MDC PARTNERS INC
Form 10-K
March 10, 2008

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2007

Commission File Number 001 13178

MDC Partners Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

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

(Address, Including Zip Code, and Telephone Number,
Including Area Code, of Registrant s Principal Executive Offices)

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

(Name, Address, Including Zip Code, and Telephone Number,
Including Area Code, of Agent for Service)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o NO x

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b 2 of the Exchange Act.

(Check one):

Large accelerated filer o Accelerated filer x Non-accelerated o

The aggregate market value of the shares of all classes of voting and non-voting common stock of the registrant held by non-affiliates of the registrant on June 30, 2007 was approximately $201 million, computed upon the basis of the closing sales price of the common stock on that date.

As of February 29, 2008, there were 27,059,117 outstanding shares of Class A subordinate voting shares without par value, and 2,503 outstanding shares of Class B multiple voting shares without par value, of the registrant.

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References in this Annual Report on Form 10-K to MDC Partners , MDC , the Company, we, us and our refe Partners Inc. and, unless the context otherwise requires or otherwise is expressly stated, its subsidiaries.

All dollar amounts are stated in US dollars unless otherwise stated.

DOCUMENTS INCORPORATED BY REFERENCE

The following sections of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 30, 2008, are incorporated by reference in Parts I and III: Election of Directors, Section 16(a) Beneficial Ownership Reporting Compliance, Compensation of Executive Officers, Report of the Compensation Committee of the Board, Outstanding Shares, Transactions with MDC Partners Inc. and Appointment of Independent Accountants .

AVAILABLE INFORMATION

Information regarding the Company s Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports, will be made available, free of charge, at the Company s website at *http://www.mdc-partners.com*, as soon as reasonably practicable after the Company electronically files such reports with or furnishes them to the Securities and Exchange Commission (SEC). Any document that the Company files with the SEC may also be read and copied at the SEC s public reference room located at 100 F. Street, N.E., Washington, DC 20549. Please call the SEC at 1 (800) SEC-0330 for further information on the public reference room. The Company s filings are also available to the public from the SEC s website at *http://www.sec.gov.*

The Company s Code of Conduct, WhistleBlower Policy, and each of the charters for the Audit Committee, Human Resources & Compensation Committee and the Nominating and Corporate Governance Committee, are available free of charge on the Company s website at *http://www.mdc-partners.com* or by writing to MDC Partners Inc., 950 Third Avenue, New York, NY 10022, Attention: Investor Relations.

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FORWARD-LOOKING STATEMENTS

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 retain and attract key employees;

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 and deferred acquisition consideration;

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 historical stock option grant practices.

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, from borrowings under its current Financing Agreement and through incurrence of bridge or other debt financing, either of which may increase the Company s leverage ratios, or by issuing equity, which may have a dilutive impact on existing shareholders proportionate ownership. At any given time, the Company may be engaged in a number of discussions that may result in one or more material acquisitions. These opportunities require confidentiality and may involve negotiations that require quick responses by the Company. Although there is uncertainty that any of these discussions will result in definitive agreements or the completion of any transactions, the announcement of any such transaction may lead to increased volatility in the trading price of the Company s securities.

Investors should carefully consider these risk factors and the additional risk factors outlined in more detail in this Annual Report on Form 10-K under the caption Risk Factors and in the Company s other SEC filings.

SUPPLEMENTARY FINANCIAL INFORMATION

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. 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.

PART I

Item 1. Business

BUSINESS

MDC PARTNERS INC.

MDC was formed by Certificate of Amalgamation effective December 19, 1986, pursuant to the Business Corporations Act (Ontario). Effective December 19, 1986, MDC amalgamated with Branbury Explorations Limited, and thereby became a public company operating under the name of MDC Corporation. On May 28, 1996, MDC changed its name to MDC Communications Corporation and, on May 29, 1999, it changed its name to MDC Corporation Inc. On July 31, 2003, MDC acquired the remaining 26% of Maxxcom Inc. (Maxxcom) that it did not already own, privatizing the now wholly-owned subsidiary and merging Maxxcom s corporate functions with MDC s existing corporate functions. On January 1, 2004, MDC changed its name to its current name, MDC Partners Inc., and on June 28, 2004, MDC was continued under Section 187 of the Canada Business Corporations Act. MDC s registered and head office address is located at 45 Hazelton Avenue, Toronto, Ontario, M5R 2E3.

MDC is a leading provider of marketing communications services to customers globally. MDC has operating units in the United States, Canada, Europe, Jamaica, Philippines and Mexico.

MDC s subsidiaries provide a comprehensive range of marketing communications and consulting services, including advertising, interactive marketing, direct marketing, database and customer relationship management, sales promotion, corporate communications, market research, corporate identity, design and branding and other related services.

Part I Business

MDC s strategy is to build, grow and acquire market-leading businesses that deliver innovative, value-added marketing communications and strategic consulting services to their clients. MDC Partners strives to be a partnership of best in class marketing communications and consulting companies whose strategic, creative and innovative solutions are media-agnostic, challenge the status quo and achieve superior results for clients and stakeholders.

MDC s Corporate Group ensures that MDC is the most Partner-responsive marketing services network through its strategic mandate to help Partner firms find clients, tuck under acquisitions, and talent, as well as cross-sell services and enhance their culture for innovation and growth. MDC s Corporate Group also works directly with Partner firms to expand their offerings through new strategic services, as well as leverage the collective expertise and scale of the partnership as a whole.

The MDC model is driven by three key elements:

Perpetual Partnership. The perpetual partnership creates ongoing alignment of interests to drive performance. The perpetual partnership model functions by (1) identifying the right Partners with a sustainable differentiated position in the marketplace; (2) creating the right Partnership structure generally by taking a majority ownership position and leaving a substantial minority ownership position in the hands of operating management to incentivize long-term growth; (3) providing access to more resources and leverage the network s, scale; and (4) delivering financial results.

Entrepreneurialism. Entrepreneurial spirit is optimized by creating customized solutions to support and grow our businesses.

Human and Financial Capital. The model balances accountability with financial flexibility to support growth.

MDC operates through Partner companies within the following reportable segments:

Strategic Marketing Services (SMS)

The SMS segment generally consists of firms that offer a full suite of integrated marketing communication and consulting services, including advertising and media, interactive marketing, direct marketing, public

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relations, corporate communications, market research, corporate identity and branding, and sales promotion to national and global clients. The SMS segment is comprised of the following agencies: Allard Johnson; ACLC; Colle +

McVoy; Crispin Porter + Bogusky; Fletcher Martin; HL Group Partners; kirshenbaum bond + partners; Mono Advertising; Redscout; VitroRobertson; Zig; and Zyman Group.

Customer Relationship Management (CRM)

The CRM segment, comprised of Accent Marketing Services, 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 each client s customer base. This is accomplished primarily through sophisticated database management and analytical services and through customer care services using several domestic and two foreign-based customer care facilities to regional, national and global clients.

Specialized Communication Services (SCS)

The SCS segment includes marketing services firms that are generally 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 selected marketing services. The services they provide include advertising, interactive marketing, sales promotion, direct marketing, media relations, design and branding, research, and corporate communications. The SCS segment is comprised of the following agencies: Accumark Communications, Bratskeir; Bruce Mau Design; Bryan Mills Iradesso; Company C; Computer Composition; Hello Design; henderson bas; Ito Partners; Northstar Research Partners; Onbrand; Source Marketing; TargetCom; Veritas Communications; and Yamamoto Moss Mackenzie.

Marketing Communications Equity and Cost Accounted Affiliates:

Adrenalina, LLC is accounted for under the equity method. Adrenalina is an agency focused on providing marketing services to the Hispanic market, and its marketing disciplines include: media agnostic advertising, retail and event marketing and consumer promotions. Cliff Freeman and Partners is accounted for under the cost method. Cliff Freeman provides a range of advertising and marketing communication services.

Ownership Information

The following table includes certain information about MDC s operating subsidiaries. The Put and Call Options information represents existing contractual rights. Owners of interests in certain Marketing Communications subsidiaries have the right in certain circumstances to require MDC to acquire additional 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 MDC to fund the related amounts during the periods described in the accompanying notes. 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 MDC in the event such rights are exercised is dependent on defined 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. See also Management s Discussion and Analysis Off-Balance Sheet Commitments Put Rights of Subsidiaries Minority Shareholders for further discussion.

Put options represent puts of ownership interests by other interest holders to MDC with reciprocal call rights held by MDC for the same ownership interests with similar terms. The percentages shown represent the potential ownership interest MDC could achieve in each company assuming that the remaining equity holder(s) were to fully exercise their put option rights at the earliest opportunity.

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SCHEDULE OF CURRENT AND POTENTIAL MARKETING COMMUNICATIONS COMPANY OWNERSHIP

Company	% Owned at 12/31/07	Year of Initial Investment	Put/Call Options 2008 (See Notes)	Thereafter
Consolidated:				
Strategic Marketing Services				
ACLC Inc	90.0 %	1992		Note 1
Allard Johnson Communications Inc.	60.2 %	1992	80.1 %	Note 2
Colle & McVoy, LLC	95.0 %	1999		Note 3
Crispin Porter & Bogusky, LLC	77.0 %	2001		Note 4
Fletcher Martin, LLC	85.0 %	1999	100.0 %	
HL Group Partners, LLC	52.0 %	2007		Note 5
kirshenbaum bond & partners, LLC	100.0 %	2004		
Mono Advertising, LLC	49.9 %	2004		Note 6
Redscout, LLC	60.0 %	2007		Note 7
Vitro Robertson, LLC	84.0 %	2004		Note 8
Zig Inc.	50.1 %	2004		Note 9
Zyman Group, LLC.	62.1 %	2005		Note 10
Customer Relationship Management				
Accent Marketing Services, LLC	93.7 %	1999	99.5 %	
Specialized Communication Services				
Accumark Communications Inc.	55.0 %	1993		Note 11
Bratskeir & Company, LLC	85.0 %	2000		Note 12
Bruce Mau Design Inc.	50.1 %	2004		
Bryan Mills Iradesso Inc.	62.8 %	1989	88.0 %	Note 13
Company C Communications LLC	90.0 %	2000		Note 14
Computer Composition of Canada Inc.	100.0 %	1988		
Hello Design, LLC	51.0 %	2004		
henderson bas partnership	65.0 %	2004	100.0 %	
Ito Partners LLC	60.0 %	2006		Note 15
Northstar Research Partners Inc.	72.4 %	1998		

Onbrand	85.0 %	1992		
Source Marketing, LLC	80.0 %	1998	86.7 %	Note 16
TargetCom, LLC	100.0 %	2000		
Veritas Communications Inc.	64.1 %	1993	72.3 %	Note 17
Yamamoto Moss Mackenzie	100.0 %	2000		
Equity Accounted:				
Adrenalina, LLC	49.9 %	2007		Note 18
Cost Accounted:				
Cliff Freeman and Partners, LLC	19.9 %	2004		

Notes

(1) MDC has the right to increase its ownership in ACLC Inc. through acquisitions of incremental interests, and the other interest holder has the right to put to MDC the same incremental interests, up to 95% of this entity in 2010 and up to 100% in 2012.

