

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

(Amendment No. 2)

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

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

MDC Partners Inc.

(Exact Name of Registrant as Specified in its Charter)

Canada
(State or Other Jurisdiction of
Incorporation or Organization)

98-0364441
(I.R.S. Employer
Identification Number)

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

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

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

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

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

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

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

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

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Toronto Stock Exchange

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

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

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

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

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

Explanatory Note

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

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Item 8. Financial Statements and Supplementary Data

MDC PARTNERS

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
MDC Partners Inc.:

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

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

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

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

/s/ KPMG LLP

Toronto, Canada

April 15, 2005

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
MDC Partners Inc.:

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

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

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

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

/s/ BDO Dunwoody LLP

Toronto, Canada

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

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

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

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

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

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

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

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

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

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

	Years Ended December 31,		
	2004	2003	2002
Cash flows from operating activities:			
Net income (loss)	\$ (2,157)	\$ 12,431	\$ 34,509
Loss from discontinued operations	(5,935)	(1,271)	(15,398)
Cumulative effect of change in accounting policy			(47,916)
Income (loss) from continuing operations	3,778	13,702	97,823
Adjustments for non-cash items:			
Stock-based compensation	8,388	6,182	
Depreciation and amortization	13,743	8,485	11,222
Amortization and write-off of deferred finance charges	6,212	3,897	2,428
Non-cash interest expense		4,557	3,368
Deferred income taxes	(2,712)	4,630	24,121
Foreign exchange	498	2,023	(4,380)
Gain on sale of assets and settlement of long-term debt	(18,741)	(43,792)	(113,422)
Write-down of fixed assets and other assets		8,126	3,391
Goodwill charges		10,012	
Earnings of non consolidated affiliates	(3,651)	(4,929)	(2,142)
Minority interest and other	(3,234)	(1,164)	(3,214)
Changes in non-cash working capital			
Accounts receivable	5,586	790	6,793
Expenditures billable to clients	(16,083)	1,188	(1,465)
Inventories	(2,547)	(921)	2,780
Prepaid expenses and other current assets			