MDC PARTNERS INC
Form 10-Q
November 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

Or

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

For the transition period from ______________ to ______________

Commission file number: 001-13178

MDC Partners Inc.
(Exact name of registrant as specified in its charter)

Canada	**98-0364441**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

45 Hazelton Avenue **Toronto, Ontario, Canada**	**M5R 2E3**
(Address of principal executive offices)	(Zip Code)

(416) 960-9000
Registrant’s telephone number, including area code:

950 Third Avenue, New York, New York 10022
(646) 429-1809

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 whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12(b)-2 of the Exchange Act (check one)

Large Accelerated Filer o Accelerated Filer x Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Act subsequent to the distributions of securities under a plan confirmed by a court. Yes o No o

The numbers of shares outstanding as of November 1, 2006 were: 24,191,113 Class A subordinate voting shares and 2,502 Class B multiple voting shares.

Website Access to Company Reports

MDC Partners Inc.'s Internet website address is www.mdc-partners.com. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act, will be made available free of charge through the Company's website as soon as reasonably practical after those reports are electronically filed with, or furnished to, the Securities and Exchange Commission.

MDC PARTNERS INC.

QUARTERLY REPORT ON FORM 10-Q

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Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue:				
Services	$ 101,122	$ 96,977	$ 299,333	$ 261,042
Operating Expenses:				
Cost of services sold (1)	57,150	55,509	177,790	155,180
Office and general expenses (2)	36,666	28,853	97,672	77,826
Depreciation and amortization	6,696	6,905	18,595	16,675
	100,512	91,267	294,057	249,681
Operating profit	610	5,710	5,276	11,361
Other Income (Expenses):				
Other income (expense)	625	(395)	1,697	616
Interest expense	(3,704)	(2,302)	(8,134)	(4,926)
Interest income	171	—	429	230
	(2,908)	(2,697)	(6,008)	(4,080)
Income (loss) from continuing operations before income taxes, equity in affiliates and minority interests	(2,298)	3,013	(732)	7,281
Income tax recovery	812	397	1,711	1,676
Income/(loss) from continuing operations before equity in affiliates and minority interests	(1,486)	3,410	979	8,957
Equity in earnings of non-consolidated affiliates	129	348	630	624
Minority interests in income of consolidated subsidiaries	(1,780)	(6,073)	(9,965)	(14,374)
Loss from continuing operations	(3,137)	(2,315)	(8,356)	(4,793)
Income/(loss) from discontinued operations	(9,772)	660	(20,190)	(1,609)
Net Loss	$ (12,909)	$ (1,655)	$ (28,546)	$ (6,402)
Income/(Loss) Per Common Share:				
Basic:				
Continuing operations	$ (0.13)	$ (0.10)	$ (0.35)	$ (0.21)

Discontinued operations		(0.41)		0.03		(0.84)		(0.07)
Net Loss	$	(0.54)	$	(0.07)	$	(1.19)	$	(0.28)
Diluted:								
Continuing operations	$	(0.13)	$	(0.10)	$	(0.35)	$	(0.21)
Discontinued operations		(0.41)		0.03		(0.84)		(0.07)
Net loss	$	(0.54)	$	(0.07)	$	(1.19)	$	(0.28)
Weighted Average Number of Common Shares Outstanding:								
Basic		23,911,327		23,710,572		23,849,571		23,151,825
Diluted		23,911,327		23,710,572		23,849,571		23,151,825

(1) *Includes non cash stock-based compensation of $134 and $18 in each of the three month periods ended September 30, 2006 and 2005, respectively, and $2,975 and $89 in each of the nine month periods ended September 30, 2006 and 2005, respectively.*

(2) *Includes non cash stock-based compensation of $1,515 and $548, respectively, in each of the three month periods ended September 30, 2006 and 2005, respectively, and $4,006 and $2,273 in each of the nine month periods ended September 20, 2006 and 2005 respectively.*

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

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

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,592	$ 12,923
Accounts receivable, less allowance for doubtful accounts of $1,780 and $1,250	120,414	117,319
Expenditures billable to clients	31,152	7,838
Inventories	—	10,359
Prepaid expenses	4,682	4,401
Other current assets	630	356
Assets held for sale	28,849	—
Total Current Assets	190,319	153,196
Fixed assets, at cost, less accumulated depreciation of $52,196 and $71,220	43,403	63,528
Investment in affiliates	10,068	10,929
Goodwill	199,340	195,026
Other intangibles assets, net	50,130	57,139
Deferred tax asset	17,825	16,057
Other assets	10,173	11,440
Assets held for sale	12,249	—
Total Assets	$ 533,507	$ 507,315
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$ 4,218	$ 3,739
Revolving credit facility	85,300	73,500
Accounts payable	69,686	63,452
Accruals and other liabilities	69,549	69,891
Advance billings	50,996	38,237
Current portion of long-term debt	1,532	2,571
Deferred acquisition consideration	—	1,741
Liabilities related to assets held for sale	16,221	—
Total Current Liabilities	297,502	253,131
Long-term debt	4,991	8,475
Convertible notes	40,261	38,694
Other liabilities	8,871	7,937
Deferred tax liabilities	2,346	2,446
Liabilities related to assets held for sale	3,352	—
Total Liabilities	357,323	310,683
Minority interests	46,335	44,484
Commitments, contingencies and guarantees (Note 12)		
Shareholders' Equity:		
Preferred shares, unlimited authorized, none issued	—	—
	183,851	178,589

Class A Shares, no par value, unlimited authorized, 24,191,113 and 23,437,615 shares issued in 2006 and 2005				
Class B Shares, no par value, unlimited authorized, 2,502 shares issued in 2006 and 2005, each convertible into one Class A share		1		1
Share capital to be issued, 266,856 Class A shares in 2005		—		4,209
Additional paid-in capital		25,600		20,028
Accumulated deficit		(81,621)		(53,075)
Accumulated other comprehensive income		2,018		2,396
Total Shareholders' Equity		129,849		152,148
Total Liabilities and Shareholders' Equity	$	533,507	$	507,315

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

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

	Nine Months Ended September 30,	
	2006	2005 Revised Note 1
Cash flows from operating activities:		
Net loss	$ (28,546)	$ (6,402)
Loss from discontinued operations	(20,190)	(1,609)
Loss from continuing operations	(8,356)	(4,793)
Adjustments to reconcile net loss to cash provided by (used in) operating activities		
Depreciation and amortization	18,595	16,675
Non-cash stock-based compensation	6,363	2,362
Amortization of deferred finance charges	1,598	911
Deferred income taxes	(3,342)	(3,270)
Earnings of non-consolidated affiliates	(630)	(624)
Minority interest and other	(194)	(228)
Changes in non-cash working capital:		
Accounts receivable	(17,355)	141
Expenditures billable to clients.	(23,334)	703
Prepaid expenses and other current assets	(1,166)	(1,483)
Accounts payable, accruals and other liabilities	14,353	(14,674)
Advance billings	17,059	(3,389)
Cash flows from continuing operating activities	3,591	(7,669)
Discontinued operations	2,073	2,335
Net cash provided by (used in) operating activities	5,664	(5,334)
Cash flows from investing activities:		
Capital expenditures	(18,791)	(6,572)
Acquisitions, net of cash acquired	(5,176)	(56,446)
Proceeds of dispositions	604	250
Distributions from non-consolidated affiliates	499	1,381
Discontinued operations	(1,641)	(2,052)
Net cash used in investing activities	(24,505)	(63,439)
Cash flows from financing activities:		
Increase (decrease) in bank indebtedness	479	(4,526)
Proceeds from issuance of long term debt	—	36,723
Proceeds from revolving credit facility	11,800	34,000
Repayment of long-term debt	(1,228)	(3,900)
Issuance of share capital	150	16
Subsidiary issuance of share capital	385	—
Deferred financing costs	—	(3,316)
Discontinued operations	(702)	(1,664)
Net cash provided by financing activities	10,884	57,333
Effect of exchange rate changes on cash and cash equivalents	(374)	186
Net decrease in cash and cash equivalents	(8,331)	(11,254)
Cash and cash equivalents at beginning of period	12,923	22,673
Cash and cash equivalents at end of period	$ 4,592	$ 11,419

Supplemental disclosures:				
Cash income taxes paid	$	940	$	1,154
Cash interest paid	$	6,345	$	4,236
Non-cash transactions:				
Share capital issued on acquisitions	$	4,459	$	14,493
Capital leases	$	915	$	998
Note receivable exchanged for shares in subsidiary	$	1,155	$	122

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

MDC PARTNERS INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(thousands of United States dollars, unless otherwise stated)

1. Basis of Presentation

MDC Partners Inc. (the “Company”) has prepared the unaudited condensed consolidated interim financial statements included herein pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) of the United States of America (“US GAAP”) have been condensed or omitted pursuant to these rules.

The accompanying financial statements reflect all adjustments, consisting of normally recurring accruals, which in the opinion of management are necessary for a fair presentation, in all material respects, of the information contained therein. Results of operations for interim periods are not necessarily indicative of annual results.

These statements should be read in conjunction with the consolidated financial statements and related notes included in the annual report on Form 10-K for the year ended December 31, 2005.

As of the quarter ended December 31, 2005, the Company revised the 2005 statement of cash flows to separately disclose the operating, investing and financing portions of the cash flows attributable to its discontinued operations. Accordingly, the nine months ended September 30, 2005 statement of cash flows has been revised to conform to such presentation.

Effective June 30, 2006, the Company has classified the assets and liabilities of the Company’s Secure Paper Business and Secure Cards Business as held for sale and accordingly has classified the results of their operations as discontinued operations.

2. Significant Accounting Policies

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

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

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

Concentration of Credit Risk. The Company provides marketing communications services to clients who operate in most industry sectors. Credit is granted to qualified clients in the ordinary course of business. Due to the diversified nature of the Company's client base, the Company does not believe that it is exposed to a concentration of credit risk as no client accounted for more than 10% of the Company's consolidated accounts receivable at September 30, 2006; however, one client accounted for 14% of revenue for the nine months ended September 30, 2006. For the nine months ended September 30, 2005, no client accounted for more than 10% of revenue. As of December 31, 2005, no client accounted for more than 10% of accounts receivable.

Cash and Cash Equivalents. The Company's cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of six months or less at the time of purchase. Included in cash and cash equivalents at September 30, 2006 and December 31, 2005, is approximately $100 and $1,300, respectively, of cash restricted to withdrawal.

Stock-Based Compensation. Effective January 1, 2003, the Company prospectively adopted fair value accounting for stock-based awards as prescribed by SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"). Prior to January 1, 2003, the Company elected not to apply fair value accounting to stock-based awards to employees, other than for direct awards of stock and awards settleable in cash, which required fair value accounting. Prior to January 1, 2003, for awards not elected to be accounted for under the fair value method, the Company accounted for stock-based awards 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 awards. Under this method, compensation cost is measured as the excess, if any, of the quoted market price of the stock issuance at the measurement date over the amount to be paid by the employee.

The Company adopted fair value accounting for stock-based awards using the prospective application transitional alternative available in SFAS 148 "Accounting for Stock-Based Compensation—Transition and Disclosure". Accordingly, the fair value method is applied to all awards granted, modified or settled on or after January 1, 2003. Under the fair value method, compensation cost is measured at fair value at the date of grant and is expensed over the service period, that is the award's vesting period. When awards are exercised, share capital is credited by the sum of the consideration paid together with the related portion previously credited to additional paid-in capital when compensation costs were charged against income or acquisition consideration.

Stock-based awards that are settled in cash or may be settled in cash at the option of employees are recorded as liabilities. The measurement of the liability and compensation cost for these awards is based on the intrinsic value of the award, and is recorded as a charge to operating income over the service period, that is the vesting period of the award in accordance with FASB Interpretation Number 28- "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans—an interpretation of APB Opinions No. 15 and 25" ("FIN 28"). Changes in the Company's payment obligation subsequent to vesting of the award and prior to the settlement date are recorded as compensation cost in operating income in the period of the change. The final payment amount for such awards is established on the date of the exercise of the award by the employee.

Stock-based awards that are settled in cash or equity at the option of the Company are recorded at fair value on the date of grant and recorded as additional paid-in capital. The fair value measurement of the compensation cost for these awards is based on the Black-Scholes option pricing model and is recorded as a charge to operating income over the service period, that is the vesting period of the award.