(2) In January 2008, 9.9% of Allard Johnson Communications Inc. was put to MDC.

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(3) MDC has the right to increase its economic ownership in Colle & McVoy, LLC through acquisition of an incremental interest, and the other interest holder has the right to put to MDC the same incremental interest, up to 100% of this entity in 2012.

(4) MDC has the right to increase its ownership in Crispin Porter & Bogusky, LLC (CPB) through acquisitions of incremental interests and the other interest holders have the right to put to MDC the same incremental interest up to 94% of this entity in 2010 and up to 100% in 2012.

(5) MDC has the right to increase its ownership in HL Group Partners, LLC through acquisitions of incremental interests, and the other interest holders have the right to put to MDC the same incremental interests, up to 64% of this entity in 2012, up to 76% in 2013 and up to 88% in 2014.

(6) MDC has the right to increase its ownership in Mono Advertising, LLC through acquisitions of incremental interests, and the other interest holders have the right to put to MDC the same incremental interests, up to 54.9% of this entity in 2010, up to 59.9% in 2011, up to 64.9% in 2012, up to 69.9% in 2013 and up to 74.9% in 2014.

(7) MDC has the right to increase its ownership in Redscout, LLC through acquisition of an incremental interest, and the other interest holder has the right to put to MDC the same incremental interest, up to 80% of this entity in 2012.

(8) MDC has the right to increase its ownership in Vitro Robertson, LLC through acquisition of an incremental interest, and the other interest holder has the right to put to MDC the same incremental interest, up to 100% of this entity in 2011. MDC s current economic interest is 100% of profits as its priority return is not expected to be exceeded.

(9) MDC has the right to increase its ownership in Zig Inc. through acquisition of an incremental interest, and the other interest holders have the right to put to MDC the same incremental interest, up to 80% of this entity in 2009.

(10) As of December 31, 2007, MDC s economic interest in Zyman Group, LLC was 100% of profits as its priority return is not expected to be exceeded.

(11) MDC, has the right to increase its ownership in Accumark Communications Inc. through acquisitions of incremental interests, and the other interest holders have the right to put to MDC the same incremental interests up to 61.7% of this entity in 2010, up to 68.3% in 2011 and up to 75.0% in 2012. MDC s current economic interest is 42%.

(12) MDC has the right to increase its economic ownership in Bratskeir & Company LLC through acquisitions of incremental interests, and the other interest holders have the right to put to MDC the same incremental interests, up to 90% of this entity in 2010, up to 93% in 2012, up to 97% in 2013 and up to 100% in 2014.

(13) MDC has the right to increase its ownership in Bryan Mills Iradesso, LLC through acquisition of an incremental interest, and the other interest holders have the right to put to MDC the same incremental interest, up to 100% of

this entity in 2012.

(14) MDC has the right to increase its economic ownership in Company C Communications, LLC through acquisition of an incremental interest, and the other interest holder has the right to put to MDC the same incremental interest, up to 100% of this entity in 2012.

(15) MDC has the right to increase its ownership in Ito Partners LLC through acquisition of an incremental interest, and the other interest holder has the right to put to MDC the same incremental interest, up to 80% of this entity in 2011.

(16) MDC has the right to increase its ownership in Source Marketing, LLC through acquisitions of incremental interests, and the other interest holders have the right to put to MDC the same incremental interests up 93.4% of this entity in 2010 and 100% in 2012.

(17) MDC has the right to increase its ownership in Veritas Communications Inc. through acquisitions of

incremental interests, and the other interest holders have the right to put to MDC the same incremental interests, up to 75% of this entity in 2009, up to 78% in 2010, up to 86% in 2011 and up to 100% in 2012.

(18) MDC has the right to increase its ownership in Adrenalina, LLC through acquisitions of incremental interests, and the other interest holders have the right to put to MDC the same incremental interests, up to 61% of this entity in 2013, up to 72% in 2014 and up to 82% in 2015.

Highlights Since January 1, 2007

Since January 1, 2007, the following significant developments in MDC s business have occurred.

On November 1, 2007, the Company acquired an additional 28% of Crispin Porter & Bogusky LLC, (CPB) from certain minority holders. The purchase price consisted of a payment of approximately $22.6 million in cash and the issuance of 514,025 newly-issued shares of the Company s Class A shares valued at approximately $5.5 million. Following this transaction, the Company s ownership in CPB is 77%.

On October 18, 2007, the Company acquired the remaining 40% equity interest in kirshenbaum bond & partners LLC, (KBP) from the founding partners. The purchase price consisted of an initial payment of approximately $12.3 million in cash and the issuance of 269,389 newly-issued shares of the Company s Class A shares valued at approximately $2.9 million. In addition, the Company expects to pay contingent amounts to the selling partners in 2009 and 2010, based on KBP s financial performance in 2008 and 2009.

On June 15, 2007, the Company acquired a 60% membership interest in Redscout, LLC (Redscout). Redscout is a brand development and innovation consulting firm. The purchase price consisted of $4.0 million in cash and $0.6 million was paid in the form of 76,340 newly issued Class A shares of the Company. Based on Redscout s results in 2007, the Company expects to make an additional cash payment of $1.3 million and issue shares valued at $0.2 million during 2008. In addition, the Company may be required to make additional payments which are contingent on the results of Redscout s operations through December 2008.

On April 4, 2007, the Company acquired a 59% membership interest in HL Group Partners LLC (HL). The Company intends to use up to 8% of the membership interests acquired for purposes of entering into a profits interest arrangement with other key executives of HL, or Gen II management. HL is a marketing strategy and corporate communications firm with a specialty in high end fashion and luxury goods. The purchase price consisted of $4.8 million in cash, of which $4.5 million was paid and $0.3 million will be paid on April 4, 2008, and $1 million was paid in the form of 128,550 newly-issued Class A shares of the Company.

Financial Information Relating to Business Segments and Geographic Regions

For financial information relating to (a) the Company s Marketing Communications Businesses, and (b) the geographic regions the businesses operate within, refer to Note 15 (Segmented Information) of the notes to the consolidated financial statements included in this Annual Report and to Item 7. Management s Discussion and Analysis for further discussion.

Competition

In the competitive, highly fragmented marketing and communications industry, the Company s operating companies compete for business with the operating subsidiaries of large global holding companies such as Omnicom Group Inc., Interpublic Group of Companies, Inc., WPP Group plc, Publicis Group SA and Havas Advertising. These global holding companies generally have greater resources than those available to MDC and its subsidiaries, and such resources may enable them to aggressively compete with the Company s marketing communications businesses. Each of MDC s operating companies also faces competition from numerous independent agencies that operate in multiple markets. MDC s operating companies must compete with these other companies to maintain existing client relationships and to obtain new clients and assignments. MDC s operating companies compete at this level by providing clients with marketing ideas and strategies that are focused on increasing clients revenues and profits. These existing and potential clients include multinational corporations and national companies with mid-to-large sized marketing budgets. MDC also benefits from cooperation among the operating companies through referrals and the sharing of both services and expertise, which enables MDC to service clients varied marketing needs.

A company s ability to compete for new clients is affected in some instances by the policy, which many advertisers and marketers impose, of not permitting their agencies to represent competitive accounts in the same market. In the vast majority of cases, however, MDC s consistent maintenance of separate, independent operating companies has enabled MDC to represent competing clients across its network.

Industry Trends

Historically, advertising has been the primary service provided by the marketing communications industry. However, as clients aim to establish one-to-one relationships with customers, and more accurately measure the effectiveness of their marketing expenditures, specialized and digital communications services are consuming a growing portion of marketing dollars. This is increasing the demand for a broader range of non-advertising marketing communications services (i.e., direct marketing, sales promotion, interactive, etc). The notion of a mass market audience is giving way to life-style segments, social events/networks, and online/mobile communities, each segment requiring a different message and/or different, often non-traditional, channels of communication. Global marketers now seek innovative ideas wherever they can find them, providing new opportunities for small to mid-sized communications companies.

Clients

The Company serves clients in virtually every industry and in many cases the same clients in various locations. Representation of a client rarely means that MDC handles marketing communications for all brands or product lines of the client in every geographical location. MDC s agencies have written contracts with many of their clients. As is customary in the industry, these contracts provide for termination by either party on relatively short notice. See Management s Discussion and Analysis Executive Overview for a further discussion of MDC s arrangements with its clients.

During 2007, 2006 and 2005, the Company s largest client, Sprint, accounted for approximately 16.3%, 16.0% and 14.7% of revenues, respectively. In addition, MDC s ten largest clients (measured by revenue generated) accounted for 38%, 42% and 36% of 2007, 2006 and 2005 revenues, respectively.

