment described above) to support the Company's future cash requirements, as at December 31, 2005, was approximately $18.3 million.

The Company expects to incur approximately $12.0 million of capital expenditures in 2006. Such capital expenditures are expected to include leasehold improvements at certain of the Company's operating subsidiaries including the opening of a new customer contact facility. The Company intends to maintain and expand its business using cash from operating activities, together with funds available under the Credit Facility and, if required, by raising additional funds through the incurrence of bridge or other debt (which may include or require further amendments to the Credit Facility) or the issuance of equity. Management believes that the Company's cash flow from operations and funds available under the Credit Facility, and refinancings thereof, will be sufficient to meet its ongoing working capital, capital expenditures and other cash needs over the next eighteen months. If the Company has significant organic growth or growth through acquisitions, management expects that the Company may need to obtain additional financing in the form of debt and/or equity financing. As described previously, on April 1, 2005, the Company increased its Credit Facility from $100 million to $150 million, with a subsequent reduction to $116.2 million at June 28, 2005. Effective October 31, 2005, the Company agreed to a further reduction of its Credit Facility to $105 million, with a further reduction to $100 million at December 31, 2005.

Deferred Acquisition Consideration (Earnouts)

Acquisitions of businesses by the Company include commitments to contingent deferred purchase consideration payable to the seller. The contingent purchase obligations are generally payable annually over a three-year period following the acquisition date, and are based on achievement of certain thresholds of future earnings and, in certain cases, also based on the rate of growth of those earnings. The contingent consideration is recorded as an obligation of the Company when the contingency is resolved and the amount is reasonably determinable. At December 31, 2005, approximately $0.4 million of the deferred consideration relates to acquisitions in 2004 and is presented on the Company's balance sheet. The remainder of the deferred acquisition consideration relates to current year acquisition's contingent and non-contingent payments. Based on the various assumptions as to future operating results of the relevant entities, including the April 1, 2005 acquisition of the Zyman Group, management estimates that approximately $2.4 million of additional deferred purchase obligations could be triggered during 2006 or thereafter, including approximately $1.2 million which may be paid in the form of issuance by the Company of its Class A shares. The actual amount that the Company pays in connection with the obligations may be materially different from this estimate.

Off-Balance Sheet Commitments

Put Rights of Subsidiaries' Minority Shareholders

Owners of interests in certain of the Marketing Communications Group subsidiaries have the right in certain circumstances to require the Company to acquire the remaining ownership interests held by them. These rights are not freestanding. 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 2006 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 that date of exercise, the growth rate of the earnings of the relevant subsidiary during that period, and, in some cases, the currency exchange rate at the date of payment.

Management estimates, assuming that the subsidiaries owned by the Company at December 31, 2005, perform over the relevant future periods at their 2005 earnings levels, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate amount of approximately $100.3 million to the owners of such rights to acquire such ownership interests in the relevant subsidiaries. Of this amount, the Company is entitled, at its option, to fund approximately $20.4 million by the issuance of the Company's Class A Shares. The ultimate amount payable and the incremental operating income in the future relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised. Approximately $10.2 million of the estimated $100.3 million that the Company would be required to pay subsidiaries minority shareholders' upon the exercise of outstanding "put" rights, relates to rights exercisable within the next twelve months. See "Risk Factors."

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

Consideration	2006	2007	2008	2009 & Thereafter	Total
			($ Millions)		
Cash	$ 9.5	$ 7.3	$ 26.2	$ 36.8	$ 79.8
Shares	0.7	1.2	6.4	12.2	20.5
	$ 10.2	$ 8.5	$ 32.6	$ 49.0	$ 100.3(1)
Incremental operating income before depreciation and amortization(2)	$ 3.7	$ 3.2	$ 7.2	$ 4.4	$ 18.5

(1) Of this, approximately $43.3 million has been recognized in Minority Interest on the Company's balance sheet as of September 22, 2004 in conjunction with the consolidation of CPB as a variable interest entity. (See Note 8)

(2) This financial measure is presented because it is the basis of the calculation used in the underlying agreements relating to the put rights and is based on 2006 forecasted operating results.

Approximately $10.2 million of the estimated $100.3 million that the Company could be required to pay subsidiaries' minority shareholders upon the exercise of outstanding "put" option rights relates to rights exercisable in 2006 in respect of the securities of seven subsidiaries. Approximately, $3.6 million of put option relating to two subsidiaries have been exercised in 2005 and will be settled during 2006. The Company expects to fund the acquisition of these interests, if and when they become due, through the use of cash derived from operations, bank borrowings and/or other external sources of financing. The acquisition of any equity interest in connection with the potential exercise of these rights in 2006 will not be recorded in the Company's financial statements until equity ownership is transferred.