Effective January 1, 2006, the Company adopted FAS 123(R) and has opted to use the modified prospective application transition method. Under this method the Company will not restate its prior financial statements. Instead, the Company will apply FAS 123(R) for new awards granted after the adoption of FAS 123(R), any portion of awards that were granted after December 15, 1994 and have not vested as of January 1, 2006, and any outstanding liability awards.

Measurement of compensation cost for awards that are outstanding and classified as equity, at January 1, 2006, will be based on the original grant-date fair value calculations of those awards. The Company had previously adopted FAS 123 and as such has been expensing the fair value of all awards issued after January 1, 2003. For all previously issued awards, the Company has been providing pro-forma disclosure for such awards. Upon the adoption of FAS 123(R), the Company expenses the fair value of the awards granted prior to January 1, 2003. The Company has adopted the straight-line attribution method for determining the compensation cost to be recorded during each accounting period. The adoption of FAS 123(R) did not have a material effect on the Company's financial position or results of operations.

The table below summarizes what the quarterly pro forma effect for the three and nine months ended September 30, 2005, would have been had the Company adopted the fair value method of accounting for stock options and similar instruments for awards issued prior to 2003 and prior to the adoption of FAS 123(R):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net loss as reported	$ (1,655)	$ (6,402)
Fair value costs, net of income tax, of stock-based employee compensation for options issued prior to 2003	161	522
Net loss pro forma	$ (1,816)	$ (6,924)
Basic net loss per share, as reported	$ (0.07)	$ (0.28)
Basic net loss per share, pro forma	$ (0.08)	$ (0.30)
Diluted net loss per share, as reported	$ (0.07)	$ (0.28)
Diluted net loss per share, pro forma	$ (0.08)	$ (0.30)

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

	Nine Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Expected dividend	0.00%	0.00%	0.00%
Expected volatility	40%	40%	40%
Risk-free interest rate	4.95%	2.9%	2.9%
Expected option life in years	5-7	3	3
Weighted average stock option fair value per option granted	$ 4.74	$3.09	$3.67

On February 28, 2006, the Company issued 247,500 Class A shares of financial performance-based restricted stock, and 475,000 financial performance-based restricted stock units to its employees under the 2005 Stock Incentive Plan. The Class A shares underlying each grant of restricted stock or restricted stock units will vest upon achievement by the Company of specified financial performance criteria in 2006, 2007 and 2008. Based on the Company's expected financial performance in 2006, the Company currently believes that 50% of the financial performance-based awards to employees will vest on March 15, 2007. Accordingly, the Company is recording a non-cash stock based compensation charge of $3,089 from the date of grant through March 15, 2007.

On March 6, 2006, the Company issued 16,000 Class A shares of restricted stock and 8,000 restricted stock units to its non-employee Directors under the 2005 Stock Incentive Plan. These awards to non-employee Directors vest on the third anniversary of the grant date. Accordingly, the Company is recording a $205 non-cash compensation charge over the three year vesting period.

On April 28, 2006, the Company issued 50,000 restricted stock units to an employee; 15,000 of these units will vest based upon the achievement by the Company of specified financial criteria in 2006, 2007 and 2008. The remaining 35,000 of these units will vest on the third anniversary of the grant date. Accordingly, the Company is recording a $380 non-cash compensation charge over the three-year vesting period. In addition, the Company issued 10,000 Stock Appreciation Rights to the same employee. The Company also issued 125,000 options to certain non-employee Directors.

For the three and nine months ended September 30, 2006, the Company has recorded a charge of $804 and $1,845, respectively relating to the first quarter of 2006 restricted stock and restricted stock unit grants. The value of the awards was determined based on the fair market value of the underlying stock on the date of grant. The first quarter of 2006 restricted stock granted to employees and non-employee Directors totaling 263,500 Class A shares are included in the Company’s calculation of Class A shares outstanding as of September 30, 2006.

Derivative Financial Instruments. The Company follows SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”. SFAS No.133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts and debt instruments) be recorded in the balance sheet as either an asset or liability measured at its fair value. The accounting for the change in fair value of the derivative depends on whether the instrument qualifies for and has been designated as a hedging relationship and on the type of hedging relationship. There are three types of hedging relationships: a cash flow hedge, a fair value hedge and a hedge of foreign currency exposure of a net investment in a foreign operation. The designation is based upon the exposure being hedged. Derivatives that are not hedges, or become ineffective hedges, must be adjusted to fair value through earnings.

Effective June 28, 2005, the Company entered into a cross currency swap contract (“Swap”), a form of derivative. The Swap contract provides for a notional amount of debt fixed at $45,000 Canadian dollars (“C$”) and at $36,452, with the interest rates fixed at 8% per annum for the Canadian dollar amount and fixed at 8.25% per annum for the US dollar amount. Consequently, under the terms of this Swap, semi-annually, the Company will receive interest of C$1,800 and will pay interest of $1,503 per annum. At December 31, 2005, the Swap fair value was estimated to be a receivable of $165 and is reflected in other assets on the Company’s balance sheet with the change in the value of the swap reflected in interest expense. On June 22, 2006, the Company settled this swap for its fair value of $357, which resulted in a gain of $192 for the nine months ended September 30, 2006 and is included in other income.

3. Loss Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30	
	2006	2005	2006	2005
Numerator				
Numerator for basic loss per common share - loss from continuing operations	$ (3,137)	$ (2,315)	$ (8,356)	$ ($4,793)
Effect of dilutive securities:				
Interest expense on convertible debentures, net of taxes of nil	—	—	—	—
Numerator for diluted loss per common share - loss from continuing operations plus assumed conversion	$ (3,137)	$ (2,315)	$ (8,356)	$ (4,793)
Denominator				
Denominator for basic loss per common share - weighted average common shares	23,911,327	23,710,572	23,849,571	23,151,825
Effect of dilutive securities:				
8% convertible debentures	—	—	—	—
Employee stock options, warrants, and stock appreciation rights	—		—	—
Dilutive potential common shares				
Denominator for diluted loss per common share - adjusted weighted shares and assumed conversions	23,911,327	23,710,572	23,849,571	23,151,825
Basic loss per common share from continuing operations	$ (0.13)	$ (0.10)	$ (0.35)	$ (0.21)
Diluted loss per common share from continuing operations	$ (0.13)	$ (0.10)	$ (0.35)	$ (0.21)

The 8% convertible debentures, options and other rights to purchase 8,492,018 shares of common stock, which includes 263,500 shares of non-vested restricted stock, were outstanding during the three and nine months ended September 30, 2006, but were not included in the computation of diluted loss per common share because their effect would be antidilutive. Similarly, during the three and nine months ended September 30, 2005, the 8% convertible debentures, options and other rights to purchase 8,102,679 and 5,983,369 shares, respectively of common stock were outstanding but were not included in the computation of diluted loss per common share because either the exercise prices were greater than the average market price of the common shares and/or their effect would be antidilutive.

4. Acquisitions

2006 Acquisitions

The Company is negotiating with the minority holders of Northstar Research Partners Inc. (“Northstar”), to purchase an additional 20% interest in Northstar for C$4 million ($3.6 million at September 30, 2006). This transaction is expected

to close during the fourth quarter of 2006.

On July 27, 2006, the Company settled a put option obligation for a fixed amount equal to $1,492, relating to the purchase of 4.3% of additional equity interests of Accent Marketing, LLC. The settlement of this put was satisfied by a cash payment of $424, plus the cancellation of an outstanding promissory note to the Company in a principal amount equal to $1,068. The purchase price was allocated as follows: $403 to identified intangibles, amortized over eight years and the balance of $1,089 as additional goodwill. The goodwill and intangibles are not deductible for tax purposes. Including this transaction, the Company now owns 93.7% of Accent Marketing, LLC.

On February 7, 2006, the Company purchased the remaining outstanding membership interests of 12.33% of Source Marketing LLC (“Source”) pursuant to an exercise of a put option notice delivered in October 2005. The purchase price of $2,287 consisted of cash of $1,830 and the delivery of 1,063,516 shares of LifeMed Media Inc. (“LifeMed”) valued at $457. The Company’s carrying value of these LifeMed shares was $27, thus the Company recorded a gain on the disposition of these shares of $430, which has been included in other income.

On February 15, 2006, Source issued 15% of its membership interests to certain members of management. The purchase price for these membership interests was $1,540, which consisted of $385 cash and recourse notes in an aggregate principal amount equal to $1,155. In addition, the purchaser also received a fully vested option to purchase an additional 5% of Source at an exercise price equal to the price paid above. The option is exercisable any time prior to December 31, 2010. An amended and restated LLC agreement was entered into with these new members. The agreement also provides these members with an option to put to the Company these membership interests from December 2008-2012. As a result of the above transactions, the Company now owns 85% of Source. During the quarter ended March 31, 2006, the Company recorded a non-cash stock based compensation charge of $2,338 relating to the price paid for the membership interests which was less than the fair value of such membership interests and the fair value of the option granted.

2005 Acquisitions

Zyman Group

On April 1, 2005, the Company, through a wholly owned subsidiary, purchased approximately 61.6% of the total outstanding membership units of Zyman Group, LLC (“Zyman Group”) for purchase price consideration of $52,389 in cash and 1,139,975 Class A shares of the Company, valued at $11,257 based on the share price on or about the announcement date. Related transaction costs of approximately $976 were also incurred. In addition, the Company may be required to pay up to an additional $12,000 to the sellers if Zyman Group achieves specified financial targets for the twelve month periods ending June 30, 2006 and/or June 30, 2007. For the period ending September 30, 2006, such financial targets were not achieved.

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

The Zyman Group name is well recognized for strategic marketing consulting and as such was acquired by the Company for its assembled workforce to enhance the creative talent within the Company’s Strategic Marketing Service segment of businesses.

The Zyman Group acquisition was accounted for as a purchase business combination. The purchase price of the net assets acquired in this transaction is $64,622. The final allocation of the cost of the acquisition to the fair value of net assets acquired and minority interests is as follows:

Cash and cash equivalents	$	5,653
Accounts receivable and other current assets		6,734
Fixed assets and other assets		7,785
Goodwill (tax deductible)		45,349
Intangible assets		20,143
Accounts payable, accrued expenses and other liabilities		(7,475)
Total debt		(8,524)
Minority interest at carrying value		(5,043)
Total cost of the acquisition	$	64,622

Identifiable intangible assets of $20,143 are comprised primarily of customer relationships and related backlog and trademarks. The allocation of the purchase price to assets acquired and liabilities assumed is based upon estimates of fair values and certain assumptions that the Company believes are reasonable under the circumstances. The Company's consolidated financial statements include Zyman Group's results of operations subsequent to its acquisition on April 1, 2005.

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. 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 the annual "threshold" amount of $20,600 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.

Based on the Company's investment in the Zyman Group, at September 30, 2006, the annual priority return is expected to be equal to approximately $12,700, with the minority owners receiving the next $7,900 up to the threshold amount. If profits are insufficient to meet the Company's priority return during any of the first five years, the Company will receive a catch-up payment through year five equal to any shortfall from the prior year(s). Furthermore, if profits do not reach the threshold amount during the first five years, the minority owners will be entitled to receive a catch-up payment through year five equal to any shortfall from the prior year(s). Based on Zyman Group's expected results for 2006, the Company expects to receive less than the full amount of its priority return from Zyman Group in 2006.

Neuwirth

On December 1, 2005, the Company, through its subsidiary Northstar Research Partners (USA) LLC ("NS LLC"), purchased the business of Neuwirth Research, Inc. ("Neuwirth") for purchase price consideration of $450 in cash, a 20% equity interest in NS LLC valued at $225 based on the estimated market value of NS LLC on or about the announcement date, and 48,391 MDC Class A shares valued at $300. Related transaction costs of approximately $100 were also incurred. In addition, the Company was required to pay up to an additional $625 in cash to the seller if the acquired Neuwirth business achieves specified financial targets for the year ended December 31, 2005 and/or December 31, 2006. As of March 31, 2006, the Company determined that these targets were achieved and, accordingly, the $625 payment obligation was settled by the Company's issuance of 30,058 Class A shares MDC stock valued at $250 and cash of $375.