Employees

As of December 31, 2007, MDC and its subsidiaries had the following number of employees within its reportable segments:

Segment	Total
Strategic Marketing Services	1,636
Customer Relationship Management	4,318
Specialized Communication Services	581
Corporate	26
Total	6,561

See Management s Discussion and Analysis for a discussion of the effect of cost of services sold on MDC s historical results of operations. Because of the personal service character of the marketing communications businesses, the quality of personnel is of crucial importance to MDC s continuing success. MDC considers its relations with employees to be satisfactory.

Effect of Environmental Laws

MDC believes it is substantially in compliance with all regulations concerning the discharge of materials into the environment, and such regulations have not had a material effect on the capital expenditures or operations of MDC.

Item 1A. Risk Factors

The following factors could adversely affect the Company s revenues, results of operations or financial condition. See also Statement Regarding Forward-Looking Disclosure.

MDC competes for clients in highly competitive industries.

The Company operates in a highly competitive environment in an industry characterized by numerous firms of varying sizes, with no single firm or group of firms having a dominant position in the marketplace.

Competitive factors include creative reputation, management, personal relationships, quality and reliability of service and expertise in particular niche areas of the marketplace. In addition, because a firm s principal asset is its people, barriers to entry are minimal, and relatively small firms are, on occasion, able to take all or some portion of a client s business from a larger competitor.

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

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

The marketing communications services industry is cyclical and is subject to the negative effects of economic downturns. MDC s advertising and marketing services subsidiaries and affiliates are also exposed to the risk of clients changing their business plans and/or reducing their marketing budgets. As a result, if the U.S., Canadian and European economies continue to weaken, our businesses, financial condition and operating results are likely to be negatively affected.

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

As of December 31, 2007, MDC had utilized approximately $120.4 million of its Financing Agreement in the form of borrowings and letters of credit. MDC uses amounts available under the Financing Agreement, together with cash flow from operations, to fund its working capital needs, to fund the exercise of put option obligations and to fund our strategy of making selective acquisitions of ownership interests in entities in the marketing communications services industry.

The Company is currently in compliance with all of the terms and conditions of the Financing Agreement, and management believes that the Company will be in compliance with covenants over the next twelve months. If, however, events were to occur which result in MDC losing all or a substantial portion of its available credit under the Financing Agreement, MDC would be required to seek other sources of liquidity. In addition, if MDC were unable to replace this source of liquidity, then MDC s ability to fund its working capital needs and any contingent obligations with respect to put options would be materially adversely affected.

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

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

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

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

MDC s strategy has been to acquire ownership stakes in diverse marketing communications businesses to minimize the effects that might arise from the loss of any one client or executive. The loss of one or more

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clients could materially affect the results of the individual operating companies and the Company as a whole. Management succession at our operating units is very important to the ongoing results of the Company because, as in any service business, the success of a particular agency is dependent upon the leadership of key executives and management personnel. If key executives were to leave our operating units, the relationships that MDC has with its clients could be adversely affected.

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

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

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

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

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

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

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

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

MDC has identified, and corrected, improper practices relating to its historical option grant practice.

As disclosed in the Company s Report on Form 8-K filed on December 22, 2006, a Special Committee of disinterested and independent directors, with the assistance of independent legal counsel, completed an internal review of the Company s historical option grant practice. In connection with this review, the Company has corrected all historical option grants for which the exercise price did not correspond to the market price on the date of the approval of the grant so that the exercise price is now the same as the market price on the date of the approval. These adjustments were made pursuant to the self-correcting provisions in the Company s option plan. As previously disclosed, the Company does not intend nor expect to restate any financial statements for prior periods, and management does not expect any material impact on the Company s financial statements as a result of the Special Committee s review and conclusions.

Goodwill may become impaired.

We have recorded a significant amount of goodwill in our consolidated financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP or GAAP) resulting from our acquisition activities, which principally represents the specialized know-how of the workforce at the agencies we have acquired. We annually test the carrying value of goodwill for impairment, as discussed in Note 2 to our

consolidated financial statements. The estimates and assumptions about future results of operations and cash flows made in connection with the impairment testing could differ from future actual results of operations and cash flows. While we have concluded, for each year presented in our financial statements, that our goodwill relating to continuing operations is not impaired, future events could cause us to conclude that the asset values associated with a given operation may become impaired. Any resulting impairment loss could materially adversely affect our results of operations and financial condition.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

See the notes to the Company s consolidated financial statements included in this Annual Report for a discussion of the Company s lease commitments and the Management s Discussion and Analysis for the impact of occupancy costs on the Company s operating expenses.

The Company maintains office space in many cities in the United States, Canada, and in the United Kingdom, Jamaica, Philippines and Mexico. This space is primarily used for office and administrative purposes by the Company s employees in performing professional services. This office space is in suitable and well-maintained condition for MDC s current operations. All of the Company s materially important office space is leased from third parties with varying expiration dates. Certain of these leases are subject to rent reviews or contain various escalation clauses and certain of our leases require our payment of various operating expenses, which may also be subject to escalation. In addition, leases related to the Company s non-US businesses are denominated in other than US dollars and are therefore subject to changes in foreign exchange rates.

Item 3. Legal Proceedings

MDC s operating entities are involved in legal proceedings of various types. While any litigation contains an element of uncertainty, MDC 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 MDC.

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

MDC's annual shareholders' meeting has historically been held in the second quarter of the year. No matters were submitted to a vote of security holders during the fourth quarter of 2007.

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PART II

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters

Market Information and Holders of Class A Subordinate Voting Shares

The principal United States market on which the Company s Class A subordinate voting shares are traded is the NASDAQ National Market (NASDAQ) (symbol: MDCA), and the principal market in Canada is The Toronto Stock Exchange (symbol: MDZ.A). As of February 29, 2008, the approximate number of holders of our Class A subordinate voting shares, including those whose shares are held in nominee name, was 2,800. Quarterly high and low sales prices per share of the Company s Class A subordinate voting shares, as reported by the NASDAQ composite and The Toronto Stock Exchange, respectively, for each quarter in the years ended December 31, 2007 and 2006 are as follows:

Nasdaq National Market

Quarter Ended	High	Low
	($ per Share)	
March 31, 2006	9.50	6.06
June 30, 2006	9.60	7.75
September 30, 2006	9.00	6.80
December 31, 2006	8.06	6.79
March 31, 2007	9.47	7.02
June 30, 2007	9.11	7.59
September 30, 2007	11.18	8.61
December 31, 2007	11.52	8.31

The Toronto Stock Exchange

Quarter Ended	High	Low
	(C $ per Share)	
March 31, 2006	10.04	7.32
June 30, 2006	10.63	8.68
September 30, 2006	10.00	7.55
December 31, 2006	9.01	7.65
March 31, 2007	9.50	8.26
June 30, 2007	10.20	8.36
September 30, 2007	11.64	9.36
December 31, 2007	11.26	8.35

As of February 29, 2008, the last reported sale price of the Class A subordinate voting shares was $8.07 on NASDAQ and C$7.97 on the Toronto Stock Exchange.

Dividend Policy

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

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information regarding securities issued under our equity compensation plans as of December 31, 2007.

	Number of Securities to Be Issued upon Exercise of Outstanding Options and Rights (a)	Weighted Average Exercise Price of Outstanding Options and Rights (b)	Number of Securities Remaining Available for Future Issuance (Excluding Column (a)) (c)
Equity Compensation Plans:			
Approved by stockholders:			
Share options	975,029	$ 11.14	1,111,622
Stock appreciation rights	10,647 (1)	$ 11.33	1,047,894
Not approved by stockholders:			
None			

(1) Based on December 31, 2007 closing Class A subordinate voting share price on the Toronto Stock Exchange of C$9.65 ($9.74).

On May 26, 2005, the Company s shareholders approved the 2005 Stock Incentive Plan, which provides for the issuance of two million Class A shares. On June 1, 2007, the Company s shareholders approved an amendment to the 2005 Stock Incentive Plan, which increased the number of shares available for issuance to three million Class A shares.

See also Note 13 of the Notes to the Consolidated Financial Statements included in this Annual Report.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

None

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

Issuer Purchases of Equity Securities:

Shares Class A subordinate voting shares

For the twelve months ended December 31, 2007, the Company made no open market purchases of its Class A subordinate voting shares or its Class B shares. Pursuant to its Financing Agreement, the Company is currently restricted from repurchasing its shares.

During 2007, the Company s employees surrendered 83,253 Class A shares valued at $0.7 million in connection with the required tax withholding resulting from the vesting of restricted stock. In addition, during 2007, the Company received 10,595 Class A shares valued at $0.1 million in connection with a partial repayment of a note receivable from the Company s Chief Executive Officer. These 93,848 Class A shares were subsequently retired and no longer remain outstanding as of December 31, 2007.

Transfer Agent and Registrar for Common Stock

The transfer agent and registrar for the Company s common stock is CIBC Mellon Trust Company. CIBC Mellon Trust Company operates a telephone information inquiry line that can be reached by dialing toll-free 1-800-387-0825 or 416-643-5500.

Correspondence may be addressed to:
MDC Partners Inc.
C/o CIBC Mellon Trust Company Corporate Trust Services
P.O. Box 7010 Adelaide Street
Postal Station Toronto, Ontario M5G 2M7

Item 6. Selected Financial Data

The following selected financial data should be read in connection with Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes that are included in this annual report on Form 10-K.

	Years Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in Thousands, Except per Share Data)				
Operating Data					
Revenues	$547,319	$412,207	$349,824	$234,094	$197,966
Operating profit	$23,015	$23,782	$22,312	$3,968	$8,787
Income (loss) from continuing operations	$(19,078)	$(8,723)	$(7,838)	$6,237	$28,449
Stock-based compensation included in income from operations	$10,217	$8,361	$3,272	$8,388	$6,182
Earnings (Loss) per Share					
Basic					
Continuing operations	$(0.76)	$(0.37)	$(0.34)	$0.29	$1.60
Diluted					
Continuing operations	$(0.76)	$(0.37)	$(0.34)	$0.27	$1.38
Financial Position					
Total assets	$520,698	$493,501	$507,315	$437,341	$321,539
Total debt	$164,754	$95,454	$123,149	$53,538	$150,142
Fixed charge coverage ratio	1.36	1.98	2.41	2.77	3.10

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

Year Ended December 31, 2007

During the year ended December 31, 2007, MDC incurred $7.2 million of primarily non cash unrealized foreign exchange losses due to the weakening of the US dollar as compared to the Canadian dollar on its intercompany balances that are denominated in the US dollar.

