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 SECTIO	N 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF	1934
For the fiscal year ended: December 31, 2004 Commission File Number: 001-13178	
MDC Partners Inc.	
(Exact Name of Registrant as Specified in its Charter)	
Canada (State or Other Jurisdiction of Incorporation or Organization)	98-0364441 (I.R.S. Employer Identification Number)
45 Hazelton Avenue, Toronto, Ontario, M5R 2E3 (416) 960-9000	
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)	
MDC Partners Inc. 375 Hudson Street, New York, NY, 10014 Attn: Mitchell Gendel, General Counsel (212) 463-3628	
(Name, address, including zip code, and telephone number, including	area code, of agent for service)
Securities Registered Pursuant to Section 12(b) of the Act:	
Title of Each Class	Name of Each Exchange On Which Registered
None	n/a
Securities Registered Pursuant to Section 12(g) of the Act:	
Title of Each Class	Name of Each Exchange On Which Registered
Class A Subordinate Voting Shares without par value	NASDAQ

Toronto Stock Exchange

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

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

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

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

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

#### **Explanatory Note**

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

## 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

#### 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				- ,			_		
D	2004	1		200	3		200	2	
Revenue: Services	\$	\$ 247,073		\$ 164,850			\$ 144,944		
Products	69.7			113,927			\$ 144,944 218,775		
Troducts	316,			278.			363.		
Operating Expenses:	510,	012		270,	, / / /		505,	,719	
Cost of services sold*	160	160,703		112,312			102.	380	
Cost of products sold	42,3			56,654			101,559		
Office and general expenses**	99.9			87,837			108,718		
Other charges (recoveries)	(2,69		)	1,333			5,097		
Depreciation and amortization	13,7		,	8,485			11,222		
Write-down of fixed assets	10,7			8,126			3,391		
Goodwill charges				10.0			0,00	•	
occurring changes	313,	990		284,759			332,367		
Operating Profit (Loss)	2,82			(5,9		)	31,3		
Other Income (Expenses):	_,	_		(-,-	-		,-	-	
Gain on sale of assets and settlement of long-term debt	14,8	44		43,7	92		113.	422	
Foreign exchange gain (loss)	(498		)	(2,023		)	4,380		
Interest expense	(8,788		)	(17,673		)	(22,		)
Interest income	685			937			523		
	6,24	3		25,0	33		96,2	21	
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	8,82	8,822		13,281			102,401		
Equity in Earnings of Non Consolidated Affiliates	3,65	1		4,929			2,142		
Minority Interests in Income of Consolidated Subsidiaries	(8,69		)	(4,508		)	(6,7		)
Income from Continuing Operations	3,77	3,778		13,702			97.8	23	
Discontinued Operations	(5,93	(5,935		(1,271		)	(15,	398	)
Cumulative Effect of a Change in Accounting Policy				,			(47,		)
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	8	)			)	(0.91		)
Cumulative Effect of a Change in Accounting Policy				`			(2.8	3	)
Net Income (Loss)	\$	(0.10	)	\$	0.70		\$	2.04	
Diluted		`	ĺ						
Continuing Operations	\$	0.17		\$	0.70		\$	3.87	
Discontinued Operations	(0.20	6	)	(0.0)	5	)	(0.6	0	)
Cumulative Effect of a Change in Accounting Policy	Ì			,		ĺ	(1.8	7	)
Net Income (Loss)	\$	(0.09	)	\$	0.65		\$	1.40	
Weighted Average Number of Common Shares:		`							
Basic	21,3	53,268		17,7	91,064		16,9	15,341	
Diluted	22,8	17,823		21,6	65,530		25,6	19,168	
	,-			, .			, -		

<sup>\*</sup> Includes stock-based compensation expense of \$339 and \$330, 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.