In connection with the Neuwirth acquisition, the Company and seller entered into agreements related to governance and certain put option rights with respect to the seller's 20% equity interest in NS LLC which becomes 50% exercisable in 2010 and 100% exercisable in 2015.

Neuwirth is a recognized market research firm and was acquired by the Company for its list of blue chip clients and synergies with NS LLC existing business. This acquisition is part of the Specialized Communications Services segment of businesses.

The Neuwirth acquisition was accounted for as a purchase business combination. The allocation of the cost of the acquisition to the fair value of net assets acquired is as follows:

Accounts receivable and other current assets	$	492
Fixed assets and other assets		50
Intangible assets		1,680
Accounts payable, accrued expenses and other liabilities		(522)
Total cost of the acquisition	$	1,700

Identifiable intangible assets, consisting of an employment agreement, estimated to be $1,680, is being amortized on a straight-line basis over ten years. The allocation of the purchase price to assets acquired and liabilities assumed is based upon estimates of fair values and certain assumptions that the Company believes are reasonable under the circumstances. The Company's consolidated financial statements include Neuwirth's results of operations subsequent to its acquisition on December 1, 2005.

Powell

On July 25, 2005, the Company, through its subsidiary Margeotes Fertitta Powell, LLC, ("MFP") purchased the business of Powell, LLC ("Powell") for purchase price consideration of $332 in cash and a 5% equity interest in MFP valued at $400 based on the estimated market value of MFP on or about the announcement date. The issuance of equity interests by MFP resulted in a loss of $103 on the dilution of the Company's equity interest in its subsidiary. Related transaction costs of approximately $20 were also incurred. In addition, in August 2006, the Company paid an additional $300 in

cash to the seller.

In connection with the Powell acquisition, the Company and seller entered into agreements related to governance and certain put option rights with respect to seller's 5% equity interest in MFP, which become exercisable in 2010.

Powell is a well recognized, highly creative advertising agency and as such was acquired by the Company for its creative talent to supplement existing creative agencies within the Company's Strategic Marketing Services segment of businesses.

The Powell acquisition was accounted for as a purchase business combination. The allocation of the cost of the acquisition to the fair value of net assets acquired is as follows:

Accounts receivable and other current assets	$	32
Fixed assets and other assets		31
Intangible assets		1,130
Accounts payable, accrued expenses and other liabilities		(141)
Total cost of the acquisition	$	1,052

Identifiable intangible assets, consisting of an employment agreement, estimated to be $1,130, is being amortized on a straight-line basis over five years. The allocation of the purchase price to assets acquired and liabilities assumed is based upon estimates of fair values and certain assumptions that the Company believes are reasonable under the circumstances. The Company's consolidated financial statements include Powell's results of operations subsequent to its acquisition on July 25, 2005.

Other Acquisitions and Transactions

On July 31, 2005, the Company acquired a further 20% equity interest in its existing subsidiary MFP pursuant to the exercise of a put obligation under the existing purchase agreement with a minority interest holder. The purchase price of $1,740 which includes $15 of acquisition costs was paid in cash. Of the purchase price, $500 was allocated to customer relationship intangible assets and $1,240 was allocated to goodwill. The allocation of the purchase price to assets acquired and liabilities assumed is based upon certain assumptions that the Company believes are reasonable under the circumstances. As a result of this acquisition, and the Powell transaction discussed above, the Company retains a 95% equity interest in MFP.

On September 1, 2005, the Company, through a consolidated variable interest entity, Crispin Porter + Bogusky, LLC ("CPB"), purchased 20% of the total outstanding membership units of Fuseproject, LLC ("Fuseproject") for purchase price consideration of $750 in cash and an additional $400, which was paid during the quarter ended March 31, 2006. Fuseproject is a design firm acquired by CPB to complement its creative offerings. The Fuseproject acquisition was accounted for using the equity method as CPB has significant influence over the operations of Fuseproject. The purchase price of the net assets acquired in this transaction is $1,150. The allocation of the cost of the acquisition to the fair value of the net assets acquired resulted in a portion being attributed to intangible assets valued at $40 and $1,090 consisting of goodwill. The allocation of the purchase price to assets acquired and liabilities assumed is based upon estimates of fair values and certain assumptions that the Company believes are reasonable under the circumstances. The Company's consolidated financial statements include Fuseproject's results of operations in equity in earnings of non-consolidated affiliates subsequent to its acquisition on September 1, 2005.

During August 2005, Bryan Mills Group Ltd., ("BMG") a subsidiary whose operations are consolidated by the Company, completed the acquisition of 450 shares from a minority shareholder at a price of $515.00 per share, for a total purchase price of $232. This resulted in the Company's ownership interest in BMG increasing to 71.2% from 68.0%. Also as a result of the equity transaction by BMG, the Company recorded goodwill of $146.

During the quarter ended March 31, 2005, the Company contributed $125 of cash as additional paid in capital to its existing consolidated subsidiary, Banjo Strategies Entertainment LLC. There was no change in the Company's ownership interest. This resulted in a loss on dilution of $61 and is reflected in the Company's consolidated statement of operations. During the quarter ended June 30, 2005, the Company acquired further equity interests in the existing consolidated subsidiaries of Allard Johnson Communications Inc. (0.3%) and Banjo Strategies Entertainment LLC (7.2%). In aggregate, the Company paid $143 in cash for these incremental ownership interests. During the quarter ended September 30, 2005, the Company acquired a further 0.7% equity interest in the existing consolidated subsidiary, Allard Johnson Communications Inc., for $148.

Pro forma Information

The following unaudited pro forma results of operations of the Company for the nine months ended September 30, 2005 assume that the acquisition of the operating assets of the significant businesses acquired during 2005 had occurred on January 1 of the respective year in which the business was acquired. These unaudited pro forma results are not necessarily indicative of either the actual results of operations that would have been achieved had the companies been combined during this period, or are they necessarily indicative of future results of operations.

	Nine Months Ended September 30, 2005	
Revenues	$	275,428
Net loss	$	(3,253)
Loss per common share:		
Basic - net loss	$	(0.14)
Diluted - net loss	$	(0.14)

5. Inventory

The components of inventory are listed below:

	December 31, 2005	
Raw materials and supplies	$	4,860
Work-in-process		5,499
Total	$	10,359

6. Discontinued Operations

In June 2006, the Company's Board of Directors made the decision to sell or otherwise divest the Company's Secure Paper Business and Secure Card Business (collectively, "SPI"). Since that date, the Company has engaged in active negotiations for the sale of the SPI Group. (See Note 14.)

Based on these events, management has concluded that the criteria for the assets/liabilities of SPI to be accounted for as assets/liabilities held for sale and the results of operations to be accounted for as discontinued operations have been met. Discontinued operations relating to SPI for the three months ended September 30, 2006 and 2005 amounted to net losses of $9,772 and $210, respectively. For the nine months ended September 30, 2006 and 2005, discontinued operations relating to SPI amounted to net losses of $20,190 and $2,177, respectively. Based on the current estimated proceeds from a sale, the Company recorded an impairment charge totaling approximately $19,498 during the nine months ended September 30, 2006. Based on the estimated net proceeds and average borrowing rate for each period, the Company has allocated interest expense to discontinued operations of $1,139 and $886 for the nine months ended September 30, 2006 and 2005.

During July 2005, LifeMed, a variable interest entity whose operations had been consolidated by the Company, completed a private placement issuing approximately 12.5 million shares at a price of $0.4973 per share. LifeMed received net proceeds of approximately $6,200. Consequently, the Company's ownership interest in LifeMed was reduced to 18.3%, and of LifeMed, the Company recorded a gain of $1,300. This gain represents the Company's reversal of a liability related to funding obligations that the Company is no longer obligated to fund. 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 of LifeMed. Consequently, as of July 2005, the Company no longer consolidated the operations of LifeMed, 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 February 2006, the Company sold 27% of its remaining ownership in LifeMed as partial settlement of a put option (see Note 4). As of September 30, 2006, the Company holds a 13.4% interest in LifeMed. As of September 30, 2006 and December 31, 2005, other assets include $73 and $100, respectively of the Company's net investment in LifeMed.

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

For the three and nine months ended September 30, 2005, discontinued operations relating to LifeMed and Mr. Smith amounted to net income of $870 and $568, respectively.

Included in discontinued operations in the Company's consolidated statement of operations for the three and nine months ended September 30, 2006 and 2005 were the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue	$ 20,860	$ 21,920	$ 56,799	$ 58,178
Depreciation, amortization and impairment charge	$ 11,607	$ 1,063	$ 21,799	$ 3,199
Operating income (loss)	$ (9,268)	$ 1,163	$ (18,008)	$ (1,906)
Other expense	$ (138)	$ 459	$ (2,068)	$ (320)
Income tax (expense) recovery	$ (366)	$ (962)	$ (114)	$ 357
Minority interest recovery	$ —	$ —	$ —	$ 260
Net income (loss) from discontinued operations	$ (9,772)	$ 660	$ (20,190)	$ (1,609)

As of September 30, 2006, the carrying value on the Company's balance sheet of the assets and liabilities to be disposed were as follows:

	September 30, 2006
Assets held for sale:	
Accounts receivable	$ 15,791
Inventories	11,502
Other current assets	1,556
Fixed assets	10,281
Other long-term assets	1,968
Total assets	$ 41,098
Liabilities related to assets held for sale:	
Accounts payable and other current liabilities	$ 9,861
Advance billings	5,444
Other	4,268
Total liabilities	$ 19,573

7. Comprehensive Loss

Total comprehensive loss and its components were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net loss for the period	$ (12,909)	$ (1,655)	$ (28,546)	$ (6,402)
Foreign currency cumulative translation adjustment	$ (2,241)	$ 1,399	$ (159)	$ (607)
Comprehensive loss for the period	$ (15,150)	$ (256)	$ (28,705)	$ (7,009)

8. Short-Term Debt, Long-Term Debt and Convertible Debentures

Debt consists of:

	September 30, 2006	December 31, 2005
Short-term debt	$ 4,218	$ 3,739
Revolving credit facility	85,300	73,500
8% convertible debentures	40,261	38,694
Notes payable and other bank loans	5,250	5,650
Obligations under capital leases	1,273	5,396
	136,302	126,979
Less:		
Revolving credit facility	85,300	73,500
Short-term debt	4,218	3,739
Current portions	1,532	2,571
	$ 45,252	$ 47,169

Short-term debt represents the swing line under the revolving credit facility and outstanding checks at the end of the reporting periods.

MDC Revolving Credit Facility

MDC Partners Inc. and certain of its wholly-owned subsidiaries entered into a revolving credit facility with a syndicate of banks, which as of September 30, 2006, provides for borrowings of up to $100 million (including swing-line advances of up to $10 million) maturing in September 2007 (the “Credit Facility”). This facility bears interest at variable rates based upon the Eurodollar rate, US bank prime rate, US base rate, and Canadian bank prime rate, at the Company’s option. Based on the level of debt relative to certain operating results, the interest rates on loans are calculated by adding between 200 and 325 basis points on Eurodollar and Bankers Acceptance based interest rate loans, and between 50 and 175 basis points on all other loan interest rates. The provisions of the facility contain various covenants pertaining to a minimum ratio of debt to net income before interest, income taxes, depreciation and amortization (“EBITDA”), a maximum debt to capitalization ratio, the maintenance of certain liquidity levels and minimum shareholders’ equity levels. The facility restricts, among other things, the levels of capital expenditures, investments, distributions, dispositions and incurrence of other debt. Effective April 15, 2006, a 1.0% per annum facility fee is charged on the amount of the revolving commitments under the Credit Facility in excess of $65,000, which fee became payable beginning on April 15, 2006 and for so long as the revolving commitments under the Credit Facility are in excess of $65,000. The facility is secured by a senior pledge of the Company’s assets principally comprised of ownership interests in its subsidiaries and by the underlying assets of the businesses comprising the

Company’s Secure Products International Group (“SPI”) and by a substantial portion of the underlying assets of the businesses comprising the Company’s Marketing Communications Group, the underlying assets being carried at a value represented by the total assets reflected on the Company’s consolidated balance sheet at September 30, 2006.