Effective December 31, 2007, two of the Company s operating subsidiaries, Margeotes Fertitta Powell, LLC (MFP) and Banjo Strategic Entertainment, LLC (Banjo), have been deemed discontinued operations. All periods have been restated to reflect these discontinued operations. See Note 10 of the notes to consolidated financial statements included herein.

Year Ended December 31, 2006

On November 14, 2006, MDC sold its Secure Products International Products division, and all periods have been restated to reflect these discontinued operations. See Note 10 of the notes to consolidated financial statements included herein.

Year Ended December 31, 2005

On June 28, 2005, MDC completed an issuance in Canada of convertible unsecured subordinated debentures amounting to $38.7 million as of December 31, 2005 (C$45.0 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. Effective January 1, 2006 until the date on which a registration statement for the resale of the Debentures is declared effective by the SEC, the Debentures will bear interest at an annual rate of 8.50%, the registration statement was declared effective during the second quarter of 2006. The Company s interest rate was 8.5% until June 30, 2006, at which time the rate was reduced to 8.0%.

On April 1, 2005, MDC, through a wholly-owned subsidiary, purchased 61.6% of the total outstanding membership units of Zyman Group, LLC for a purchase price equal to $52.4 million paid in cash, plus the issuance of 1,139,975 class A shares of MDC valued at approximately $11.2 million.

Year Ended December 31, 2004

During 2004, MDC sold its remaining 20% interest in Custom Direct, Inc. (CDI) with a resulting reduction in long-term debt and a net gain of $15.0 million.

MDC acquired interests in several marketing communication businesses in 2004, which contributed $56.1 million of revenue, $2.9 million of income from continuing operations and $120.6 million of assets.

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

Year Ended December 31, 2003

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

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

Item 7. 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 2007 means the period beginning January 1, 2007, and ending December 31, 2007).

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

Executive Summary

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

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

MDC conducts its businesses through 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 Communication Services (SCS). In addition, MDC has a Corporate Group which provides certain administrative, accounting, financial and legal functions.

Marketing Communications Businesses

Through its operating partners , MDC provides advertising, consulting, customer relationship management, and specialized communication services to clients throughout the United States, Canada, Mexico, Europe, Jamaica and the Philippines.

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

MDC 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. Also included in operating expenses is depreciation and amortization.

Because we are a service business, we monitor these costs on a percentage of revenue basis. Cost of services sold tend to fluctuate in conjunction with changes in revenues, whereas office and general expenses and depreciation and amortization, 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 during the 2005 to 2007 period, which affected revenues, expenses, operating income and net income. Additional information regarding material acquisitions is provided in Note 4 Acquisitions and information on dispositions is provided in Note 11 Discontinued Operations in the notes to the consolidated financial statements included in this Annual Report on Form 10-K.

Foreign Exchange Fluctuations. MDC s financial results and competitive position are primarily affected by fluctuations in the exchange rate between the US dollar and non-US dollars, primarily the Canadian dollar, as described in Item 1A Risk Factors MDC s results of operations are subject to currency fluctuation risks. See also Quantitative and Qualitative Disclosures About Market Risk Foreign Exchange. Further information is provided in Foreign Currency Translation in Note 2 of the notes to consolidated financial statements included in this Annual Report on Form 10-K.

Seasonality. Historically, with some exceptions, the 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.

Summary of Key Transactions

Year Ended December 31, 2007

New Financing Agreement

On June 18, 2007, MDC and its material subsidiaries entered into a new $185 million senior secured financing agreement (the Financing Agreement) with Fortress Credit, an affiliate of Fortress Investment Group, as collateral agent and Wells Fargo Bank, as administrative agent, and a syndicate of lenders. This facility replaced the Company s existing $96.5 million credit facility that was originally expected to mature on September 21, 2007. Proceeds from the Financing Agreement were used to repay in full the outstanding balances on the Company's existing credit facility. The obligations repaid totaled approximately $73.7 million. All of these repaid credit facilities have been terminated.

The new Financing Agreement consists of a $55 million revolving credit facility, a $60 million term loan and a $70 million delayed draw term loan. Borrowings under the Financing Agreement will bear interest as

follows: (a) LIBOR Rate Loans bear interest at applicable interbank rates and Reference Rate Loans bear interest at the rate of interest publicly announced by the Reference Bank in New York, New York, plus (b) a percentage spread ranging from 0% to a maximum of 4.75% depending on the type of loan and the Company s Senior Leverage Ratio. In addition, the Company is required to pay a facility fee of 50 basis points.

Step-Up Acquisitions in Key Partners

On November 1, 2007, the Company acquired an additional 28% of Crispin Porter & Bogusky LLC, (CPB) from certain minority holders. The purchase price consisted of a payment of approximately $22.6 million in cash and the issuance of 514,025 newly-issued shares of the Company s Class A subordinated voting stock valued at approximately $5.5 million. Following this transaction, the Company s ownership in CPB is 77%.

On October 18, 2007, the Company acquired the remaining 40% equity interest in kirshenbaum bond & partners LLC (KBP). The purchase price consisted of an initial payment of approximately $12.3 million in cash and the issuance of 269,389 newly-issued shares of the Company s Class A subordinated voting stock valued at approximately $2.9 million. In addition, the Company expects to pay contingent amounts to the selling minority holder in 2009 and 2010, based on KBP s financial performance in 2007, 2008 and 2009.

Management Services Agreement

On April 27, 2007, the Company entered into a new Management Services Agreement (the Services Agreement) with Miles Nadal and with Nadal Management, Inc. to set forth the terms and conditions on which Mr. Nadal will continue to provide services to the Company as its Chief Executive Officer. Mr. Nadal s prior services agreement with the Company was scheduled to expire on October 31, 2007, subject to two-year annual renewals. If the Company were not going to enter into a new agreement with Mr. Nadal and did not intend to allow the prior agreement to renew, it would have been required to give Mr. Nadal notice of such non-renewal by April 30, 2007.

As an incentive to enter into the Services Agreement, the Company paid a one-time non-renewal fee of $3.5 million upon execution of the Services Agreement, which was expensed during the second quarter of 2007. Mr. Nadal used a portion of the proceeds to repay to the Company the $2.7 million (C$3.0 million) note receivable due on November 1, 2007 from Nadal Management, Inc. The Company had previously reserved the principal amount of this note receivable; the collection of this receivable resulted in a one-time recovery of $2.7 million, which was included in operating income in the year ended December 31, 2007. In addition, during 2007, Mr. Nadal repaid an additional $0.5 million of other previously reserved notes receivable. As a result of these transactions above, operating income was adversely impacted by $0.4 million during the year ended December 31, 2007.

Separation Agreement

On July 23, 2007, the Company entered into a separation agreement and release with its former President and Chief Financial Officer. In connection with this agreement and related matters, the Company incurred charges of approximately $1.9 million during the year ended December 31, 2007. This charge represents all costs and expenses incurred as a consequence of this separation.

Year Ended December 31, 2006

Sale of Secure Products International

On November 14, 2006, MDC completed the sale of its Secure Products International Group for consideration equal to approximately $27 million. Consideration was received in the form of cash of $20 million and additional $1 million annual payments over the next five years. In addition, MDC received a 7.5% equity interest in the newly formed entity acquiring the Secure Products International Group. As of December 31, 2007, MDC received $3 million of these annual payments and a dividend distribution equal to $0.8 million. During 2006, the Company recorded an impairment loss of $19.5 million and a gain on a sale of $1.8 million. The results of operations of the Secure Products International Group have been included in discontinued operations in 2006 and prior periods presented.

Year Ended December 31, 2005

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.

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 a predetermined threshold, may be disproportionately less than its equity ownership in Zyman Group. Specifically, on an annual basis, if Zyman operating results exceed a defined operating margin, the Company would be entitled to 25% of the excess margins in the first two years of the LLC Agreement and 30% of the excess margins in the following three years of the LLC Agreement, rather than the Company s equity portion of 61.6%. After the first five years, the earnings of the Zyman Group will be allocated in a proportion equal to the respective equity interests of the members.

Based on the Company s investment in the Zyman Group, at December 31, 2007, 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 results for 2007, the Company received less than its priority return from Zyman Group in 2007.

8% Convertible Debentures

MDC completed an issuance in Canada of convertible unsecured subordinated debentures amounting to $38.7 million as of December 31, 2005 (C$45.0 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. Because a registration statement for resale of the Debentures was not declared effective on December 31, 2005, but rather during the second quarter of 2006, the Company s interest rate was 8.5% until June 30, 2006, at which time it was reduced to 8%.