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 relates to a liability retained by the Company. These types of indemnification guarantees typically extend for several years.

In connection with the sale of the Company's investment in CDI, the amounts of indemnification guarantees are 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 provision 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 to be insignificant.

Transactions with Related Parties

The Company incurred fees totaling $2.4 million, $2.8 million and $8.0 million in 2005, 2004 and 2003, respectively to companies controlled by the Chairman and Chief Executive Officer ("CEO") of the Company in respect of services rendered pursuant to the terms of his management services agreement. The management services agreement expires on October 31, 2007, subject to renewal.

The Company incurred fees totaling nil, $0.3 million, and $0.3 million in 2005, 2004, and 2003 paid to a company controlled by a director of the Company in respect of services provided related to the monetization of CDI.

A subsidiary of the Company also provided Marketing Communications services totaling $0.1 million in 2005 and less than $0.1 million in 2004 and 2003 to an entity of which an officer of the Company is a Trustee of such entity.

In 2000, the Company agreed to provide to its CEO, Miles S. Nadal, a bonus of C$10 million ($8.6 million) in the event that the average market price of the Company's Class A subordinate voting shares is $26 (C$30) 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$6.8 million ($5.9 million) and C$3.0 million ($2.6 million), respectively, as at December 31, 2005, both of which have been fully provided for in the Company's accounts.

In 2000, the Company purchased 1,600,000 shares in Trapeze Media Limited ("Trapeze") for $0.2 million. At the same time, the Company's CEO purchased 4,280,000 shares of Trapeze for $0.6 million, the Company's former Chief Financial Officer and a Managing Director of the Company each purchased 50,000 Trapeze shares for $7,000 and a Board Member of the Company purchased 75,000 shares of Trapeze for $10,000. In 2001, the Company purchased an additional 1,250,000 shares for $0.2 million, and the Company's CEO purchased 500,000 shares for $0.1 million. In 2002, the Company's CEO purchased 3,691,930 shares of Trapeze for $0.5 million. All of these purchases were made at identical prices (i.e. C$0.20/unit). In 2003, the Company and the CEO exchanged their shares in Trapeze for non-voting shares and entered into a voting trust agreement. In 2002, 2003 and 2004, the Company's CEO advanced an aggregate amount equal to $0.2 million to Trapeze, and such loans were secured by Trapeze's assets. In 2004, Trapeze repaid $0.1 million of the amounts owed to the Company's CEO. In February 2005, the Company's CEO provided Trapeze with a $0.2 million line of credit. The line of credit accrues interest at annual interest rate equal to 15%. During 2005 total interest and fees paid were approximately $66,000. At December 31, 2005, Trapeze had borrowed $0.2 million under this line of credit. In January 2006, Trapeze repaid $0.1 million of these advances. In addition, in 2005, 2004 and 2003, Trapeze paid $31,000, $20,000 and $18,000, respectively, in fees for accounting and other services to an entity affiliated with the Company's CEO.

The Board of Directors, through its Audit Committee, has reviewed and approved these transactions.

Differences in Management Discussion and Analysis Presentation Under Canadian GAAP

Under Canadian securities requirements, the Company is required to provide supplemental information to highlight the significant differences that would have resulted in the information provided in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" had the Company prepared the "Management's Discussion and Analysis" using Canadian GAAP financial information.

The Company has identified and disclosed the significant differences between Canadian and US GAAP as applied to its consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 in Note 21 to the consolidated financial statements. The primary GAAP difference impacting the components of operating income (loss) is the application under Canadian GAAP of proportionate consolidation for investments in joint ventures in the Marketing Communications Group businesses, while US GAAP requires equity accounting for such investments. This GAAP difference does not have a significant impact on the content of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" as the discussion of the results of the Company's Marketing Communications Group businesses.

Critical Accounting Policies

The following summary of accounting policies has been prepared to assist in better understanding the Company's consolidated financial statements and the related management discussion and analysis. Readers are encouraged to consider this information together with the Company's consolidated financial statements and the related notes to the consolidated financial statements as included in the Company's annual report on Form 10-K for a more complete understanding of accounting policies discussed below.