On November 3, 2006, the Company further amended its Credit Facility. Pursuant to such amendment, among other things, the lenders (i) amended the “net worth” financial covenant to include an addition for any losses on sale or non-cash impairment charges recorded in connection with the disposition of the Secure Products International (“SPI”) business; (ii) reduced the commitment reduction requirement based upon net cash proceeds received from the sale of SPI in excess of $12.5 million; and (iii) modified the Company's “total debt ratio” covenant.

Upon the closing of the sale of SPI, the Company will repay advances under the Credit Facility by an amount equal to the net cash proceeds received by the Company. At September 30, 2006, the unused portion of the total facility was $6,594.

The Company has classified the swing-line component of this revolving credit facility as a current liability in accordance with EITF 95-22, “Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements that include both a Subjective Acceleration Clause and a Lock-Box Agreement”. This component, reflected as short term debt on the balance sheet, is classified as a current liability in accordance with EITF 95-22 since the swing-line contains a lock box arrangement that requires the cash receipts of the Company to be used to repay amounts outstanding under the swing-line and the entire credit facility is subject to subjective acceleration clauses. Management believes that no conditions have occurred that would result in subjective acceleration by the lenders, nor do they believe that any such conditions will exist over the next twelve months. The weighted average interest rate on these current portions of debt was 8.4% and 6.7% as of September 30, 2006 and December 31, 2005, respectively.

The Company is currently in compliance with all of the terms and conditions of its amended Credit Facility and management believes that, based on its current financial projections, the Company will be in compliance with its financial covenants over the next twelve months.

As of September 30, 2006 and December 31, 2005, $2,809 and $4,035 of the consolidated cash position is held by subsidiaries, which, although available for the subsidiaries’ use, does not represent cash that is available for use to reduce MDC Partners Inc. indebtedness.

8% Convertible Unsecured Subordinated Debentures

On June 28, 2005, the Company completed an offering in Canada of convertible unsecured subordinated debentures amounting to C$45,000 ($36,723) (the “Debentures”). The Debentures mature on June 30, 2010 and bear interest at an annual rate of 8.00% payable semi-annually, in arrears, on June 30 and December 31 of each year. The Company did not have an effective resale registration statement filed with the SEC on December 31, 2005, and as a result the rate of interest increased by an additional 0.50% for the first six month period following December 31, 2005. As of April 19, 2006, the Company had an effective resale registration statement and as a result the interest rate returned to 8.0% effective July 1, 2006. 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 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 Debentures are convertible at the holder’s option into fully-paid, non-assessable and freely tradable 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 ($12.53 as of September 30, 2006) per Class A subordinate voting share being a ratio of approximately 71.4286 Class A subordinate voting shares per C$1,000.00 ($895 as of September 30, 2006) 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 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 in 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.

Notes Payable

In connection with the Zyman acquisition, the Company assumed a note payable in the original amount of $6,275. The note bears interest of 5.73% and is due on June 8, 2009. The balance of the note payable was $5,227 and $5,589 at June 30, 2006 and December 31, 2005, respectively. The note agreement is secured by an aircraft and related equipment with a net book value of $4,455 at September 30, 2006.

9. Shareholders' Equity

During the nine months ended September 30, 2006 Class A share capital increased by $5,262, as the Company (i) issued 30,058 Class A shares in connection with deferred acquisition consideration, (ii) issued 266,856 Class A shares previously identified to be issued and (iii) 144,693 Class A shares related to the exercise of stock options, vested restricted stock, and stock appreciation right awards. During the nine months ended September 30, 2006 "Additional paid-in capital" increased by $5,572, of which $6,411 related to stock-based compensation that was expensed during the same period, of which $48 is included in equity in earnings of non consolidated affiliates, offset by $653 related to the exercise of stock appreciation right awards and $186 related to the resolution of a contingency based on the Company's share price relating to a previous acquisition.

10. Other Income (Expense)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Other Income	$ 98	$ —	$ 417	$ 37
Foreign currency transaction losses	(400)	(200)	(99)	(10)
Gain (loss) on sale/recovery of assets	927	(195)	1,379	589
	$ 625	$ (395)	$ 1,697	$ 616

11. Segmented Information

The Company currently reports in five segments. They are as follows:

- The *Strategic Marketing Services ("SMS")* segment includes Crispin Porter & Bogusky, kirshenbaum bond + partners, Zyman Group LLC among others. This segment consists of integrated marketing consulting services firms that offer a full complement of marketing consulting services including advertising and media, marketing communications including direct marketing, public relations, corporate communications, market research, corporate identity and branding, interactive marketing and sales promotion. Each of the entities within SMS share similar economic characteristics, specifically related to the nature of their respective services, the manner in which the services are provided and the similarity of their respective customers. Due to the similarities in these businesses, they exhibit similar long term financial performance and have been aggregated together.

- The *Customer Relationship Management ("CRM")* segment provides marketing services that interface directly with the consumer of a client's product or service. These services include the design, development and implementation of a complete customer service and direct marketing initiative intended to acquire, retain and develop a client's customer base. This is accomplished using several domestic and foreign-based customer contact facilities.

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The *Specialized Communications Services* (“SCS”) segment includes all of the Company’s other marketing services firms that are normally engaged to provide a single or a few specific marketing services to regional, national and global clients. These firms provide niche solutions by providing world class expertise in select marketing services.

The Company’s two other segments were the Secure Cards Business and Secure Paper Business segments. In connection with a proposed sale of SPI, the Company has included results of those segments in discontinued operations. See Note 6.

The significant accounting polices of these segments are the same as those described in the summary of significant accounting policies included in the notes to the consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 31, 2005, except as where indicated.

The SCS segment is an “Other” segment pursuant SFAS 131 “Disclosures about Segments of an Enterprise and Related Information”.

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

Three Months Ended September 30, 2006

	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Corporate	Total
Revenue	$ 61,682	$ 20,934	$ 18,506	$	$ 101,122
Cost of services sold	28,963	15,147	13,040		57,150
Office and general expenses	23,554	4,549	3,602	4,961	36,666
Depreciation and amortization	5,102	1,240	292	62	6,696
Operating Profit/(Loss)	4,063	(2)	1,572	(5,023)	610
Other Income (Expense):					
Other income					625
Interest expense, net					(3,533)
Loss from continuing operations before income taxes, equity in affiliates and minority interests					(2,298)
Income tax recovery					812
Loss from continuing operations before equity in affiliates and minority interests					(1,486)
Equity in earnings of non-consolidated affiliates					129
Minority interests in income of consolidated subsidiaries	(1,322)	11	(469)		(1,780)
Loss from continuing operations					(3,137)
Loss from discontinued operations					(9,772)
Net Loss					$ (12,909)
Non cash stock based compensation	$ 128	$ 6	$ —	$ 1,515	$ 1,649
Supplemental Segment Information:					
Capital expenditures	$ 1,897	$ 5,307	$ 212	$ 78	$ 7,494
Goodwill and intangibles	$ 193,731	$ 25,840	$ 29,899	$ —	$ 249,470
Total assets	$ 340,455	$ 56,916	$ 80,355	$ 55,781	$ 533,507

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Three Months Ended September 30, 2005

	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Corporate	Total
Revenue	$ 59,699	$ 16,645	$ 20,633	$ —	$ 96,977
Cost of services sold	28,818	12,710	13,981	—	55,509
Office and general expense	15,833	2,529	2,629	7,862	28,853
Depreciation and amortization	5,505	910	225	265	6,905
Operating Profit/(Loss)	9,543	496	3,798	(8,127)	5,710
Other Income (Expense):					
Other income (expense)					(395)
Interest expense, net					(2,302)
Income from continuing operations before income taxes, equity in affiliates and minority interests					3,013
Income tax recovery					397
Income from continuing operations before equity in affiliates and minority interests					3,410
Equity in earnings of non-consolidated affiliates					348
Minority interests in income of consolidated subsidiaries	(5,239)	(50)	(784)	—	(6,073)
Loss from continuing operations					(2,315)
Income from discontinued operations					660
Net Loss					$ (1,655)
Non cash stock based compensation	$ 6	$ 12	$	$ 548	$ 566
Supplemental Segment Information:					
Capital expenditures	$ 763	$ 503	$ 163	$ 46	$ 1,475

Nine Months Ended September 30, 2006

	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Corporate	Total
Revenue	$ 180,272	$ 60,747	$ 58,314	$ —	$ 299,333
Cost of services sold	92,617	44,554	40,619	—	177,790
Office and general expenses	57,854	11,882	10,589	17,347	97,672
Depreciation and amortization	14,147	3,429	860	159	18,595
Operating Profit/Loss)	15,654	882	6,246	(17,506)	5,276
Other Income (Expense):					
Other income					1,697
Interest expense, net					(7,705)
Loss from continuing operations before income taxes, equity in affiliates and minority interests					(732)
Income tax recovery					1,711
Income from continuing operations before equity in affiliates and minority interests					979
Equity in earnings of non-consolidated affiliates					630
Minority interests in income of consolidated subsidiaries	(7,931)	(27)	(2007)		(9,965)
Loss from continuing operations					(8,356)
Loss from discontinued operations					(20,190)
Net Loss					$ (28,546)
Non cash stock based compensation	$ 619	$ 18	$ 2,338	$ 4,006	$ 6,981
Supplemental Segment Information:					
Capital expenditures	$ 7,961	$ 9,926	$ 633	$ 271	$ 18,791
Goodwill and intangibles	$ 193,731	$ 25,840	$ 29,899	$ —	$ 249,470
Total assets	$ 340,455	$ 56,916	$ 80,355	$ 55,781	$ 533,507

Nine Months Ended September 30, 2005

	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Corporate	Total
Revenue	$ 153,810	$ 49,145	$ 58,087	$ —	$ 261,042
Cost of services sold	77,404	38,228	39,548	—	155,180
Office and general expense	42,746	7,649	8,929	18,502	77,826
Depreciation and amortization	13,044	2,634	659	338	16,675
Operating Profit/(Loss)	20,616	634	8,951	(18,840)	11,361
Other Income (Expense):					
Other income					616
Interest expense, net					(4,696)
Income from continuing operations before income taxes, equity in affiliates and minority interests					7,281
Income tax recovery					1,676
Income from continuing operations before equity in affiliates and minority interests					8,957
Equity in earnings of non-consolidated affiliates					624
Minority interests in income of consolidated subsidiaries	(11,887)	(63)	(2,424)	—	(14,374)
Loss from continuing operations					(4,793)
Loss from discontinued operations					(1,609)
Net Loss					$ (6,402)
Non cash stock based compensation	$ 21	$ 68	$ —	$ 2,273	$ 2,362
Supplemental Segment Information:					
Capital expenditures	$ 4,583	$ 1,436	$ 461	$ 92	$ 6,572

A summary of the Company's revenue by geographic area, based on the location in which the services originated, is set forth in the following table:

	United States	Canada	United Kingdom	Total
Revenue				

Three Months Ended September 30,								
2006	$	86,433	$	13,655	$	1,034	$	101,122
2005	$	83,400	$	11,965	$	1,612	$	96,977
Nine Months Ended September 30,								
2006	$	255,098	$	41,275	$	2,960	$	299,333
2005	$	216,892	$	38,627	$	5,523	$	261,042

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12. Commitments, Contingencies and Guarantees

Deferred Acquisition Consideration. In addition to the consideration paid by the Company in respect of certain of its acquisitions at closing, additional consideration may be payable, or may be potentially payable based on the achievement of certain threshold levels of earnings. Should the current level of earnings be maintained by these acquired companies, no additional consideration, in excess of the deferred acquisition consideration reflected on the Company's balance sheet at September 30, 2006 would be expected to be owing in 2006.

Put Options. Owners of interests in certain Marketing Communications subsidiaries have the right in certain circumstances to require the Company to acquire the remaining ownership interests held by them. The owners' ability to exercise any such "put option" right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise. In addition, these rights cannot be exercised prior to specified staggered exercise dates. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund the related amounts during the 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 the date of exercise, the growth rate of the earnings of the relevant subsidiary during that period, and, in some cases, the currency exchange rate at the date of payment.

Management estimates, assuming that the subsidiaries owned by the Company at September 30, 2006, 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 $108,847 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 $23,061 by the issuance of share capital. The ultimate amount payable relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised.

Natural Disasters. Certain of the Company's operations are located in regions of the United States which typically are subject to hurricanes. During the three and nine months ended September 30, 2006, these operations did not incur any costs related to damages resulting from hurricanes. For the three and nine months ended September 30, 2005, these operations incurred costs of $100 related to damages resulting from hurricanes.