Results of Operations for the Years Ended December 31, 2007, 2006 and 2005 are presented below:

	For the Year Ended December 31, 2007				
	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Corporate	Total
	(Thousands of United States Dollars)				
Revenue	$313,813	$112,958	$120,548	$	$547,319
Cost of services sold	186,993	81,826	83,032		351,851
Office and general expenses	76,884	21,306	22,868	22,149	143,207
Depreciation and amortization	20,321	6,488	2,180	257	29,246
Operating Profit (Loss)	$29,615	$3,338	$12,468	$(22,406)	$23,015
Other Income (Expense):					
Other income, net					3,065
Foreign exchange loss					(7,192)
Interest expense, net					(11,946)
Income from continuing operations before income taxes, equity in affiliates and minority interest					6,942
Income taxes					5,620
Income from continuing operations before equity in affiliates and minority interests					1,322
Equity in earnings of non-consolidated affiliates					165
Minority interests in income of consolidated subsidiaries	$(15,663)	$(122)	$(4,780)	$	(20,565)
Loss from continuing operations					(19,078)
Loss from discontinued operations					(7,277)
Net loss					$(26,355)
Stock-based compensation	$5,194	$91	$489	$4,443	$10,217

	Restated for Discontinued Operations For the Year Ended December 31, 2006				
	Strategic Marketing Services	Customer Relationship Management	Specialized Communications Services	Corporate	Total
	(Thousands of United States Dollars)				
Revenue	$241,481	$84,917	$85,809		$412,207
Cost of services sold	118,018	61,419	57,479		236,916
Office and general expenses	71,589	16,531	15,165	$24,062	127,347
Depreciation and amortization	17,567	5,003	1,308	284	24,162

Operating Profit (Loss)	$34,307	$1,964	$11,857	$(24,346)	23,782
Other Income (Expense):					
Other income, net					1,246
Foreign exchange gain					614
Interest expense, net					(10,698)
Income from continuing operations before income taxes, equity in affiliates and minority interest					14,944
Income taxes					7,120
Income from continuing operations before equity in affiliates and minority interests					7,824
Equity in earnings of non-consolidated affiliates					168
Minority interests in income of consolidated subsidiaries	$(13,077)	$(73)	$(3,565)	$	(16,715)
Loss from continuing operations					(8,723)
Loss from discontinued operations					(24,816)
Net loss					$(33,539)
Stock-based compensation	$1,010	$24	$2,339	$4,988	$8,361

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Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenue was $547.3 million for the year ended 2007, representing an increase of $135.1 million, or 32.8%, compared to revenue of $412.2 million for the year ended 2006. This increase relates primarily to organic growth of $96.4 million, $19.8 million relating to the consolidation of three entities that were previously accounted for on the equity method and $12.7 million relating to acquisitions. In addition, a weakening of the US Dollar, primarily versus the Canadian dollar during the year ended December 31, 2007, resulted in increased revenues of $6.3 million.

Operating profit for the year ended 2007 was $23.0 million, compared to $23.8 million for the year ended 2006. The decrease in operating profit was primarily the result of a decrease in operating profit of $4.7 million in the Strategic Marketing Services (SMS) segment, partially offset by increases in operating profits of $1.4 million and $0.6 million within the Customer Relationship Management (CRM) and Specialized Communication Services (SCS) segments, respectively. In addition, Corporate operating expenses decreased by $1.9 million.

During 2007, certain members of corporate management were permanently assigned and actively involved in the strategic planning of the various operating subsidiaries within each of the Marketing Communication business segments in an effort to maximize growth and profitability. As a result, during the year ended December 31, 2007, approximately $2.4 million, $0.3 million and $1.5 million of costs were allocated to the SMS, CRM, and SCS segments, respectively. The operating results of each of the operating segments are discussed in further details within Management s Discussion and Analysis that follows.

The loss from continuing operations for 2007 was $19.1million, compared to $8.7 million in 2006. This increase in net loss of $10.4 million was primarily the result of an increase in other expenses of $7.2 million, which includes a $7.8 million increase in unrealized losses on foreign currency transactions, increased minority interest of $3.9 million, decreased operating profits of $0.8 million, partially offset by reduced income taxes of $1.5 million.

Marketing Communications Group

Revenues in 2007 attributable to the Marketing Communications Group, which consists of three reportable segments Strategic Marketing Services (SMS), Customer Relationship Management (CRM), and Specialized Communication Services (SCS), were $547.3 million compared to $412.2 million in 2006, representing a year-over-year increase of 32.8%.

The components of revenue growth for 2007 are shown in the following table:

	Revenue $000 s	%
Year ended December 31, 2006	$ 412,207	
Organic	96,381	23.4 %
Effect of accounting change	19,753	4.8 %
Acquisitions	12,653	3.1 %
Foreign exchange impact	6,325	1.5 %
Year ended December 31, 2007	$ 547,319	32.8 %

The geographic mix in revenues was relatively consistent between 2007 and 2006 and is demonstrated in the following table:

	2007	2006
US	80 %	84 %
Canada	17 %	14 %
UK and other	3 %	2 %

The operating profit of the Marketing Communications Group decreased by approximately 5.6% to $45.4 million from $48.1 million. Operating margins decreased by 3.4% and were 8.3% for 2007 compared to 11.7% for 2006. The decrease in operating margin is primarily attributable to an increase in direct costs (excluding staff costs) as a percentage of revenues from 20.9% of revenue in 2006 to 25.8% of revenue in 2007 due to an increase in reimbursed client related direct costs. In addition, staff costs as a percentage of revenues increased from 45.7% in 2006 to 46.8% in 2007. This was offset in part by a decrease in occupancy and administrative costs as a percentage of revenue from 14.1% in 2006 to 11.9% in 2007 and a decrease in depreciation and amortization as a percentage of revenue from 5.8% in 2006 to 5.3% in 2007. Included in operating profits in 2006 was a termination payment of $5.3 million received in connection with the termination by a client of their engagement with a subsidiary of the Company.

Marketing Communications Businesses

Strategic Marketing Services (SMS)

Revenues attributable to SMS in 2007 were $313.8 million compared to $241.5 million in 2006. The year-over-year increase of $72.3 million or 30.0% was attributable primarily to organic growth of $49.9 million as a result of net new business wins, $11.7 million of the increase related to the acquisitions of HL Group Partners and Redscout, LLC and $8.5 million related to the change in accounting for Zig Inc., and Mono Advertising, LLC, from the equity method of accounting in 2006 to consolidating them in 2007 for the full year. A weakening of the US dollar versus the Canadian dollar in 2007 compared to 2006 resulted in a $2.1 million increase in revenues from the division s Canadian-based operations.

The operating profit of SMS decreased by approximately 13.7% to $29.6 million in 2007 from $34.3 million in 2006, while operating margins decreased to 9.4% in 2007 from 14.2% in 2006. Excluding the receipt of the termination payment noted above, 2006 operating profit would have been $29.0 million with operating margins of 12.3%. The decrease in margin is primarily related to an increase in direct costs (excluding staff costs) as a percentage of revenues from 5.5% of revenue in 2006 to 11.7% of revenue in 2007 primarily due to an increase in reimbursed client related direct costs. Operating margins also decreased in 2007 by 0.8% due to the allocation of $2.4 million relating to the reassignment of certain members of corporate management to entities within this segment. Total staff costs as a percentage of revenue increased from 54.4% in 2006 to 56.7% in 2007. Excluding the termination payment, staff costs as a percentage of revenue in

2006 would have been 55.6%. In addition, staff costs increased in 2007 due to a $4.2 million increase in non-cash stock based compensation primarily as a result of a $2.6 million charge resulting from the acquisition of the remaining 40% equity interest in kirshenbaum bond + partners and other phantom equity plans at certain partner firms. Office and general expenses increased due to additional occupancy and administrative costs relating to the expansion of operations in Boulder, Colorado and expansions and office moves of other partner firms but as a percentage of revenue occupancy and administrative costs decreased from 16.3% in 2006 to 13.3% in 2007. Depreciation and amortization represented 6.5% and 7.3% of revenues during 2007 and 2006, respectively, as certain intangibles resulting from the Zyman acquisition were fully amortized during 2006. During 2007, amortization expense increased from a change in the estimated amortization rate of customer lists.

Customer Relationship Management (CRM)

Revenues reported by the CRM segment in 2007 were $113.0 million, an increase of $28.1 million or 33.0% compared to the $84.9 million reported for 2006. This growth was entirely organic due primarily to higher volumes from existing clients in part as a result of the opening of a new customer care center in September 2007 and the opening of three additional customer care centers during 2006. Such growth was offset by the closure of one customer care center in August 2006.

Operating profit earned by CRM increased by approximately $1.3 million to $3.3 million for 2007 from $2.0 million for the previous year. Operating margins were 3.0% for 2007 as compared to 2.3% in 2006. The increase in margins is primarily due to a decrease in occupancy and administrative costs as a percentage of revenue from 11.0% in 2006 to 9.4% in 2007.

Specialized Communication Services (SCS)

SCS generated revenues of $120.5 million for 2007, $34.7 million or 40.5% higher than revenues of $85.8 million in 2006. The year-over-year increase was attributable primarily to organic growth of $18.4 million as a result of net new business wins, $11.2 million relating to the change in accounting for Accumark, Inc., from the equity method in 2006 to consolidating them in 2007 for the full year. A weakening of the US dollar versus the Canadian dollar and British pound in 2007 compared to 2006 resulted in a $4.2 million increase in revenues from the division s Canadian and UK-based operations.

The operating profit of SCS increased by $0.6 million to $12.5 million in 2007, from an operating profit of $11.9 in 2006, with operating margins of 10.3% in 2007 compared to 13.8% in 2006. Included in 2006 was a non-cash stock based compensation charge of $2.3 million relating to the price paid for membership interests, which was less than fair value of such membership interests and the fair value of an option granted to certain members of management of

Source Marketing LLC (Source). Excluding the Source non-cash stock based compensation charge, 2006 operating income would have been $14.2 million with operating margins of 16.5% compared to 10.3% in 2007. The decrease in operating margin in 2007 was due primarily to an increase in direct costs as a percentage of revenues from 25.9% in 2006 to 31.0% in 2007, primarily due to an increase in reimbursed client related direct costs. Operating margins also decreased in 2007 by 1.3% due to the allocation of $1.5 million relating to the reassignment of certain members of corporate management to entities within this segment. In addition, staff costs excluding the Source non-cash stock based compensation charge as a percentage of revenue increased to 45.2% in 2007 from 43.9% in 2006. Including the Source non-cash stock based compensation charge staff costs as a percentage of revenue in 2006 was 46.6%. This increase is a result of the timing of when expected clients projects will begin, while maintaining the appropriate staffing levels to properly service those projects.