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

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

Cash and cash equivalents         \$ 22,073         \$ 6,334           Accounts receivable, less allowance for doubtful accounts of \$1,521 and \$497         111,399         56,485           Expenditures billable to clients         8,29         5689           Inventories         10,792         7,735           Prepaid expenses         30,36         3,784           Other current assets         157,009         139,119           Fixed Assets         55,365         37,707           Investment in Affiliates         10,771         34,362           Goodwill         146,494         83,199           Other January Castes         42,273         11,563           Oberlangible Assets         12,883         11,563           Other Assets         622         65,300           Other Assets         12,883         11,563           Other Assets         12,883         11,563           Other Assets         5,6026         \$           Total Current Liabilities         74,285         9,096           Current Liabilities         74,252         35,180           Accounts payable         74,252         11,775         1,113           Accounts payable         75,602         9,798         13,649      <		December 31, 2004	2003
Cash and cash equivalents         \$ 22,073         \$ 6,334           Accounts receivable, less allowance for doubtful accounts of \$1,521 and \$497         111,399         56,485           Expenditures billable to clients         8,29         5689           Inventories         10,792         7,735           Prepaid expenses         30,36         3,784           Other current assets         157,009         139,119           Fixed Assets         55,365         37,707           Investment in Affiliates         10,771         34,362           Goodwill         146,494         83,199           Other January Castes         42,273         11,563           Oberlangible Assets         12,883         11,563           Other Assets         622         65,300           Other Assets         12,883         11,563           Other Assets         12,883         11,563           Other Assets         5,6026         \$           Total Current Liabilities         74,285         9,096           Current Liabilities         74,252         35,180           Accounts payable         74,252         11,775         1,113           Accounts payable         75,602         9,798         13,649      <	ASSETS		
Accounts receivable, less allowance for doubtful accounts of \$1,521 and \$497         \$11,399         \$5,889           Expenditures billable to clients         \$2,09         \$5,689           Inventories         \$10,792         7,735           Prepaid expenses         \$3,036         3,784           Other current assets         \$13         92           Total Current Assets         \$15,009         \$19,119           Fixed Assets         \$15,009         \$19,119           Investment in Affiliates         \$10,771         \$4,362           Goodwill         \$46,494         \$8,199           Other Intangible Assets         \$12,883         \$1,563           Octated Assets         \$2,22         \$5,30           Other Assets         \$2,28         \$1,305           Other Assets         \$43,885         \$2,31,539           Current Liabilities           LABILITIES AND SHAREHOLDERS EQUITY           Current Liabilities         \$43,885         \$31,80           Current Liabilities         \$43,885         \$31,80           Current Liabilities         \$3,29         \$32,94           Current Liabilities         \$1,29         \$32,94           Current Lia	Current Assets:		
Expenditures billable to clients inventories         8,296         5,689 lumentories           Inventories         10,792         7,735           Prepaid expenses         3,036         3,784           Other current assets         157,009         139,119           Fixed Assets         157,009         139,119           Fixed Assets         55,365         3,7670           Investment in Affiliates         10,711         34,362           Goodwill         146,494         8,199           Other Intangible Assets         47,273         11,563           Deferred Tax Assets         12,883         11,563           Assets Held for Sale         62         6,530           Other Assets         7,438         9,096           Total Assets         1,748         9,096           Total Assets         5         6,026         \$           Contract Liabilities         1,772         35,180           Accounts payable         7,742         35,180           Accrued and other liabilities         9,798         13,649           Current portion of long-term debt         3,218         16,378           Current portion of long-term debt         3,28         16,378           Convertible Notes	Cash and cash equivalents	\$ 22,673	\$ 65,334