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 a number of years.

In connection with the sale of the Company's investment in Custom Direct Inc. ("CDI"), the amounts of indemnification guarantees were limited to the total sale price of approximately $84,000. For the remainder, the Company's potential liability for these indemnifications are not subject to a limit as the underlying agreements do not always specify a maximum amount and the amounts are dependent upon the outcome of future contingent events.

Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees. The Company continues to monitor the conditions that are subject to guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under any guarantees or

indemnifications in the period when those losses are probable and estimable.

For guarantees and indemnifications entered into after January 1, 2003, in connection with the sale of the Company's investment in CDI, the Company has estimated the fair value of its liability, which was insignificant.

Legal Proceedings. The Company's operating entities are involved in legal proceedings of various types. While any litigation contains an element of uncertainty, the Company has no reason to believe that the outcome of such proceedings or claims will have a material adverse effect on the financial condition or results of operations of the Company.

Commitments. The Company has commitments to fund $612 in two investment funds over a period of up to three years. At September 30, 2006, the Company has $4,520 of undrawn outstanding letters of credit.

13. New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This Interpretation is effective for fiscal years beginning after December 15, 2006, with earlier application permitted. The Company is currently evaluating the impact if any this Interpretation will have on its financial statements.

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for all fiscal year beginning after November 15, 2007 and interim periods within those fiscal years. Earlier application is encouraged. The Company is currently evaluating the impact of this statement on its financial statements.

In September 2006, FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. This statement requires employers with defined benefit plans to recognize the over funded or under funded status of a defined benefit plan. This statement also expands the required disclosures around these plans. This statement is effective for all fiscal years ending after December 15, 2006.The Company does not expect its financial statements to be significantly impacted by this statement.

14. Subsequent Events

On November 3, 2006, the Company entered into a definitive agreement to sell the stock of its SPI in exchange for consideration equal to approximately $27 million. Consideration will be paid in the form of a $20 million cash payment at closing and additional $1 million annual payments over the next five years. In addition, the Company will receive a 7.5% equity interest in the newly formed entity acquiring SPI. The estimated net cash proceeds at closing will be used to repay borrowings under the Company's credit facility. The transaction is expected to close on or about November 15, 2006.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Unless otherwise indicated, references to the "Company" mean MDC Partners Inc. and its subsidiaries, and references to a fiscal year means the Company's year commencing on January 1 of that year and ending December 31 of that year (e.g., fiscal 2006 means the period beginning January 1, 2006, and ending December 31, 2006).

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.

The following discussion focuses on the operating performance of the Company for the three and nine month periods ended September 30, 2006 and 2005, and the financial condition of the Company as of September 30, 2006. This analysis should be read in conjunction with the interim condensed consolidated financial statements presented in this interim report and the annual audited consolidated financial statements and Management's Discussion and Analysis presented in the Annual Report to Shareholders for the year ended December 31, 2005 as reported on Form 10-K. All amounts are in U.S. dollars unless otherwise stated.

Executive Summary

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.

Effective with the accounting classification of the Secure Products International Group as discontinued operations, MDC conducts its businesses through the Marketing Communications 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"). 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.

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 the Company is a service business, the Company monitors 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.

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 2006 and 2005, which affected revenues, expenses, operating income, net income, assets and liabilities. Additional information regarding material acquisitions is provided in Note 4 "Acquisitions" and Note 6 "Discontinued Operations" in the notes to the consolidated financial statements included in this Quarterly Report on Form 10-Q.

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. See also "Quantitative and Qualitative Disclosures About Market Risk—Foreign Exchange."

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 “Item 1A Risk Factors” of the Company’s Form 10-K for the period ended December 31, 2005 and the Company’s Form 10-Q for the period ended June 30, 2006.

Summary of Key Transactions

Secure Products Group

In June 2006, the Company's Board of Directors made the decision to sell or otherwise divest the Company's Secure Paper Business and Secure Card Business (collectively, "SPI"). These are non-core operations, and their divestiture will allow MDC Partners to better focus on its Marketing Communications businesses. On November 3, 2006, the Company entered into a definitive agreement to sell the stock of its Secure Products International Group in exchange for consideration equal to approximately $27 million. Consideration will be paid in the form of a $20 million cash payment at closing and additional $1 million annual payment over the next five years in consulting fees. The Company will also receive a 7.5% equity interest in the newly formed entity acquiring SPI. The net cash proceeds at closing will be used to repay borrowings under the Company's credit facility. The transaction is expected to close on or about November 15, 2006.

Based on these events, management has concluded that the criteria for the assets/liabilities of SPI to be accounted for as assets/liabilities held for sale and the results of operations to be accounted for as discontinued operations have been met. Discontinued operations relating to SPI for the three months ended September 30, 2006 and 2005 amounted to net losses of $9.8 million and $0.2 million, respectively. For the nine months ended September 30, 2006 and 2005 discontinued operations relating to SPI amounted to net losses of $20.2 million and $2.2 million, respectively. Based on the current estimated net proceeds from a sale, the Company recorded an impairment charge of $19.5 million during the nine months ended September 30, 2006. Based on the estimated net proceeds and average borrowing rate for each period, the Company has allocated interest expense to discontinued operations of $1.1 million and $0.9 million for the nine months ended September 30, 2006 and 2005 respectively.

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 twelve-month periods ending June 30, 2006 and/or June 30, 2007. For the period ending September 30, 2006, such financial targets were not achieved. Based on Zyman Group's expected performance for the twelve months ended September 30, 2007, such financial targets are not expected to be met.

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. 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 the annual threshold amount 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.

Based on the Company's investment in the Zyman Group, at September 30, 2006, the annual priority return is expected to be equal to approximately $12.7 million, with the minority owners receiving the next $7.9 million up to the

"threshold" amount of $20.6 million. If profits are insufficient to meet the Company's priority return during any of the first five years, the Company will receive a catch-up payment through year five equal to any shortfall from the prior year(s). Furthermore, if profits do not reach the threshold amount during the first five years, the minority owners will be entitled to receive a catch-up payment through year five equal to any shortfall from the prior year(s). Based on Zyman Group's expected results for 2006, the Company expects to receive less than its priority return from Zyman Group in 2006. In addition, based on Zyman Group's expected results for 2007, the Company does not expect to receive more than the sum of its priority return for 2007 and catch-up payments for 2006, if any.

8% Convertible Debentures

MDC completed an issuance in Canada of convertible unsecured subordinated debentures amounting to C$45.0 million as of June 28, 2005 ($36.7 million) (the "Debentures"). 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. From January 1, 2006 until June 30, 2006, the Debentures had an annual interest rate of 8.50%. Effective July 1, 2006, the interest rate for Debentures reverted back to an annual rate of 8.00%.

Results of Operations:
For the Three Months Ended September 30, 2006
(thousands of United States dollars)

	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Corporate	Total
Revenue	$ 61,682	$ 20,934	$ 18,506	$ —	$ 101,122
Cost of services sold	28,963	15,147	13,040	—	57,150
Office and general expenses	23,554	4,549	3,602	4,961	36,666
Depreciation and amortization	5,102	1,240	292	62	6,696
Operating Profit/(Loss)	4,063	(2)	1,572	(5,023)	610
Other Income (Expense):					
Other income					625
Interest expense, net					(3,533)
Loss before income taxes, equity in affiliates and minority interests					(2,298)
Income tax recovery					812
Loss before equity in affiliates and minority interests					(1,486)
Equity in earnings of non-consolidated affiliates					129
Minority interests in income of consolidated subsidiaries	(1,322)	11	(469)		(1,780)
Loss from Continuing Operations					(3,137)
Loss from Discontinued Operations					(9,772)
Net Loss					$ (12,909)
Non cash stock based compensation	$ 128	$ 6	$ —	$ 1,515	$ 1,649

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Results of Operations:
For the Three Months Ended September 30, 2005
(thousands of United States dollars)

	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Corporate	Total
Revenue	$ 59,699	$ 16,645	$ 20,633	$ —	$ 96,977
Cost of services sold	28,818	12,710	13,981	—	55,509
Office and general expenses	15,833	2,529	2,629	7,862	28,853
Depreciation and amortization	5,505	910	225	265	6,905
Operating Profit/(Loss)	9,543	496	3,798	(8,127)	5,710
Other Income (Expense):					
Other income (expense)					(395)
Interest expense, net					(2,302)
Income from continuing operations before income taxes, equity in affiliates and minority interests					3,013
Income tax recovery					397
Income from continuing operations before equity in affiliates and minority interests					3,410
Equity in Earnings of Non-Consolidated Affiliates					348
Minority interests in income of consolidated subsidiaries	(5,239)	(50)	(784)	—	(6,073)
					(2,315)
Loss from Continuing Operations					
Income from Discontinued Operations					660
Net Loss					$ (1,655)
Non cash stock based compensation.	$ 6	$ 12	$ —	$ 548	$ 566

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Results of Operations:
For the Nine Months Ended September 30, 2006
(thousands of United States dollars)

	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Corporate	Total
Revenue	$ 180,272	$ 60,747	$ 58,314	$ —	$ 299,333
Cost of services sold	92,617	44,554	40,619	—	177,790
Office and general expenses	57,854	11,882	10,589	17,347	97,672
Depreciation and amortization	14,147	3,429	860	159	18,595
Operating Profit/(Loss)	15,654	882	6,246	(17,506)	5,276
Other Income (Expense):					
Other income					1,697
Interest expense, net					(7,705)
Loss before income taxes, equity in affiliates and minority interests					(732)
Income tax recovery					1,711
Income from continuing operations before equity in affiliates and minority interests					979
Equity in earnings of non-consolidated affiliates					630
Minority interests in income of consolidated subsidiaries	(7,931)	(27)	(2,007)	—	(9,965)
Loss from Continuing Operations					(8,356)
Loss from Discontinued Operations					(20,190)
Net Loss					$ (28,546)
Non cash stock based compensation	$ 619	$ 18	$ 2,338	$ 4,006	$ 6,981

Results of Operations:
For the Nine Months Ended September 30, 2005
(thousands of United States dollars)

	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Corporate	Total
Revenue	$ 153,810	$ 49,145	$ 58,087	$ —	$ 261,042
Cost of services sold	77,404	38,228	39,548	—	155,180
Office and general expenses	42,746	7,649	8,929	18,502	77,826
Depreciation and amortization	13,044	2,634	659	338	16,675
Operating Profit/(Loss)	20,616	634	8,951	(18,840)	11,361
Other Income (Expense):					
Other income					616
Interest expense, net					(4,696)
Income from continuing operations before income taxes, equity in affiliates and minority interests					7,281
Income tax recovery					1,676
Income from continuing operations before equity in affiliates and minority interests					8,957
Equity in earnings of non-consolidated affiliates					624
Minority interests in income of consolidated subsidiaries	(11,887)	(63)	(2,424)	—	(14,374)
Loss from Continuing Operations					(4,793)
Loss from Discontinued Operations					(1,609)
Net Loss					$ (6,402)
Non cash stock based compensation	$ 21	$ 68	$ —	$ 2,273	$ 2,362

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Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005

On a consolidated basis, revenue was $101.1 million for the third quarter of 2006, representing an increase of $4.1 million or 4.3%, compared to revenue of $97.0 million in the third quarter of 2005. This increase includes $2.2 million relating to organic growth, primarily resulting from net new business wins and additional revenues from existing clients, particularly in the United States. In addition, a weakening of the US dollar versus the Canadian dollar, in the third quarter of 2006 as compared to the third quarter of 2005, resulted in increased revenue of approximately $0.9 million. Acquisitions accounted for $0.5 million of revenue and an increase of $0.5 million related to the consolidation of an entity in the third quarter of 2006 that was previously accounted for on the equity method of accounting.

Cost of services sold for the three months ended September 30, 2006, remained relatively consistent as a percentage of revenue as compared to the same prior year period.

Operating profit for the third quarter of 2006 was $0.6 million, compared to $5.7 million for the same quarter of 2005. The decrease in operating profit was the result of decreases in operating profit of $5.5 million in the Strategic Marketing Services segment, $2.2 million in the Specialized Communications segment and $0.5 million in the Customer Relationship Management segment. This was partially offset by a decrease in corporate operating expenses of approximately $3.1 million.