Corporate

Operating costs related to the Company s Corporate operations totaled $22.4 million in 2007 compared to $24.3 million in 2006. During 2007, certain members of corporate management were permanently assigned and actively involved in the strategic planning of the various operating subsidiaries within each of the Marketing Communication business segments in an effort to maximize growth and profitability. As a result, approximately $4.2 million of costs were allocated to the Marketing Communications segments. Excluding the allocation of these costs, corporate operating costs increased by $2.3 million. This increase in corporate expenses was a result of $1.9 million of costs associated with the Company s separation agreement with its

former President and Chief Financial Officer and the hiring of a new CFO, and the net $0.4 million impact of the renewal of the CEO management services agreement. In addition, non-cash stock based compensation increased by $1.0 million. These increases were partially offset by a reduction in insurance and professional fees in 2007.

Other Income, Net

Other income increased to $3.1 million in 2007 compared to $1.2 million in 2006. The 2007 income is primarily comprised of a $1.8 million gain on the sale of the plane acquired in the Zyman acquisition, a dividend payment of $0.8 million from the purchaser of the Secured Products Group, and the recovery of an investment of $0.4 million. The 2006 income is comprised of gains on the sale of assets, the settlement in June 2006, of the Company s cross currency swap, the recovery of an investment offset in part by a loss on an equity transaction of a subsidiary.

Foreign Exchange

The foreign exchange loss was $7.2 million for 2007 compared to the gain of $0.6 million recorded in 2006 and was due primarily to an unrealized loss due to a weakening in the US dollar during 2007 compared to the Canadian dollar primarily on its US dollar denominated intercompany balances with its Canadian subsidiaries. At December 31, 2006, the exchange rate was 1.17 Canadian dollars to one US dollar, compared to 0.99 at the end of 2007.

Net Interest Expense

Net interest expense for 2007 was $11.9 million, an increase of $1.2 million over the $10.7 million net interest expense incurred during 2006. Interest expense increased $2.4 million in 2007 due to higher interest rates and higher average outstanding debt in 2007. Interest income was $1.7 million for 2007, as compared to $0.5 million in 2006.

This increase was primarily due to the interest income recognized from the acceleration of payments received in July 2007 related to the sale of SPI, originally due to be received in 2010 and 2011.

Income Taxes

Income tax expense in 2007 was $5.6 million compared to an expense of $7.1 million for 2006. In 2007, the Company s effective tax rate was substantially higher than the statutory tax rate in 2007 due to non deductible stock based compensation, and an increase in the Company s valuation allowance offset in part by minority interest charges. The Company s effective tax rate was substantially higher than the statutory rate in 2006 because the Company increased its valuation allowance in an amount equal to the tax loss resulting from the sale of SPI.

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 2007 and 2006, income of $0.2 million was recorded. Included in 2006 is an impairment charge of $0.8 million relating to the Company s investment in Cliff Freeman.

Minority Interests

Minority interest expense was $20.6 million for 2007, up $3.9 million from the $16.7 million of minority interest expense incurred during 2006. Such increase was primarily due to the increase in profitability in the subsidiaries within the SMS and SCS operating segments who are not 100% owned, offset in part by the Company s step-up in ownership of CPB and KBP.

Discontinued Operations

The loss from discontinued operations for 2007 was $7.3 million and is comprised of the operating results of Margeotes Fertitta Powell, LLC (MFP) and Banjo Strategic Entertainment, LLC (Banjo). The operations of these entities were discontinued during 2007.

In March 2007, due to continued operating and client losses, the Company ceased MFP s current operations and spun off a new operating division, and as a result incurred a goodwill impairment charge of $4.5 million. After reviewing the 2008 projections of the new operating division, the Company decided to cease the operations of the new operating business as well. In addition, an additional intangible relating to an employment contract of $0.6 million was deemed impaired and written off. The results of operations of MFP and the new operating business, net of income tax benefits, was a loss of $7.1 million in 2007 and a loss of $6.0 million in 2006.

In December 2007, due to continued operating losses and the lack of new business wins, the Company ceased Banjo s operations. The results of operations of Banjo, net of income tax benefits, was a loss $0.2 million in 2007 and a loss of $0.1 million in 2006.

As a result, the Company has classified these operations as discontinued.

The loss from discontinued operations for 2006 amounted to $24.8 million and is comprised of $18.7 million relating to SPI and $6.1 million relating to MFP and Banjo.

On November 14, 2006, the Company completed its sale of SPI, resulting in net proceeds of $27 million. During 2006, the Company had previously recorded an impairment charge of $19.5 million relating to SPI s long lived assets to adjust them to fair market value. The sale of SPI resulted in a gain of $2.9 million ($1.8 million, net of taxes). The results of operations of SPI for 2006 resulted in a loss of $2.1 million.

Based on the net proceeds and average borrowing rate for each period, the Company has allocated interest expense to discontinued operations of $1.4 million for the year ended 2006.

Net Income

As a result of the foregoing, the net loss recorded for 2007 was $26.3 million or a loss of $1.05 per diluted share, compared to the net loss of $33.5 million or $1.40 per diluted share reported for 2006.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Revenue was $412.2 million for the year ended 2006, representing a $62.4 million or 17.8% increase compared to revenue of $349.8 million for the year ended 2005. This increase relates primarily to organic growth and acquisitions made during 2005.

Operating profit for the year ended 2006 was $23.8 million, compared to $22.3 million for the year ended 2005. The increase in operating profit in 2006 was primarily the result of the increase in revenue, a reduction in outside professional fees, a one time reversal of a liability relating to the termination of a prior commitment of $1.9 million and a reduction in cost of services sold resulting from a change in estimate relating to the elimination of potential liabilities of $1.7 million. This was partially offset by a $5.1 million increase in stock-based compensation expense, a charge of $2.6 million relating to the closure of one of our West Coast facilities, relating primarily to the net present value of lease termination costs, and additional depreciation and amortization of $1.5 million.

The loss from continuing operations for 2006 increased from $7.8 million in 2005, to $8.7 million in 2006, as a result of the items described above.

Marketing Communications Group

Revenues in 2006 attributable to the Marketing Communications Group, which consists of three reportable segments Strategic Marketing Services (SMS), Customer Relationship Management (CRM), and Specialized Communication Services (SCS), were $412.2 million compared to $349.8 million in 2005, representing a year-over-year increase of 17.8%.

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The components of revenue growth for 2006 are shown in the following table:

	Revenue $000 s	%
Year ended December 31, 2005	$ 349,824	
Organic	41,557	11.9 %
Acquisitions	13,517	3.9 %
Effect of accounting change	3,635	1.0 %
Foreign exchange impact	3,674	1.0 %
Year ended December 31, 2006	$ 412,207	17.8 %

The Marketing Communications Group had organic revenue growth of $41.6 million or 11.9% in 2006, primarily attributable to new business wins and additional revenues from existing clients, particularly in the US. Acquisition related revenue was $13.5 million primarily as a result of the acquisition of the Zyman Group in 2005. Additionally, revenue increased $3.6 million in 2006 as a result of the consolidation of Zig Inc., Mono Advertising, LLC and Accumark Communications, Inc., all previously accounted for under the equity method of accounting during 2005. A weakening of the US dollar versus the Canadian dollar and UK pound in 2006 compared to 2005 resulted in increased contributions from the division s Canadian and UK-based operations by approximately $3.7 million.

The geographic mix in revenues was consistent between 2006 and 2005 and is demonstrated in the following table:

	2006	2005
US	84 %	83 %
Canada	14 %	15 %
UK and other	2 %	2 %

The operating profit of the Marketing Communications Group increased by approximately 0.7% to $48.1 million from $47.8 million, with operating margins of 11.7% for 2006 compared to 13.7% in 2005. The 2.0% decrease in operating margins was primarily reflective of an increase in staff costs as a percentage of revenue to 45.7% in 2006 as compared to 44.0% in 2005. In addition, general and other operating costs increased as a percentage of revenue from 13.4% in 2005 to 14.1% in 2006 primarily related to a charge for the closure of one of our West Coast facilities.

Marketing Communications Businesses

Strategic Marketing Services (SMS)

Revenues attributable to SMS in 2006 were $241.5 million compared to $203.9 million in 2005. The year-over-year increase of $37.6 million or 18.4% was attributable primarily to organic growth of $22.4 million, $11.7 million relating to the 2005 acquisition of the Zyman Group, $2.1 million relating to the change in accounting for Zig Inc., and Mono Advertising, LLC, both previously accounted for on the equity method to consolidating them during 2006. In addition, a weakening of the US dollar versus the Canadian dollar in 2006 compared to 2005 resulted in a $1.3 million increase in revenues from the division s Canadian-based operations. Organic growth for 2006 was approximately 10.9% primarily due to new business wins in the US.

The operating profit of SMS increased by approximately 1% to $34.3 million from $33.9 million in 2005, while operating margins decreased to 14.2% for 2006 from 16.6% in 2005. These decreased profits were primarily reflective of an increase in total staff costs as a percentage of revenue from 52% in 2005 to 54% in 2006, a $2.6 million charge relating to the closure of one of our West Coast facilities, increased stock based compensation of $0.5 million, offset in part by the increase in revenue, a one time reversal of a liability relating to the termination of a prior commitment of $1.9 million and a reduction in cost of services sold resulting from a change in estimate relating to the elimination of potential liabilities in the amount of $1.7 million. The increase in staff costs results primarily from an increase in head count to service the increase in the organic growth.

Customer Relationship Management (CRM)

Revenues reported by the CRM segment in 2006 were $84.9 million, an increase of $17.7 million or 26.3% compared to the $67.2 million reported for 2005. This growth was due primarily to higher volumes from existing clients in part as a result of the opening of three additional customer care centers during 2006 offset by the closure of one customer care center.

Operating profit earned by CRM increased by approximately $0.6 million to $1.9 million for 2006 from $1.3 million for the previous year. Operating margins were 2.3% for 2006 as compared to 2.0% in 2005. The increase was primarily the result of an increase in gross margins primarily from reduced costs incurred relating 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 start up of three additional customer care centers during fiscal 2006.