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

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

The Company's revenue recognition policies are in compliance with the SEC Staff Accounting Bulletin 104, "Revenue Recognition" ("SAB 104"), and accordingly, revenue is generally recognized when services are earned or upon delivery of the products when ownership and risk of loss has transferred to the customer, the selling price is fixed or determinable and collection of the resulting receivable is reasonably assured.

Marketing Communications Group

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

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

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

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.

Secure Products International Group

Substantially all of the Secure Products International group 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 move to the secure storage facility and the printing process are 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 secure cards is recognized as a single unit of accounting when the secure 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.

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 Group businesses, the business at times acts as an agent and records revenue equal to the net amount retained, when the fee or commission is earned.

Acquisitions, Goodwill and Other Intangibles. A fair value approach is used in testing goodwill for impairment under SFAS 142 to determine if an other than temporary impairment has occurred. One approach utilized to determine fair values is a discounted cash flow methodology. When available and as appropriate, comparative market multiples are used. Numerous estimates and assumptions necessarily have to be made when completing a discounted cash flow valuation, including estimates and assumptions regarding interest rates, appropriate discount rates and capital structure. Additionally, estimates must be made regarding revenue growth, operating margins, tax rates, working capital requirements and capital expenditures. Estimates and assumptions also need to be made when determining the appropriate comparative market multiples to be used. Actual results of operations, cash flows and other factors used in a discounted cash flow valuation will likely differ from the estimates used and it is possible that differences and changes could be material. The Company incurred goodwill impairment charges of $0.5 million and $10.0 million in 2005 and 2003, respectively. No impairment charge was recognized in 2004.

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

A summary of the Company's deferred acquisition consideration obligations, sometimes referred to as earnouts, and obligations under put rights of subsidiaries' minority shareholders to purchase additional interests in certain subsidiary and affiliate companies is set forth in the "Liquidity and Capital Resources" section of this report. The deferred acquisition consideration obligations and obligations to purchase additional interests in certain subsidiary and affiliate companies are primarily based on future performance. Contingent purchase price obligations are accrued, in accordance with GAAP, when the contingency is resolved and payment is determinable.

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

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

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". 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 method available under the transitional provisions of SFAS No. 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. Changes in the Company's payment obligation subsequent to vesting of the award and prior to the settlement date are recorded as compensation cost over the service period in operating income. The final payment amount for Share Appreciation Rights is established on the date of the exercise of the award by the employee.

Variable Interest Entities. The Company evaluates its various investments in entities to determine whether the investee is a variable interest entity and if so whether MDC is the primary beneficiary. Such evaluation requires management to make estimates and judgments regarding the sufficiency of the equity at risk in the investee and the expected losses of the investee and may impact whether the investee is accounted for on a consolidated basis.

New Accounting Pronouncements

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

Effective in Future Periods

In October 2005, the FASB issued Staff Position ("FSP") FAS 13-1, which clarifies that rental costs incurred during the period of construction of an asset on leased property should not be capitalized. Rather they should be recognized as rental expense in the same manner as rental costs incurred after the construction period. FSP FAS 13-1 is effective for the first reporting period beginning after December 15, 2005, with earlier application permitted. The capitalization of rental costs must cease as of the effective date in respect of operating lease arrangements entered into prior thereto. Retroactive restatement of prior period financial statements is allowed, but not required. The Company does not expect its financial statements to be significantly impacted by this statement.

In September 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") on Issue 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty ("EITF 04-13"). The Task Force addressed the situation in which an entity sells inventory to another entity that operates in the same line of business pursuant to a single arrangement (or multiple separate arrangements).

The foregoing consensus is effective for new arrangements entered into and for modifications or renewals of existing arrangements beginning in the first interim or annual reporting period commencing after March 15, 2006, with early application permitted. The Company does not expect its financial statements to be significantly impacted by this statement.

In September 2005, the FASB ratified the consensus reached by the EITF on Issue 05-7, Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues ("EITF 05-7"). According to EITF Issue 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," an exchange of debt instruments having substantially different terms (or a substantial modification of the terms of existing debt) is deemed tantamount to a debt extinguishment. In EITF 05-7, the Task Force provides the following additional guidance in the application of EITF 96-19:

> In determining whether a substantial modification has been made to a convertible debt instrument (and thus whether an extinguishment has occurred), the change in fair value of the related embedded conversion option should be included in the EITF 96-19 analysis, with such change calculated as the difference between the fair values of the option immediately before and after the modification.
>
> The modification of a convertible debt instrument should affect subsequent recognition of interest expense with respect to changes in the fair value of the embedded conversion option.
>
> A new beneficial conversion feature should not be recognized nor should an existing one be reassessed upon modification to a convertible debt instrument (i.e., the only value associated with the modification of the embedded conversion option to be accounted for should be the change in its fair value).