Inventories	Accounts receivable, less allowance for doubtful accounts of \$1,521 and \$497	111,399	56,485
Penjaid expenses         3,036         3,784           Ottoal Current Assets         157,099         13,119           Fixed Assets         55,050         37,670           Investment in Affiliates         10,771         34,362           Goodwill         146,494         8,199           Other Intangible Assets         12,883         11,563           Deferred Tax Assets         12,883         11,563           Assets Held for Sale         22         6,530           Other Assets         7,438         906           Other Assets         7,488         906           Other Assets         6         80         80           Could Assets         7,488         906           Could Assets         7,488         90         80           Could Assets         80         80         80         80           Could Assets         60         80	Expenditures billable to clients	8,296	5,689
Other current assets         813         92           Total Current Assets         157,000         139,119           Fixed Assets         55,365         37,670           Investment in Affiliates         10,771         34,362           Goodwill         146,49         35,365           Obering Tatangible Assets         47,273         12,883           Deferred Tax Assets         622         6,530           Other Assets         74,38         9,096           Total Assets         8 43,855         \$ 321,539           LIABILITIES AND SHAREHOLDERS EQUITY           Current Liabilities         \$ 6,026         \$           Accounts payable         \$ 9,602         \$           Accounts payable         \$ 6,026         \$           Accounts payable         \$ 9,028         \$ 1,849           Accounts payable         \$ 9,028         \$ 1,849           Current Liabilities         \$ 1,022         \$ 2,949           Current Do	Inventories	10,792	7,735
Total Current Assets         157,09         191,19           Fixed Assets         55,365         37,670           Investment in Afflitates         10,71         34,362           Goodwill         146,494         81,99           Other Intangible Assets         42,27         11,563           Deferred Tax Assets         622         6,50           Other Assets         7,438         0,96           Other Assets         7,438         0,96           Total Assets         622         3,2189           Bank debt         8 6,026         \$           Bank debt         8 6,026         \$           Accounts payable         77,425         35,180           Accounts payable         71,525         31,549           Current Dorition of long-term debt	Prepaid expenses	3,036	3,784
Fixed Assets         55,365         37,670           Investmen in Affiliates         10,771         34,362           Goodwill         146,494         83,199           Other Intangible Assets         47,273         1           Deferred Tax Sasets         12,883         11,563           Assets Held for Sale         622         6,530           Other Assets         7,438         9,096           Total Assets         8 437,855         \$ 321,339           LIABILITIES AND SHAREHOLDERS EQUITY           Current Liabilities         \$ 6,026         \$           Accounts payable         7,425         32,180           Accounts payable         9,788         13,649           Accounts payable         9,798         13,649           Accounts payable         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           Conyertible Notes         56,20         9,597           Cong-termed acquisition consideration         1,775         1,113           Total Liabilities Related to Assets Held for Sale	Other current assets	813	92
Investment in Affiliates	Total Current Assets	157,009	139,119
Goodwill         146,494         83,199           Other Intangible Assets         47,273         1563           Deferred Tax Assets         622         6,530           Assets Held for Sale         7438         9,096           Other Assets         7438         9,096           Total Assets         1878,255         \$ 321,539           LIABILITIES AND SHAREHOLDERS EQUITY           Current Liabilities         \$6,026         \$           Accounts payable         77,425         35,180           Accounts payable         9,798         13,649           Accounts payable, and other liabilities         9,798         13,649           Accounts payable, and other liabilities         9,798         13,649           Account portion of long-term debt         3,218         6,926           Current portion of long-term debt         3,218         9,269           Long-Term Debt         50,320         9,570           Convertible Notes         4,857         516           Liabilities Related to Assets Held for Sale         867         6,649           Other Liabilities         4,857         516           Deferred Tax Liabilities         4,857         516           Wincertified at Liabilities<	Fixed Assets	55,365	37,670