Specialized Communication Services (SCS)

SCS generated revenues of $85.8 million for 2006, $7.2 million or 9.1% higher than 2005 revenues of $78.6 million. Acquisitions accounted for an increase of approximately $1.8 million or 2.3%, $1.5 million or 1.9% of the increase related to the change for Accumark Communications, Inc. previously accounted for on the equity method to consolidating that entity during 2006. Revenues of the division s Canadian and UK-based operations increased 3.0% compared to 2005 as a result of a weakening of the US dollar versus the Canadian dollar and British pound.

The operating profit of SCS decreased by approximately $0.7 million or 5.6% to $11.9 million from $12.6 million in 2005 due primarily to an increase in stock based compensation of $2.3 million relating to the price paid for membership interests, which was less than 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. In addition, depreciation and amortization increased by $0.5 million and occupancy and administrative expenses as a percentage of revenue increased from 10.2% in 2005 to 11.0% in 2006 as a result of expansions and office moves of certain partner firms.

Corporate

Operating costs related to the Company s Corporate operations totaled $24.3 million in 2006 compared to $25.5 million in 2005. This decrease was primarily due to a decrease in outside professional fees of $4.5 million resulting from decreased costs relating to compliance costs associated with the Sarbanes-Oxley legislation and a reduction in audit fees. These decreases were offset by an increase in staff costs of $2.7 million relating primarily to an increase in non-cash stock based compensation of $2.3 million. Additional increases in insurance and occupancy costs relating to the establishment of a New York office in December 2005 were offset in part in 2006 by decreases in recruitment costs.

Other Income, Net

Other income increased to $1.2 million in 2006 compared to $0.7 million in 2005. The 2006 income is comprised of gains on the sale of assets, the settlement in June 2006, of the Company s cross currency swap, the recovery of an investment offset in part by a loss on an equity transaction of a subsidiary. The 2005 income is comprised of a recovery of an investment offset by losses on the sale of assets.

Foreign Exchange

The foreign exchange gain was $0.6 million for 2006 compared to the gain of $0.1 million recorded in 2005 and was due primarily to a weakening in the Canadian dollar compared to the US dollar on the US dollar denominated balances of Canadian subsidiaries. At December 31, 2006, the exchange rate was 1.17 Canadian dollars to one US dollar, compared to 1.16 at the end of 2005.

Net Interest Expense

Net interest expense for 2006 was $10.7 million, an increase of $3.2 million over the $7.5 million net interest expense incurred during 2005. This increase relates primarily 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% Debentures, in June 2005 (which accrued interest at 8.5% during the first six months of 2006). Interest income increased by $0.2 million during 2006 compared to 2005.

Income Taxes

Income tax expense in 2006 was $7.1 million compared to an expense of $3.2 million for 2005. The Company s effective tax rate was substantially higher than the statutary rate in 2006 because the Company increased its valuation allowance in an amount equal to the tax loss resulting from the sale of SPI. In 2005, the Company s effective tax rate was substantially lower than the statutory tax rate due to non deductible stock based compensation and 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 2006, income of $0.2 million was recorded, $1.2 million lower than the $1.4 million earned in 2005. This decrease was primarily due to the consolidation of Zig Inc., Mono Advertising, LLC and Accumark Communications Inc., which have been consolidated in the Company s financial statements during 2006, but was previously accounted for under the equity method. In addition, during the fourth quarter of 2006, the Company recorded an impairment charge of $0.8 million relating to its investment in Cliff Freeman.

Minority Interests

Minority interest expense was $16.7 million for 2006, down $4.9 million from the $21.6 million of minority interest expense incurred during 2005, primarily due to the decrease in profitability of the SMS operating segment.

Discontinued Operations

The loss from discontinued operations for 2006 amounted to $24.8 million compared to $0.1 million in 2005. Discontinued operations is comprised of SPI, MFP, Banjo, Mr Smith Agency, Ltd. (Mr Smith) and a variable interest entity whose operations had been consolidated by the Company, LifeMed Media, Inc. (LifeMed).

In March 2007, due to continued operating and client losses, the Company ceased MFP s current operations and spun off a new operating business. After reviewing the 2008 projections of the new operating business the Company decided to cease the operations of the new operating business as well. The results of operations of MFP and the new operating business, net of income tax benefits, was a loss of $6.0 million in 2006 and a loss of $0.6 million in 2005.

In December 2007, due to continued operating losses and the lack of new business wins, the Company ceased Banjo s operations. The results of operations of Banjo, net of income tax benefits, was a loss of $0.1 million in 2006 and $0.6 million in 2005.

As a result, the Company has classified these operations as discontinued.

On November 14, 2006, the Company completed its sale of SPI, resulting in net proceeds of $27 million. During 2006, the Company had previously recorded an impairment charge of $19.5 million relating to SPI s long lived assets to adjust them to fair market value. The sale of SPI resulted in a gain of $2.9 million ($1.8 million, net of taxes). The results of operations of SPI for 2006 resulted in a loss of $2.1 million and income of $0.6 million in 2005.

Based on the net proceeds and average borrowing rate for each period, the Company has allocated interest expense to discontinued operations of $1.4 million and $1.1 million for the years ended 2006 and 2005, respectively.

During July 2005, LifeMed completed a private placement issuing approximately 12.5 million shares at a price of $0.4973 per share. LifeMed received net proceeds of approximately $6.2 million. Consequently, the Company s ownership interest in LifeMed was reduced to 18.3% from this transaction. As a result of the equity transaction of LifeMed, the Company recorded an equity gain of $1.3 million. This gain represents the Company s recovery of previously recorded losses in excess of the Company s original investment and the

losses recorded that were in excess of the minority shareholders original investment. The Company no longer has any significant continuing involvement in the management or operations of LifeMed, and has not participated in the purchase of significant new equity offerings by LifeMed. Consequently, as of July 2005, the Company no longer consolidates the operations of LifeMed, and commenced accounting for its remaining investment in LifeMed on a cost basis and has reported the results of operations of LifeMed as discontinued operations for all periods presented in the consolidated statement of operations. During February 2006, the Company further reduced its ownership in LifeMed in connection with a put obligation relating to Source Marketing LLC. The Company s current ownership in LifeMed is 5.8%.

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

Net Income

As a result of the foregoing, the net loss recorded for 2006 was $33.5 million or a loss of $1.40 per diluted share, compared to the net loss of $7.9 million or $0.34 per diluted share reported for 2005.

Liquidity and Capital Resources

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

Liquidity	2007	2006	2005
	(In Thousands, Except for Long-Term Debt to Shareholders Equity Ratio)		
Cash and cash equivalents	$ 10,410	$ 6,591	$ 12,923
Working capital (deficit)	$ (22,364)	$ (105,039)	$ (99,935)
Cash from operations	$ 4,132	$ 39,705	$ 4,670
Cash from investing	$ (60,914)	$ (14,315)	$ (67,404)
Cash from financing	$ 60,929	$ (31,597)	$ 52,316
Long-term debt to shareholders equity ratio	1.27	0.37	0.81

As at December 31, 2007 and 2006, $3.5 million and $2.3 million, respectively, of the consolidated cash position was held by subsidiaries, which, although available for the subsidiaries use, does not represent cash that is distributable as earnings to MDC for use to reduce its indebtedness. It is the Company s intent through its cash management system to reduce outstanding borrowings under the Financing Agreement using available cash.

Working Capital

At December 31, 2007, the Company had a working capital deficit of $22.4 million compared to a deficit of $105.0 million at December 31, 2006. Working capital increased by $82.6 million primarily due to the refinancing of the Company s existing Credit Facility and due to seasonal shifts in amounts collected from clients and paid to suppliers, primarily media outlets. The Company includes amounts due to minority interest holders, for their share of profits, in accrued and other liabilities. During 2007, 2006 and 2005, the Company made distributions to these minority interest holders of $25.0 million, $19.4 million and $17.6 million, respectively. At December 31, 2007, $7.9 million remains outstanding to be distributed to minority interest holders over the next twelve months.

The Company expects that available borrowings under its Financing Agreement, together with cash flows from operations, will be sufficient at any particular time to adequately fund working capital deficits should there be a need to do so from time to time.

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Operating Activities

Cash flow provided by continuing operations for 2007 was $4.0 million. This was attributable primarily to a loss from continuing operations of $19.1 million, plus non-cash stock based compensation of $9.1 million, depreciation and amortization of $31.6 million, foreign exchange of $7.3 million, deferred income taxes of $5.3 million, a decrease in expenditures billable to clients of $8.6 million and a decrease in other non-current assets and liabilities of $3.8 million. This was partially offset by decreases in accounts payable, accruals and other current liabilities of $25.1 million and an increase in accounts receivable of $12.7 million. Discontinued operations generated cash of $0.1 million.

Cash flow provided by continuing operations for 2006 was $34.0 million. This was attributable primarily to a loss from continuing operations of $8.7 million, plus non-cash stock based compensation of $7.4 million, depreciation and amortization of $26.4 million, deferred income taxes of $4.9 million, an increase in accounts payable, accruals and other liabilities of $35.4 million and an increase in advance billings of $15.9 million. This was partially offset by increases in accounts receivable of $21.0 million and expenditures billable to clients of $19.4 million. Discontinued operations provided cash of $5.7 million.

Cash flow provided by continuing operations for 2005 was $1.9 million. This was attributable primarily to the loss from continuing operations of $7.8 million, plus non-cash depreciation and amortization of $23.9 million, non-cash stock-based compensation of $3.3 million, and a decrease in accounts receivable of $9.0 million. This was partially offset by a decrease in accounts payable and accruals of $15.7 million and a decrease in advance billings of $7.7 million. Discontinued operations provided cash of $2.8 million.

Investing Activities

Cash flows used in investing activities were $60.9 million for 2007, compared with $14.3 million in 2006, and $67.4 million in 2005.

Cash used in acquisitions during 2007 was $47.6 million and was primarily attributed to cash paid in the acquisition of equity interests in Crispin Porter & Bogusky of $22.6 million, kirshenbaum bond + partners of $12.3 million, HL Group Partners of $4.3 million, net of cash acquired and Redscout of $3.7 million, net of cash acquired.