The foregoing consensus is effective for future modifications of debt instruments beginning in the first interim or annual reporting period commencing after December 15, 2005, with early application permitted.

In September 2005, the FASB ratified the consensus reached by the EITF on Issue 05-8, Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature ("EITF 05-8"). The Task Force reached the following consensuses:

> The issuance of convertible debt with a beneficial conversion feature results in a basis difference in applying FASB Statement of Financial Accounting Standards SFAS No. 109, Accounting for Income Taxes. Recognition of such a feature effectively creates a debt instrument and a separate equity instrument for book purposes, whereas the convertible debt is treated entirely as a debt instrument for income tax purposes.
>
> The resulting basis difference should be deemed a temporary difference because it will result in a taxable amount when the recorded amount of the liability is recovered or settled.
>
> Recognition of deferred taxes for the temporary difference should be reported as an adjustment to additional paid-in capital.

The foregoing consensus is effective in the first interim or annual reporting period commencing after December 15, 2005, with early application permitted. The effect of applying the consensus should be accounted for retroactively to all debt instruments containing a beneficial conversion feature that are subject to EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Debt Instruments" (and thus is applicable to debt instruments converted or extinguished in prior periods but which are still presented in the financial statements). The Company does not expect its financial statements to be significantly impacted by this statement.

In June 2005, the FASB ratified the consensus reached by the EITF on Issue 05-2, The Meaning of "Conventional Convertible Debt Instrument" in EITF Issue 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially, Settled in, a Company's Own Stock". SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, specifically provides that contracts issued or held by a reporting entity that are both indexed to its own stock and classified as equity in its balance sheet should not be considered derivative instruments. EITF Issue 00-19 provides guidance in determining whether an embedded derivative should be classified in stockholders' equity if it were a freestanding instrument. Issue 00-19 contains an exception to its general requirements for evaluating whether, pursuant to SFAS No. 133, an embedded derivative indexed to a company's own stock would be classified as stockholders' equity. The exception applies to a "conventional convertible debt instrument" in which the holder may realize the value of the conversion option only by exercising the option and receiving all proceeds in a fixed number of shares or in the equivalent amount of cash (at the discretion of the issuer). The Task Force reached the following consensuses:

- The exception for "conventional convertible debt instruments" should be retained in Issue 00-19.

- Instruments providing the holder with an option to convert into a fixed number of shares (or an equivalent amount of cash at the issuer's discretion) for which the ability to exercise the option feature is based on the passage of time or on a contingent event should be considered "conventional" for purposes of applying Issue 00-19.

- Convertible preferred stock having a mandatory redemption date may still qualify for the exception if the economic characteristics indicate that the instrument is more like debt than equity.

The foregoing consensuses should be applied to new instruments entered into and instruments modified in periods beginning after June 29, 2005. The Company's financial statements were not materially impacted by this statement.

In June 2005, the FASB ratified the consensus reached by the EITF on Issue 05-6 "Determining the Amortization Period for Leasehold Improvements Purchased after Lease Inception or Acquired in a Business Combination". SFAS No. 13, Accounting for Leases, requires that assets recognized under capital leases that do not (1) transfer ownership of the property to the lessee at the end of the lease term, or (2) contain a bargain purchase option, be amortized over a period limited to the lease term (which includes reasonably assured renewal periods). Though SFAS No. 13 does not explicitly address the amortization period for leasehold improvements on operating leases, in practice, leasehold improvements placed in service at or near the beginning of the initial lease term are amortized over the lesser of the lease term itself or the useful life of the leasehold improvement. The EITF reached the following consensuses regarding the amortization period for leasehold improvements on operating leases that are placed in service significantly after the start of the initial lease term:

- Such leasehold improvements acquired in a business combination should be amortized over the shorter of (1) the useful life of the underlying asset, or (2) a term that includes required lease periods and reasonably assured renewal periods.

- Such other leasehold improvements (i.e., those not acquired in a business combination) placed in service significantly after the beginning of the lease term should be amortized over the lesser of (1) the useful life of the underlying asset, or (2)