Other Intangible Assets         47,273           Deferred Tax Assetts         12,863         11,563           Assets Held for Sale         622         6,530           Other Assets         7,438         9,096           Total Assets         8 437,855         \$ 321,539           LIABILITIES AND SHAREHOLDER'S EQUITY           Bank debt         \$ 6,026         \$           Accounts payable         77,425         35,180           Accounts payable         94,639         32,249           Account and other liabilities         94,639         32,249           Accrued and other liabilities         9,798         13,649           Current portion of long-term debt         3,218         16,378           Deferred acquisition consideration         1,775         1,113           Total Current Liabilities         90,320         95,970           Convertible Notes         \$ 867         6,649           Convertible Notes         \$ 867         6,649           Unber Liabilities         4,87         316           Deferred Tax National Current Liabilities         249,779         240,198           Liabilities Related to Assets Held for Sale         854         ****           Total Liabilities	Investment in Affiliates	10,771	34,362
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         \$ 6,026         \$           Accounts payable         77,425         35,180           Accounts payable         9,798         13,649           Accounts payable         9,798         13,649           Account and other liabilities         9,798         13,649           Current portion of long-term debt         3,218         16,378           Current portion of long-term debt         3,218         16,378           Deferred acquisition consideration         1,775         1,113           Total Current Liabilities         867         6,649           Conny-trible Notes         867         6,649           Conny-trible Notes         867         6,649           Conny-trible Notes         87         9,794           Claibilities Related to Assets Held for Sale         867         6,649           Other Liabilities         249,779         240,198           Minority Interest	Goodwill	146,494	83,199
Assets Held for Sale         622         6,530           Other Assets         7,438         9,096           Total Assets         LIABILITIES AND SHAREHOLDERS EQUITY           Current Liabilities           Bank debt         5 6,026         \$           Accounts payable         77,425         35,180           Accounts payable         77,425         35,180           Activate and other liabilities         9,798         13,649           Current portion of long-term debt         3,218         16,378           Deferred acquisition consideration         1,775         1,113           Total Current Liabilities         9,289         19,288         9,99           Long-Term Debt         50,320         95,970           Convertible Notes         867         6,649           Other Liabilities         4,857         516           Deferred Tax Liabilities         4,857         516           Deferred Tax Liabilities         45,052         2,432           Commitments, Contingencies and Guarantees (Note 19)         51         45,052         2,432           Class A Shares, no par value, unlimited authorized, 2,1937,871 and 18,369,451 shares issued in 2004 and 2003; respectively.         16,406         115,861	Other Intangible Assets	47,273	
Claim   Clai	Deferred Tax Assets	12,883	11,563
Other Assets         7,438         9,096           Total Assets         6 437,855         3 21,539           LIABILITIES AND SHAREHOLDERS EQUITY           Current Liabilities           Bank debt         5,6,026         \$           Accounts payable         77,425         35,180           Accounted and other liabilities         9,798         13,649           Current portion of long-term debt         3,218         16,378           Deferred acquisition consideration         1,775         1,113           Total Current Liabilities         19,2881         99,269           Long-Term Debt         50,320         95,970           Convertible Notes         867         6,649           Child Liabilities         4,857         116           Deferred Tax Liabilities         487         6,649           Other Liabilities         49,779         240,198           Minority Interests         249,779         240,198           Commitments, Contingencies and Guarantees (Note 19)         16,664         15,861           Shareholders Equity         16,064         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	Assets Held for Sale	622	6,530
Current Liabilities	Other Assets	7,438	9,096