The net loss for the third quarter of 2006 increased from $1.7 million in 2005 to $12.9 million in 2006, primarily as a result of a $11.6 million impairment charge relating to the discontinued operations of SPI. In addition, operating profit decreased by $5.1 million as discussed above, which was partially offset by a decrease in income attributable to minority interests of $4.3 million.

Marketing Communications Group

Revenues for the third quarter of 2006 attributable to Marketing Communications, which consists of three reportable segments - Strategic Marketing Services (“SMS”), Customer Relationship Management (“CRM”), and Specialized Communications Services (“SCS”), were $101.1 million compared to $97.0 million in the third quarter of 2005, representing an increase of $4.1 million or 4.3%.

The components of revenue growth for the Marketing Communications Group, for the third quarter of 2006 are shown in the following table:

	Revenue (in millions)		%
Three months ended September 30, 2005	$	97.0	
Organic		2.2	2.3%
Acquisitions		0.5	0.5%
Foreign exchange impact		0.9	1.0%
Other		0.5	0.5%
Three months ended September 30, 2006	$	101.1	4.3%

The Marketing Communications Group had organic revenue growth of $2.2 million or 2.3% for the third quarter of 2006, primarily attributable to net new business wins and additional revenues from existing clients, particularly in the United States. In addition, a weakening of the U.S. dollar versus the Canadian dollar during the third quarter of 2006, as compared to the third quarter of 2005, resulted in increased revenues of approximately $0.9 million. Acquisitions accounted for $0.5 million of revenue growth in the third quarter of 2006. The $0.5 million of other revenue growth represents the consolidation of an affiliate effective July 1, 2006, which was previously accounted for under the equity

method of accounting.

The percentage of revenue by geographic region remained relatively consistent with the prior year quarter and is demonstrated in the following table:

	Revenue	
	Three Months Ended September 30, 2006	**Three Months Ended September 30, 2005**
US	85%	86%
Canada	14%	12%
UK	1%	2%

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The operating profit of the Marketing Communications Group for the third quarter of 2006 decreased by approximately $8.2 million, or 59%, to $5.6 million from $13.8 million. Operating margins were 5.6% for 2006 as compared to 14.3% for the third quarter of 2005. The decrease in operating margins was primarily reflective of an increase in staff costs as a percentage of revenues from 43% in 2005 to 50% in 2006, a charge of $2.9 million relating to the closure of one of our West Coast facilities, additional occupancy and administrative costs relating to the expansion of operations in Boulder, Colorado and expansions and office moves of other business units, partially offset by decreased amortization of intangibles relating to the Zyman Group acquisition. Cost of services as a percentage of revenue remained relatively consistent with the prior year period.

Strategic Marketing Services

Revenues attributable to SMS for the third quarter of 2006 were $61.7 million compared to $59.7 million in the third quarter of 2005. This increase of $2.0 million or 3.3% included organic revenue growth of approximately $1.2 million resulting from net new client business wins. SMS had revenue growth during the third quarter of 2006 over 2005 resulting from new client business wins; however, this growth was offset in part by client losses. In particular, the Zyman Group lost a significant client. In addition, a weakening of the US dollar compared to the Canadian dollar in the third quarter of 2006 compared to the same quarter in 2005 resulted in a $0.3 million increase in revenues from the division's Canadian-based operations. Revenue also increased by $0.5 million relating to the consolidation of an entity previously accounted for on the equity basis.

The operating profit of SMS for the third quarter of 2006 decreased by approximately $5.5 million, or 57%, to $4.1 million from $9.5 million for the third quarter of 2005, while operating margins were 6.6% for the third quarter of 2006 as compared to 16.0% in the third quarter of 2005. The decreased profits were primarily attributable to an increase in total staff costs as a percentage of revenue from 52.9% in 2005 to 53.5% in 2006, a charge of $2.9 million, relating to the closure of one of our West Coast facilities, additional occupancy and administrative costs relating to the expansion of operations in Boulder, Colorado and expansions and office moves of other business units, partially offset by decreased amortization of intangibles resulting from the Zyman acquisition. The increase in staff costs as a percentage of revenue results from reduced revenue at certain business units, offset in part by an increase in headcount resulting from organic revenue growth at several of the business units.

Customer Relationship Management

Revenues reported by the CRM segment for the third quarter of 2006 were $20.9 million, an increase of $4.3 million or 25.8% compared to the $16.6 million reported for the third quarter of 2005. This growth was entirely organic and was due primarily to additional business from existing clients.

The operating profit of CRM decreased by approximately $0.5 million to $0.0 million for the third quarter of 2006. Operating margins were 0.0% for the third quarter of 2006 as compared to 3.0% in the third quarter of 2005. The decrease primarily reflected an increase in office and general expenses as a percentage of revenue, due to the expansion relating to the opening of two new customer care centers during the third quarter of 2006, which are still in the start up phase of operations. In addition, depreciation and amortization increased due to the opening of three new customer care centers during 2006 compared to 2005. This was partially offset by a decrease in cost of services sold as a percentage of revenue due to the implementation of a new service contract with one of the segment's large clients.

Specialized Communications Services

SCS generated revenues of $18.5 million for the third quarter of 2006, $2.1 million or 10.3% lower than revenue of $20.6 million in the third quarter of 2005, due to a decrease in organic revenue of $3.2 million partially offset by a $0.6 million increase in revenue related to a weakening of the U.S. dollar compared to the Canadian dollar in the third quarter of 2006 compared to the same quarter in 2005 and acquisition growth of $0.5 million in 2006. The decrease in

revenue primarily resulted from reduced client spending versus the prior year period and a decrease in project related work.

The operating profit of SCS decreased by $2.2 million or 58.6% to $1.6 million in the third quarter of 2006, from $3.8 million in the third quarter of 2005 due primarily to the decrease in revenue of $2.2 million discussed above as well as an increase in total staff costs as a percentage of revenue from 43.3% in the third quarter of 2005 to 50.0% in the third quarter of 2006. As a result, operating margins decreased to 8.4% for the third quarter of 2006 as compared to 18.4% in the third quarter of 2005.

Corporate

Operating expenses for the third quarter of 2006 decreased by $3.1 million to $5.0 million from $8.1 million in the prior year quarter. The decrease is primarily attributable to decreased professional fees of $1.7 million, a net decrease in compensation related costs of $0.5 million, which is net of $1.0 million relating to increased stock based compensation and a refund of capital taxes of $0.2 million.

Net Interest Expense

Net interest expense for the three months ended September 30, 2006 was $3.5 million, $1.2 million higher than the $2.3 million incurred during the same period of 2005. Interest expense increased $1.4 million in the three months ended September 30, 2006 compared to the same period of 2005 due to higher outstanding debt combined with higher interest rates in 2006. Interest income was $0.2 million for the three months ended September 30, of 2006 as compared to none in the same period of 2005.

Other Income (Expense)

Other income increased to income of $0.6 million in the third quarter of 2006 from expenses of $0.4 million in the third quarter of 2005, due primarily to a $1.0 million gain on the recovery of an asset in the third quarter of 2006, compared to net foreign exchange loses in 2005.

Income Tax Recovery

The income tax recovery recorded in the third quarter of 2006 was $0.8 million as compared to $0.4 million in the third quarter of 2005. The Company's effective tax rate was substantially lower than the statutory tax rate due to minority interest charges and non-deductible non-cash stock based compensation charges in the 2005 third quarter. For the 2006 third quarter, the effective rate was higher than the statutory rate due primarily to minority interest charges.

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.

Minority Interests

Minority interest was $1.8 million for the third quarter of 2006, down $4.3 million from the $6.1 million of minority interest incurred during the third quarter of 2005, due primarily to the decrease in profitability of the SMS operating segment.

Discontinued Operations

Loss from discontinued operations was $9.8 million for the third quarter of 2006 as compared to income from discontinued operations of $0.7 million for the third quarter of 2005 and primarily relates to the expected disposition of SPI.

Beginning in June of 2006, the Company began negotiating with buyers to sell the stock of SPI. Based on these negotiations, management has concluded all the criteria for the assets/liabilities of SPI to be accounted for as assets/liabilities held for sale and the results of operations to be accounted for as discontinued operations have been met. Discontinued operations relating to SPI for the three months ended September 30, 2006 and 2005 amounted to net losses of $9.8 million and $0.2 million, respectively. Based on the current estimated proceeds from a sale, the Company recorded an additional impairment charge of $11.6 during the three months ended September 30, 2006. This additional impairment has been included in discontinued operations net loss for the three months ended September 30, 2006.

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. 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 2005 periods presented in the condensed consolidated statement of operations.

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

For the three months ended September 30, 2005, discontinued operations relating to LifeMed and Mr. Smith amounted to net income of $0.9 million.

Net Income Loss

As a result of the foregoing, the net loss recorded for the third quarter of 2006 was $12.9 million, or a loss of $ (0.54) per diluted share, compared to the net loss of $1.7 million, or $ (0.07) per diluted share, reported for the third quarter of 2005.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Revenue was $299.3 million for the nine months ended September 30, 2006, representing an increase of $38.3 million or 14.7%, compared to revenue of $261.0 million in the same period of 2005. This increase includes $22.1 million relating to organic growth, primarily resulting from new business wins in the United States, as well as $12.7 million relating to acquisition growth. In addition, a weakening of the US dollar versus the Canadian dollar, in 2006 as compared to 2005, resulted in increased revenue of approximately $3.0 million.

Cost of services sold for the nine months ended September 30, 2006, remained relatively consistent as a percentage of revenue as compared to the same prior year period.

Operating profit for the nine months ended September 30, 2006 was $5.3 million, compared to $11.4 million for the same period of 2005. The decrease in operating profit was primarily the result of decreases in operating profit of $5.0 million in the Strategic Marketing Services segment, $2.7 million in the Specialized Communications segment offset in part by an increase in operating profit of $0.2 million in the Customer Relationship Management segment and a decrease in Corporate expenses of $1.3 million.

The net loss for the nine months ended September 30, 2006 increased by $22.1 million to $28.5 million from $6.4 million for the nine months ended September 30, 2005, primarily as a result of a $19.5 million impairment charge relating to the discontinued operations of SPI, a net interest expense increase of $3.0 million as a result of the increased borrowings in connection with the Zyman acquisition, non-cash stock based compensation increase of $4.6 million, which was offset by a decrease in minority interest charges of $4.4 million.

Marketing Communications Group

Revenues for the nine months ended September 30, 2006 attributable to Marketing Communications, which consists of three reportable segments - SMS, CRM, and SCS, were $299.3 million compared to $261.0 million in the nine months ended September 30, 2005, representing an increase of $38.3 million or 14.7%.

The components of revenue growth for the Marketing Communications Group, for the nine months ended September 30, 2006 are shown in the following table:

		Revenue in millions	%
Nine months ended September 30, 2005	$	261.0	
Organic		22.1	8.5%
Acquisitions		12.7	4.9%
Foreign exchange impact		3.0	1.1%
Other		0.5	0.2%
Nine months ended September 30, 2006	$	299.3	14.7%

The Marketing Communications Group had organic revenue growth of $22.1 million or 8.5% for the nine months ended September 30, 2006, primarily attributable to net new business wins and additional revenues from existing clients, particularly in the U.S. Acquisitions contributed revenue growth of $12.7 million, including $11.7 million related to the acquisition of the Zyman Group. In addition, a weakening of the U.S. dollar versus the Canadian dollar during the nine months ended September 30, 2006, as compared to the nine months ended September 30, 2005, resulted in increased revenues of approximately $3.0 million. The $0.5 million of other revenue growth represents the consolidation of an affiliate effective July 1, 2006 that was previously accounted under the equity method of accounting.

The positive organic growth, combined with acquisitions, resulted in a shift in the geographic mix of revenues, causing an increase in the percentage of revenue growth attributable to U.S. operations versus Canadian- and UK-based operations compared to the geographic mix experienced in 2005.

This shift is demonstrated in the following table:

	Revenue	
	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
US	85%	83%
Canada	14%	15%
UK	1%	2%

The operating profit of the Marketing Communications Group decreased by approximately $7.4 million or 24.6% to $22.8 million for the nine months ended September 30, 2006 from $30.2 million for the nine months ended September 30, 2005, while operating margins were 7.6% for 2006 as compared to 11.6% in 2005. The decrease in operating margins was primarily reflective of increased stock based compensation charges of $2.9 million, a charge of $2.9 million, relating to the closure of one of our West Coast facilities and increased amortization of intangibles relating to the Zyman Group acquisition. Cost of services as a percentage of revenue remained relatively consistent with the prior year period.