Current Liabilities:         S         6,026         \$           Bank debt         77,425         35,180           Accounts payable         77,425         35,180           Accounted and other liabilities         94,639         32,949           Advance billings, net         9,798         13,649           Current portion of long-term debt         3,218         16,378           Deferred acquisition consideration         1,775         1,113           Total Current Liabilities         192,881         99,269           Long-Term Debt         50,320         95,970           Convertible Notes         37,794           Liabilities Related to Assets Held for Sale         867         6,649           Other Liabilities         4,857         516           Deferred Tax Liabilities         249,779         240,198           Minority Interests         249,779         240,198           Minority Interests         45,052         2,432           Commitments, Contingencies and Guarantees (Note 19)         164,064         115,861           Class A Shares, no par value, unlimited authorized, 2,1937,871 and 18,369,451 shares issued in 2004 and 2003, respectively.         1         135           Class B Shares, no par value, unlimited authorized, 2,502 and 450,470 shares issued in 20	Total Assets	\$ 437,855	\$ 321,539
Current Liabilities:         S         6,026         \$           Bank debt         77,425         35,180           Accounts payable         77,425         35,180           Accounted and other liabilities         94,639         32,949           Advance billings, net         9,798         13,649           Current portion of long-term debt         3,218         16,378           Deferred acquisition consideration         1,775         1,113           Total Current Liabilities         192,881         99,269           Long-Term Debt         50,320         95,970           Convertible Notes         37,794           Liabilities Related to Assets Held for Sale         867         6,649           Other Liabilities         4,857         516           Deferred Tax Liabilities         249,779         240,198           Minority Interests         249,779         240,198           Minority Interests         45,052         2,432           Commitments, Contingencies and Guarantees (Note 19)         164,064         115,861           Class A Shares, no par value, unlimited authorized, 2,1937,871 and 18,369,451 shares issued in 2004 and 2003, respectively.         1         135           Class B Shares, no par value, unlimited authorized, 2,502 and 450,470 shares issued in 20	LIABILITIES AND SHAREHOLDERS EQUITY	·	·
Accounts payable 77,425 35,180 Accounts payable 94,639 32,949 Advance billings, net 97,98 13,649 Current portion of long-term debt 9,798 13,649 Current portion of long-term debt 1,775 1,113 Cotal Current Liabilities 192,881 99,269 Long-Term Debt 50,320 95,970 Convertible Notes 50,320 95,970 Convertible Notes 867 6,649 Cher Liabilities 887 Contest Liabilities 887 Contest Liabilities 887 Cotal Liabilities 884 Commitments, Contingencies and Guarantees (Note 19) Shareholders Equity: Preferred shares, unlimited authorized, 21,937,871 and 18,369,451 shares issued in 2004 and 2003, respectively convertible into one Class A share 3,909 Additional paid-in capital 1,7113 4,610 Deficit (45,083 ) 3,909 Accumulated other comprehensive income (loss) 6,909 Class B Sharesholders Equity (45,083 ) 3,9169 Accumulated other comprehensive income (loss) 78,909	Current Liabilities:		
Accrued and other liabilities 94,639 32,949 Advance billings, net 9,798 13,649 Current portion of long-term debt 3,218 16,378 Deferred acquisition consideration 1,775 1,113 Total Current Liabilities 192,881 99,269 Long-Term Debt 50,320 95,970 Convertible Notes 192,881 99,269 Liabilities Related to Assets Held for Sale 867 6,649 Other Liabilities Related to Assets Held for Sale 867 6,649 Other Liabilities Related to Assets Held for Sale 867 6,649 Other Liabilities 854 Total Liabilities 854 Commitments, Contingencies and Guarantees (Note 19) Shareholders Equity: Preferred shares, unlimited authorized, 21,937,871 and 18,369,451 shares issued in 2004 and 2003, respectively, convertible into one Class A share 87 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) 78,909 Total Shareholders Equity (2,522 and 450,470 shares) 143,024 78,909	Bank debt	\$ 6,026	\$
Advance billings, net       9,798       13,649         Current portion of long-term debt       3,218       16,378         Deferred acquisition consideration       1,775       1,113         Total Current Liabilities       192,881       99,269         Long-Term Debt       50,320       95,970         Convertible Notes       37,794         Liabilities Related to Assets Held for Sale       867       6,649         Other Liabilities       4,857       516         Deferred Tax Liabilities       854	Accounts payable	77,425	35,180