Strategic Marketing Services

Revenues attributable to SMS for the nine months ended September 30, of 2006 were $180.3 million compared to $153.8 million in the nine months ended September 30, 2005. The increase of $26.5 million or 17.2% included organic revenue growth of approximately $13.1 million resulting from net new client business wins and acquisition related growth of approximately $11.7 million. SMS had revenue growth during the nine months of 2006 over 2005 resulting from new client business wins; however, this growth was offset in part by client losses. In particular, the Zyman Group lost a significant client. A weakening of the US dollar compared to the Canadian dollar in the nine months ended September 30, 2006 compared to the same period of 2005 resulted in a $1.1 million increase in revenues from the division's Canadian-based operations. In addition, revenues increased by $0.5 million relating to the consolidation of an entity previously accounted for on the equity basis.

The operating profit of SMS for the nine months ended September 30, 2006 decreased by approximately $4.9 million or 23.8% to $15.7 million from $20.6 million for same period of 2005, while operating margins were 8.7% for 2006 as compared to 13.4% in 2005. The decreased profits were primarily attributable to the increase in revenue partially offset by an increase in staff costs and other direct costs as a percentage of revenue in the nine months ended September 30, of 2006 compared to the same period of 2005, a charge of $2.9 million, relating to the closure of one of our West Coast facilities, increased stock based compensation and increased amortization of intangibles resulting from the Zyman acquisition. The increase in staff costs as a percentage of revenue results from reduced revenue at certain business units, offset in part by an increase in headcount resulting from organic revenue growth at several of the business units.

Customer Relationship Management

Revenues reported by the CRM segment for the nine months ended September 30, 2006 were $60.7 million, an increase of $11.6 million or 23.6% compared to the $49.1 million reported for the nine months ended September 30, 2005. This growth was entirely organic and was due primarily to additional business from existing clients.

The operating profit of CRM increased by approximately $0.3 million to $0.9 million for the nine months ended September 30, 2006, from $0.6 million for the same period of 2005. Operating margins were 1.5% for the nine months ended September 30, 2006 as compared to 1.3% for the same period of 2005. The increase primarily reflected a decrease in the cost of services sold as a percentage of revenue, due to the implementation of a new service contract with one of the segment's large clients partially offset by increases in office and general expenses as a percentage of

revenue and depreciation and amortization. These increases resulted from the startup of three additional customer care centers during fiscal 2006.

Specialized Communications Services

SCS generated revenues of $58.3 million for the nine months ended September 30, 2006, $0.2 million or 0.4% higher than the same period of 2005, of which $1.9 million related to a weakening of the U.S. dollar compared to the Canadian dollar in the nine months ended September 30, 2006 compared to the same prior year period. In addition, organic revenue decreased $2.6 million as a result of new business wins offset by a decrease in project related work. The remaining revenue increased $1.0 million and was attributable to acquisition related growth.

The operating profit of SCS decreased by approximately $2.7 million or 30.2% to $6.2 million in the nine months ended September 30, 2006, from $9.0 million in the same period of 2005 due primarily to the increase in stock-based compensation of $2.3 million relating to the price paid for membership interests, which was less than the fair value of such membership interests and the fair value of an option granted to certain members of management of Source Marketing LLC during the first quarter of 2006. As a result, operating margins decreased to 10.7% for 2006 as compared to 15.4% in 2005.

Corporate

Operating expenses for the nine months ended September 30, 2006 decreased by $1.3 million to $17.5 million from $18.8 million in the prior year period. The decrease is primarily attributable to a decrease in professional fees of $2.4 million offset by net increased, compensation related costs of $1.3 million, of which $1.7 million relates to stock based compensation which is offset by reduced recruitment costs of $0.4 million.

Other Income (Expense)

Other income increased to $1.7 million for the nine months ended September 30, 2006 from $0.6 million of the nine months ended September 30, 2005. This increase is primarily the result of increased gains on the sale of assets and the settlement in June 2006, of the Company's cross currency swap.

Net Interest Expense

Net interest expense for the nine months ended September 30, of 2006 was $7.7 million, $3.0 million higher than the $4.7 million incurred during the same period of 2005. Interest expense increased $3.2 million in the nine months ended September 30, 2006 compared to the same period of 2005 due to higher outstanding debt combined with higher interest rates in 2006, due in part to the acquisition of the Zyman Group and the issuance of the 8.0% debentures (which accrued interest at 8.5% during the first six months of 2006). Interest income increased by $0.2 million in the nine months ended September 30, of 2006 as compared to the same period of 2005.

Income Taxes Recovery

The income tax recovery recorded in the nine months ended September 30, of 2006 and 2005 was $1.7 million. The Company's effective tax rate was substantially lower than the statutory tax rate due to minority interest charges and non deductible non-cash stock based compensation charges in 2005. In 2006, the effective tax rate was substantially higher than the statutory tax rate due primarily to minority interest charges.

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.

Equity in Affiliates

Equity in affiliates represents the income attributable to equity-accounted affiliate operations. For the nine months ended September 30, 2006 and 2005, income of $0.6 million was recorded.

Discontinued Operations

Loss from discontinued operations of $20.2 million and $1.6 million was reported for the nine months ended September 30, 2006 and 2005 respectively, and primarily relates to the expected disposition of SPI.

Beginning in June of 2006, the Company began negotiating with buyers to sell the stock of SPI. Based on these negotiations, management has concluded the criteria for the assets/liabilities of SPI to be accounted for as assets/liabilities held for sale and the results of operations to be accounted for as discontinued operations. Discontinued operations relating to SPI for the nine months ended September 30, 2006 and 2005 amounted to net losses of $20.2 million and $2.2 million, respectively. Based on the current estimated proceeds from a sale, the Company recorded an impairment charge of $19.5 million during the nine months ended September 30, 2006. Based on the estimated net proceeds and average borrowing rate for each period, the Company has allocated interest expense

to discontinued operations of $1.1 million and $0.9 million for the nine months ended September 30, 2006 and 2005.

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. 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 condensed consolidated statement of operations.

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

For the nine months ended September 30, 2005, discontinued operations relating to LifeMed and Mr. Smith amounted to income of $0.6 million.

Net Income Loss

As a result of the foregoing, the net loss recorded for the nine months ended September 30, 2006 was $28.5 million, or a loss of $(1.19) per diluted share, compared to the net loss of $6.4 million, or $(0.28) per diluted share, reported for the nine months ended September 30, 2005.

Liquidity and Capital Resources:

Liquidity

The following table provides summary information about the Company's liquidity position:

	As of and for the nine months ended September 30, 2006 (000's)	**As of and for the nine months ended September 30, 2005** (000's)	**As of and for the year ended December 31, 2005** (000's)
Cash and cash equivalents	$ 4,592	$ 11,419	$ 12,923
Working capital (deficit)	$ (107,183)	$ (101,701)	$ (99,935)
Cash from operations	$ 5,664	$ (5,334)	$ 4,670
Cash from investing	$ (24,505)	$ (63,439)	$ (67,404)
Cash from financing	$ 10,884	$ 57,333	$ 52,316
Long-term debt to shareholders' equity ratio	1.04	0.85	0.81
Fixed charge coverage ratio	N/A	2.01	2.04
Fixed charge coverage deficiency	$ 233	N/A	N/A

As of September 30, 2006, and December 31, 2005, $2.8 million and $4.0 million of the consolidated cash position was held by subsidiaries, which, although available for the subsidiaries' use, does not represent cash that is distributable as earnings to MDC Partners Inc. for use to reduce its indebtedness.

Working Capital

At September 30, 2006, the Company had a working capital deficit of $107.2 million compared to a deficit of $99.9 million at December 31, 2005. The decrease in working capital is primarily due to seasonal shifts in the amounts billed to clients, and paid to suppliers, primarily media outlets.

Since September 30, 2005, the Company has classified the outstanding borrowings under the Credit Facility of $85.3 million and $73.5 million as of September 30, 2006 and December 31, 2005, respectively, as a current liability. See Long-term Debt below.

The Company intends to maintain sufficient availability of funds under the Credit Facility at any particular time to adequately fund such working capital deficits should there be a need to do so from time to time.

Cash Flows

Operating Activities

Cash flow provided by operations, including changes in non-cash working capital, for the nine months ended September 30, 2006 was $5.7 million. Cash flow provided by continuing operations for the nine months ended September 30, 2006 was $3.6 million. This was attributable primarily to the net loss from continuing operations of $8.4 million, which included non-cash depreciation and amortization of $20.2 million and non-cash stock based compensation of $6.4 million. This increase in cash was partially offset by $10.4 million of cash outflows from working capital. Cash used in continuing operations was $7.7 million in the nine months ended September 30, 2005 and was primarily reflective of a net loss from continuing operations of $4.8 million and uses of non-cash working capital of $18.7 million. This was partially offset by non-cash depreciation and amortization of $18.6 million and non-cash stock based compensation of $2.4 million. Discontinued operations provided cash of $2.1 million in the nine months ended September 30, 2006 compared to $2.3 million during the nine months ended September 30, 2005.

Investing Activities

Cash flows used in investing activities were $24.5 million for the nine months ended September 30, 2006, compared with $63.4 million in the nine months ended September 30, 2005.

Expenditures for capital assets in the nine months ended September 30, 2006 were $18.8 million. Of this amount, $8.0 million was made by the SMS segment, $9.9 million was made by the CRM segment and $0.6 million was made by the SCS segment. These expenditures consisted primarily of leasehold improvements, computer equipment and switching equipment, and $0.3 million related to the purchase of corporate assets. In the nine months ended September 30, 2005, capital expenditures totaled $6.6 million of which $4.6 million was made by the SMS segment, $1.4 million was made by the CRM segment and $0.5 million was made by the SCS segment, which expenditures consisted primarily of the acquisition of computer and switching equipment and $0.1 million related to the purchase of corporate assets.

Cash flow used in acquisitions was $5.2 million in the nine months ended September 30, 2006 and primarily related to investments in marketing communication businesses related to the settlement of put options and earn out payments. In the nine months ended September 30, 2005, cash flow used in acquisitions was $56.4 million and related to the purchase of the Zyman Group.

Distributions received from non-consolidated affiliates amounted to $0.5 million and $1.4 million for the nine months ended September 30, 2006 and 2005, respectively.

Discontinued operations used cash of $1.6 million in 2006 and $2.1 million in 2005 relating to capital asset purchases.

Financing Activities

During the nine months ended September 30, 2006, cash flows provided by financing activities amounted to $10.9 million, and consisted of $11.8 million of proceeds from the revolving credit facility and $0.5 million of proceeds from the issuance of share capital. This was partially offset by $0.7 million of net repayments of long-term debt and bank borrowing. During the nine months ended September 30, 2005, cash flows provided by financing activities amounted to $57.3 million, and consisted of proceeds from the issuance of long term debt of $70.7 million relating to the issuance of $38.6 million of convertible debentures and borrowings under the Credit Facility used to fund the acquisition of the Zyman Group. Payments made of $8.4 million consist of payments under capital leases, debt assumed in the Zyman Group acquisition and bank borrowings. In addition, the company incurred $3.3 million of finance costs relating to both the convertible debentures and various amendments under the Credit Facility.

Discontinued operations used cash of $0.7 million and $1.7 million in 2006 and 2005 respectively, relating to payments under capital leases.

Long-Term Debt

Long-term debt (including the current portion of long-term debt) as of September 30, 2006 was $136.3 million, an increase of $9.3 million compared with the $127.0 million outstanding at December 31, 2005. The increase was primarily the result of borrowings under the Credit Facility offset by the reduction in capital lease obligations in connection with the discontinued operations of SPI as a component of liabilities related to assets held for sale.

On November 3, 2006, the Company further amended its Credit Facility. Pursuant to such amendment, among other things, the lenders (i) amended the “net worth” financial covenant to include an addition for any losses on sale or non-cash impairment charges recorded in connection with the disposition of the Secure Products International (“SPI”) business; (ii) reduced the commitment reduction requirement based upon net cash proceeds received from the sale of SPI in excess of $12.5 million; and (iii) modified the Company's “total debt ratio” covenant.