Current portion of long-term debt       3,218       16,378         Deferred acquisition consideration       1,775       1,113         Total Current Liabilities       192,881       99,269         Long-Term Debt       50,320       95,970         Convertible Notes       37,794         Liabilities Related to Assets Held for Sale       867       6,649         Other Liabilities       4,857       516         Deferred Tax Liabilities       249,779       240,198         Minority Interests       45,052       2,432         Commitments, Contingencies and Guarantees (Note 19)       50,320       3,203         Shareholders Equity:       164,064       115,861         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       143,024	Accrued and other liabilities	94,639	32,949
Deferred acquisition consideration	Advance billings, net	9,798	13,649
Total Current Liabilities   192,881   99,269   192,881   192,881   192,881   192,881   192,881   192,881   192,881   192,881   192,881   192,881   192,881   192,881   192,881   192,881   193,794   182,870	Current portion of long-term debt	3,218	16,378
Convertible Notes	Deferred acquisition consideration	1,775	1,113
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   249,779   240,198     Minority Interests   45,052   2,432     Commitments, Contingencies and Guarantees (Note 19)     Shareholders Equity:	Total Current Liabilities	192,881	99,269
Liabilities Related to Assets Held for Sale       867       6,649         Other Liabilities       4,857       516         Deferred Tax Liabilities       854	Long-Term Debt	50,320	95,970
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)       50.000       50.000         Shareholders       Equity:       50.000       50.000         Preferred shares, unlimited authorized, none issued       50.000       50.000       50.000       50.000         Class A Shares, no par value, unlimited authorized, 21,937,871 and 18,369,451 shares issued in 2004 and 2003, respectively, convertible into one Class A share       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       78,909	Convertible Notes	,	37,794
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  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  Share capital to be issued  Additional paid-in capital  Deficit  Accumulated other comprehensive income (loss)  Total Shareholders Equity  143,024  78,909	Liabilities Related to Assets Held for Sale	867	6,649
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	Other Liabilities	4,857	516
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  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  Additional paid-in capital  Deficit  Accumulated other comprehensive income (loss)  Total Shareholders Equity  45,052  2,432  2,432  45,052  2,432  45,052  2,432  45,052  164,064  115,861  115,861  125  135  135  135  135  136  137  135  136  137  136  137  137  137  138  139  143,024  143,024  143,024	Deferred Tax Liabilities	854	
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  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  Additional paid-in capital  Deficit  Accumulated other comprehensive income (loss)  Total Shareholders Equity  143,024  78,909	Total Liabilities	249,779	240,198
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	Minority Interests	45,052	2,432
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	Commitments, Contingencies and Guarantees (Note 19)	·	
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	Shareholders Equity:		
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	Preferred shares, unlimited authorized, none issued		
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	Class A Shares, no par value, unlimited authorized, 21,937,871 and 18,369,451 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	respectively	164,064	115,861
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	Class B Shares, no par value, unlimited authorized, 2,502 and 450,470 shares issued in 2004 and 2003,		
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	respectively, convertible into one Class A share	1	135
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	Share capital to be issued	3,909	
Deficit       (45,083 ) (39,169         Accumulated other comprehensive income (loss)       3,020 (2,528         Total Shareholders Equity       143,024 78,909	Additional paid-in capital	,	4,610
Accumulated other comprehensive income (loss)  Total Shareholders Equity  3,020 (2,528 143,024 78,909	Deficit		,
Total Shareholders Equity 143,024 78,909	Accumulated other comprehensive income (loss)	/	, , ,
	Total Shareholders Equity		
	Total Liabilities and Shareholders Equity		

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	1	13,702		97,823	
Adjustments for non-cash items:						
Stock-based compensation	8,388	6	6,182			
Depreciation and amortization	13,743	8	8,485		11,222	
Amortization and write-off of deferred finance charges	6,212	3	3,897		2,428	
Non-cash interest expense		4	4,557		3,368	
Deferred income taxes	(2,712	) 4	4,630		24,121	
Foreign exchange	498	2	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	8,126		3,391	
Goodwill charges		1	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	7	790		6,793	
Expenditures billable to clients	(16,083	) 1	1,188		(1,465	)
Inventories	(2,547	) (	(921	)	2,780	
The state of the s						