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The Company is currently in compliance with all of the terms and conditions of its 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.

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 September 30, 2006, the Company's calculation of each of these covenants, and the specific requirements under the Credit Facility, respectively, were as follows:

		September 30, 2006
Total Debt Ratio		2.75 to 1.0
Maximum per covenant		2.90 to 1.0
Fixed Charges Ratio		1.94 to 1.0
Minimum per covenant		1.15 to 1.0
Minimum Liquidity	$	8.4 million
Minimum per covenant	$	7.2 million
Net Worth	$	149 million
Minimum per covenant	$	132 million

Subsequent to September 30, 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: December 31, 2006 - 3.25 to 1.00, March 31, 2007 - 3.00 to 1.00, and June 30, 2007 - 2.75 to 1.00. The minimum Fixed Charges Ratio covenant under the Credit Facility will be as follows: 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 noncompliance with such covenants could have a material adverse effect on the Company.

Capital Resources

At September 30, 2006 the Company had utilized approximately $93.4 million of its Credit Facility in the form of drawings and letters of credit. Cash and undrawn available bank credit facilities to support the Company's future cash requirements, as at September 30, 2006 was approximately $11.2 million.

The Company expects to incur approximately $1.9 million of capital expenditures for the remainder of 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.

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 September 30, 2006, there was no deferred consideration included in the Company's balance sheet. Based on the various assumptions as to future operating results of the relevant entities, management estimates that approximately $3.2 million of additional deferred purchase obligations could be triggered during 2006 or thereafter, including approximately $1.4 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 differ materially 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 September 30, 2006, 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 $108.8 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 $23.1 million by the issuance of the Company's Class A subordinate voting shares. The Company intends to finance the cash portion of these contingent payment obligations using available cash from operations, borrowings under its credit facility (and refinancings thereof) and, if necessary, through incurrence of additional debt. The ultimate amount payable and the incremental operating income in the future relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised. Approximately $6.3 million of the estimated $108.8 million that the Company would be required to pay subsidiaries minority shareholders' upon the exercise of outstanding put option rights, relates to rights exercisable within the next twelve months. Upon the settlement of the total amount of such put options, the Company estimates that it would receive incremental operating income before depreciation and amortization of $19.2 million.

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.

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.

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.

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 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" ("SFAS No. 123"). Prior to January 1, 2003, the Company elected not to apply fair value accounting to stock-based awards to employees, other than for direct awards of stock and awards settleable in cash, which required fair value accounting. Prior to January 1, 2003, for awards not elected to be accounted for under the fair value method, the Company accounted for stock-based awards 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 awards. Under this method, compensation cost is measured as the excess, if any, of the quoted market price of the stock issuance at the measurement date over the amount to be paid by the employee.

The Company adopted fair value accounting for stock-based awards using the prospective application transitional alternative available in SFAS 148 "Accounting for Stock-Based Compensation—Transition and Disclosure". Accordingly, the fair value method is applied to all awards granted, modified or settled on or after January 1, 2003. Under the fair value method, compensation cost is measured at fair value at the date of grant and is expensed over the service period, that is the award's vesting period. When awards are exercised, share capital is credited by the sum of the consideration paid together with the related portion previously credited to additional paid-in capital when compensation costs were charged against income or acquisition consideration.

Stock-based awards that are settled in cash or may be settled in cash at the option of employees are recorded as liabilities. The measurement of the liability and compensation cost for these awards is based on the intrinsic value of the award, and is recorded into operating income over the service period, that is the vesting period of the award in accordance with FASB Interpretation Number 28- "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans—an interpretation of APB Opinions No. 15 and 25"("FIN 28"). Changes in the Company's payment obligation subsequent to vesting of the award and prior to the settlement date are recorded as compensation cost in operating income in the period of the change. The final payment amount for such awards is established on the date of the exercise of the award by the employee.

Stock-based awards that are settled in cash or equity at the option of the Company are recorded at fair value on the date of grant and recorded as additional paid-in capital. The fair value measurement of the compensation cost for these awards is based on using the Black-Scholes option pricing model, and is recorded into operating income over the service period, that is the vesting period of the award.

Effective January 1, 2006, the Company adopted FAS 123(R) and has opted to use the modified prospective application transition method. Under this method the Company will not restate its prior financial statements. Instead, the Company will apply FAS 123(R) for new awards granted after the adoption of FAS 123(R), any portion of awards that were granted after December 15, 1994 and have not vested as of January 1, 2006, and any outstanding liability awards.

Measurement of compensation cost for awards that are outstanding and classified as equity, at January 1, 2006, will be based on the original grant-date fair value calculations of those awards. The Company had previously adopted FAS 123 and as such has been expensing the fair value of all awards issued after January 1, 2003. For all previously issued awards, the Company has been providing pro-forma disclosure for such awards. Upon the adoption of FAS 123(R), the Company expenses the fair value of the awards granted prior to January 1, 2003. The Company has adopted the straight-line attribution method for determining the compensation cost to be recorded during each accounting period. The adoption of FAS 123(R) did not have a material effect on the Company's financial position or results of operations.

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

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This Interpretation is effective for fiscal years beginning after December 15, 2006, with earlier application permitted. The Company is currently evaluating the impact if any this Interpretation will have on its financial statements.

In September 2006, FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for all fiscal year beginning after November 15, 2007 and interim periods within those fiscal years. Earlier application is encouraged. The Company is currently evaluating the impact of this statement on its financial statements.

In September 2006, FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. This statement requires employers with defined benefit plans to recognize the over funded or under funded status of a defined benefit plan. This statement also expands the required disclosures around these plans. This statement is effective for all fiscal years ending after December 15, 2006. The Company does not expect its financial statements to be significantly impacted by this statement.

Risks and Uncertainties

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

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

- risks associated with 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 and the Company's ability to finance its contingent payment obligations when due and payable, including but not limited to those relating to "put" options rights;
- 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;
- foreign currency fluctuations; and
- risks arising from the Company's internal review of its historical option grant practices.

In addition to improving organic growth for its existing operations, 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, the risk factors specified in Item 1A of this Form 10-Q, and in the additional risk factors outlined in more detail in the Company's Annual Report on Form 10-K under the caption

"Risk Factors" and in the Company's other SEC filings.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

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

Debt Instruments. At September 30, 2006, the Company's debt obligations consisted of amounts outstanding under a revolving credit facility. This facility bears interest at variable rates based upon the Eurodollar rate, US bank prime rate, US base rate, and Canadian bank prime rate, at the Company's option. The Company's ability to obtain the required bank syndication commitments depends in part on conditions in the bank market at the time of syndication. Given the existing level of debt of $85.3 million, as of September 30, 2006, a 1.0% increase or decrease in the weighted average interest rate, which was 8.4% during the nine months ended September 30, 2006, would have an interest impact of approximately $0.9 million annually.

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

Effective June 28, 2005, the Company entered into a cross currency swap contract ("Swap"), a form of derivative in order to mitigate the risk of currency fluctuations relating to interest payment obligations. The Swap contract provides for a notional amount of debt fixed at C$45.0 million and at $36.5 million, with the interest rates fixed at 8% per annum for the Canadian dollar amount and fixed at 8.25% per annum for the US dollar amount. On June 22, 2006, the Company settled this Swap.

Item 4. ***Controls and Procedures***

Disclosure Controls and Procedures

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

We conducted an evaluation, under the supervision and with the participation of our management, including our CEO, our CFO and our management Disclosure Committee, of the effectiveness of our disclosure controls and procedures as of September 30, 2006, pursuant to Rule 13a-15(b) of the Exchange Act. Based on that evaluation, and in light of the facts and material weaknesses in the Company's internal control over financial reporting described below, the CEO and the CFO concluded that the Company's disclosure controls and procedures were not effective as of that date. Accordingly, the Company performed additional analysis and procedures to ensure that its consolidated financial statements were prepared in accordance with US GAAP. These procedures included monthly analytic reviews of subsidiaries' financial results, and quarterly certifications by senior management of subsidiaries regarding the accuracy of reported financial information. In addition, the Company performed additional procedures to provide reasonable assurance that the financial statements included in this report are fairly presented in all material respects.

Changes in Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management previously assessed the effectiveness of our internal control over financial reporting as of December 31, 2005, using the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that assessment, management concluded that, as of December 31, 2005, the Company did not maintain effective internal control over financial reporting due to several material weaknesses. These material weaknesses, which are described in greater detail in the Company's annual report on Form 10-K for the year ended December 31, 2005, comprised:

a. Accounting for Complex and Non-Routine Transactions - The Company continues to have a material weakness with respect to accounting for complex and non-routine transactions. The Company did not have a sufficient number of finance personnel with sufficient technical accounting knowledge, or an appropriate process to address and review complex and non-routine accounting matters.

b. Revenue Recognition and Accounting for Related Costs - As a result of certain deficiencies in the controls over the application of accounting standards at certain subsidiaries within the Marketing Communications Group, and deficiencies in controls over the recording of revenue and costs of revenue at certain subsidiaries, the Company continues to have a material weakness with respect to revenue recognition and accounting for certain related costs. Specifically, controls were not designed and in place to ensure that customer contracts were analyzed to select the appropriate method of revenue recognition. In addition, controls were not designed and in place to ensure that revenue transactions were analyzed for appropriate presentation and disclosure of billable client pass-through expenses or for revenue recognition on a gross or net basis.

c. Segregation of Duties - The Company continues to have control deficiencies within its accounting and finance departments and its financial information systems over segregation of duties and user access respectively. Specifically, certain duties within the accounting and finance department were not properly segregated.

The Company is currently designing and implementing improved controls to address the material weaknesses described above. In the third quarter of 2006, the Company took (and, in certain cases, subsequently took or is continuing to take) certain steps in an effort to enhance its overall internal control over financial reporting and to address these material weaknesses. Specifically, the Company is improving procedures for reviewing underlying business agreements and analyzing, reviewing and documenting the support for management’s accounting entries and significant transactions.

The Company continues to dedicate significant personnel and financial resources to the ongoing development and implementation of a plan to remediate its material weaknesses in internal control over financial reporting. There have been no other changes in the Company’s internal control over financial reporting that occurred during the third quarter of 2006 or subsequently that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

A Special Committee of the Board of Directors of the Company is continuing to review the Company's historical option award practices and procedures. Management expects this internal review to be concluded, with appropriate recommendations made and implemented, prior to December 31, 2006.

The Company's operating entities are involved in legal proceedings of various types. While any litigation contains an element of uncertainty, the Company has no reason to believe that the outcome of such proceedings or claims will have a material adverse effect on the financial condition or results of operations of the Company.

Item 1A. ***Risk Factors***

There are no material changes in the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year-ended December 31, 2005 and the Company's Form 10-Q for the period ended June 30, 2006.

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

There were no transactions occurring during the third quarter of 2006 in which the Company issued shares of its Class A subordinate voting shares that were not registered with the SEC. The Company made no purchases of its equity securities during the first nine months of 2006.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

Item 6. ***Exhibits***

Exhibit No.	Description
10.1	Amendment No. 8 dated as of August 3, 2006, to the Credit Agreement (made on September 22, 2004) (incorporated by reference to the Company’s Form 10-Q filed on August 8, 2006);
10.2	Amendment No. 9 dated as of November 3, 2006, to the Credit Agreement (made on September 22, 2004)*
10.3	Stock Purchase Agreement, dated November 3, 2006, by and among the Company (as seller), Secured Products (Cayman), Inc. (as purchaser) and H.I.G. Capital Management, Inc., relating to the sale of the Company's Secured Products International Group *
12	Statement of computation of ratio of earnings to fixed charges;*
31.1	Certification by Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002*;
31.2	Certification by President and CFO pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934 and Section 302 of the Sarbanes-Oxley Act of 2002*;
32.1	Certification by Chief Executive Officer pursuant to 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*;
32.2	Certification by President and CFO pursuant to 18 USC. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*;
99.1	List of the Company’s operating subsidiaries by reportable segments.*

* Filed electronically herewith.

SIGNATURES

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

MDC PARTNERS INC.

/s/ Michael Sabatino

Michael Sabatino
Chief Accounting Officer

November 9, 2006

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