The proceeds from dispositions in 2007 primarily relate to proceeds received from the sale of the plane acquired in the Zyman acquisition.

Expenditures for capital assets in 2007 were $20.1 million. Of this amount, $9.0 million was incurred by the SMS segment, $7.9 million was incurred by the CRM segment and $2.9 million was incurred by the SCS segment. These expenditures consisted primarily of computer equipment, leasehold improvements, furniture and fixtures, and $0.2 million related to the purchase of corporate assets, primarily software.

In 2006, capital expenditures totaled $22.4 million, of which $9.2 million was incurred by the SMS segment, $11.6 million was incurred by the CRM segment and $1.2 million was incurred by the SCS segment, which expenditures consisted primarily of leasehold improvements, computer and switching equipment, and $0.4 million related to the purchase of corporate assets.

Expenditures for capital assets in 2005 were $10.7 million. Of this amount, $5.8 million was incurred by the SMS segment, $4.0 million was incurred by the CRM segment, $0.6 million was incurred by the SCS segment and and $0.3 million related to the purchase of corporate assets.

During 2006, the Company received net proceeds of $16.4 million in connection with the sale of SPI and used $7.2 million of cash to fund acquisitions, step-ups in ownership of certain partner firms and earnout payments.

Cash flow used in acquisitions of continuing operations was $55.0 million in 2005 and primarily related to the purchase of the Zyman Group. For further details relating to the Company s acquisitions, see Note 4 of the Company s consolidated financial statements included in this Form 10-K.

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Profit distributions received from non-consolidated affiliates amounted to nil for 2007, compared to $1.0 million for 2006 and $1.8 million in 2005. The decrease between 2007, 2006 and 2005 related primarily to the consolidation in 2006 and 2007 of certain partner firms, which had been previously accounted for on the equity method of accounting.

Discontinued operations used cash of nil and $2.7 million in 2007 and 2006, respectively, relating to expenditures for capital assets. Discontinued operations used cash of $4.3 million in 2005 relating to capital expenditures and acquisitions.

Financing Activities

During the year ended December 31, 2007, cash flows provided by financing activities amounted to $60.9 million, and primarily consisted of $111.5 million of proceeds from the new Financing Agreement. These proceeds were partially offset by the $45.0 million repayment of the old credit facility, $10.8 million of net repayments of long-term debt and bank borrowings, and the payment of $3.9 million of deferred financing costs relating to the new Financing Agreement. The Company also received proceeds from a forgivable note payable amounting to $3.3 million relating to the opening of a new customer care center. In addition, the Company received $4.9 million of proceeds from the issuance of share capital resulting from the exercise of stock options. Discontinued operations used cash of $0.1 million for payments under capital leases.

During 2006, the Company used cash of $31.6 million to repay borrowings under the Credit Facility and payments under capital leases and other debt. Discontinued operations used cash of $3.3 million for payments under capital leases.

During 2005, cash flows provided by financing activities amounted to $52.3 million, and consisted of proceeds related to the issuance of $36.7 million of 8% convertible debentures and borrowings under the Credit Facility used to fund the acquisition of the Zyman Group. Payments made of $6.6 million consist of payments under capital leases, bank borrowings, and debt assumed in the Zyman Group acquisition. In addition, the Company incurred $3.3 million of finance costs related to both the convertible debentures and the various amendments under the credit facility. Discontinued operations used cash for payments under capital leases of $2.0 million.

Total Debt

On June 18, 2007, the Company and its material subsidiaries entered into a new $185 million senior secured financing agreement (the Financing Agreement) with Fortress Credit, an affiliate of Fortress Investment Group, as collateral agent and Wells Fargo Bank, as administrative agent, and a syndicate of lenders. This facility replaced the Company s existing $96.5 million credit facility that was originally expected to mature on September 21, 2007. Proceeds from the Financing Agreement were used to repay in full the outstanding balances on the Company's existing credit facility. The obligations repaid totaled approximately $73.7 million. All of these repaid credit facilities have been terminated.

This new Financing Agreement consists of a $55 million revolving credit facility, a $60 million term loan and a $70 million delayed draw term loan. Borrowings under the Financing Agreement will bear interest as follows: (a) LIBOR Rate Loans bear interest at applicable interbank rates and Reference Rate Loans bear interest at the rate of interest publicly announced by the Reference Bank in New York, New York, plus (b) a percentage spread ranging from 0% to a maximum of 4.75% depending on the type of loan and the Company s Senior Leverage Ratio. In addition, the Company is required to pay a facility fee of 50 basis points. The weighted average interest rate at December 31, 2007 was 9.22%.

The new Financing Agreement is guaranteed by the material subsidiaries of the Company and matures on June 17, 2012. The Financing Agreement is subject to various covenants, including a senior leverage ratio, fixed charges ratio, limitations on debt incurrence, limitation on liens and limitation on dividends and other payments.

Debt as of December 31, 2007 was $164.8 million, an increase of $69.3 million compared with the $95.5 million outstanding at December 31, 2006, primarily as a result of borrowings under the Financing Agreement to fund acquisitions and capital expenditures during 2007. At December 31, 2007, $64.6 million is available under the Financing Agreement.

The Company is currently in compliance with all of the terms and conditions of its Financing Agreement, 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 Financing Agreement, 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 Financing Agreement, the Company must comply with certain financial covenants including, among other things, covenants for (i) total debt ratio, (ii) fixed charges ratio, (iii) minimum earnings before interest, taxes and depreciation and amortization, and (iv) limitations on capital expenditures, in each case as such term is specifically defined in the Financing Agreement. For the period ended December 31, 2007, the Company s calculation of each of these covenants, and the specific requirements under the Financing Agreement, respectively, were as follows:

	December 2007
Total Senior Leverage Ratio	2.11
Maximum per covenant	3.25
Fixed Charges Ratio	2.23
Minimum per covenant	1.20
Minimum earnings before interest, taxes, depreciation and amortization	$ 57.7 million
Minimum per covenant	$ 37.6 million
Capital Expenditures:	$ 15.6 million
Maximum per covenant	$ 16.0 million

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 Financing Agreement, as non-compliance with such covenants could have a material adverse effect on the Company.

8% Convertible Unsecured Subordinated Debentures

On June 28, 2005, the Company completed a public offering in Canada of convertible unsecured subordinated debentures amounting to $36.7 million (C$45.0 million) (the Debentures). The Debentures will mature on June 30, 2010. The Debentures will bear interest at an annual rate of 8.00% payable semi-annually, in arrears, on June 30 and December 31 of each year, commencing December 31, 2005. Unless an event of default has occurred and is continuing, the Company may elect, from time to time, subject to applicable regulatory approval, to issue and deliver

Class A subordinate voting shares to the Debenture trustee in order to raise funds to satisfy all or any part of the Company s obligations to pay interest on the Debentures in accordance with the indenture in which event holders of the Debentures will be entitled to receive a cash payment equal to the interest payable from the proceeds of the sale of such Class A subordinate voting shares by the Debenture trustee.

The Debentures will be convertible at the holder s option into fully-paid, non-assessable and freely tradeable Class A subordinate voting shares of the Company, at any time prior to maturity or redemption, subject to the restrictions on transfer, at a conversion price of $14.12 (C$14.00) per Class A subordinate voting share being a ratio of approximately 71.4286 Class A subordinate voting shares per $1,009 (C$1,000) 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 part, by issuing Class A subordinate voting shares of the Company to the holders, the number of which will be determined by dividing the principal amount of the Debenture by 95% of the current market price of the Class A subordinate voting shares on the redemption date. Upon the occurrence of a change of control of the Company involving the acquisition of voting control or direction over 50% or more of the outstanding Class A subordinate voting shares prior to June 30, 2008, the Company shall be required to make an offer to purchase all of the then outstanding Debentures at a price equal to 100% of the principal amount thereof plus an amount equal to the interest payments not yet received on the Debentures calculated from the date of the change of control to June 30, 2008, discounted at a specified rate. Upon the occurrence of a change of control on or after June 30, 2008, the Company shall be required to make an offer to purchase all of the then outstanding Debentures at a price equal to 100% of the principal amount of the Debentures plus accrued and unpaid interest to the purchase date.

Disclosure of Contractual Obligations and Other Commercial Commitments

The following table provides a payment schedule of present and future obligations. Management anticipates that the obligations outstanding at December 31, 2007 will be repaid with new financing, equity offerings and/or cash flow from operations (in thousands):

	Payments Due by Period				
Contractual Obligations	Total	Less than 1 Year	1 3 Years	3 5 Years	After 5 Years
Indebtedness	$ 162,081	$ 885	$ 46,595	$ 114,601	$
Capital lease obligations	2,673	911	1,420	342	
Operating leases	94,118	17,293	30,550	20,037	26,238
Deferred acquisition consideration	2,511	1,981	280	250	
Management services agreement	3,338	1,469	1,869		
Total contractual obligations	$ 264,721	$ 22,539	$ 80,714	$ 135,230	$ 26,238

The following table provides a summary of other commercial commitments (in thousands) at December 31, 2007:

	Payments Due by Period				
Other Commercial Commitments	Total	Less than 1 Year	1 3 Years	3 5 Years	After 5 Years
Lines of credit	$	$	$	$	$
Letters of credit	6,975	5,307	1,668		
Total Other Commercial Commitments	$ 6,975	$ 5,307	$ 1,668	$	$

For further detail on MDC s long-term debt principal and interest payments, see Note 12 of the Company s consolidated financial statements included in this Form 10-K. See also *Off-Balance Sheet Commitments* below.

Capital Resources

At December 31, 2007, the Company had utilized approximately $120.4 million of its Financing Agreement in the form of drawings and letters of credit. Cash and undrawn available bank credit facilities to support the Company s future cash requirements at December 31, 2007 was approximately $71.5 million.

The Company expects to incur approximately $15 million of capital expenditures in 2008. Such capital expenditures are expected to include leasehold improvements, furniture and fixtures, and computer equipment at certain of the Company s operating subsidiaries. The Company intends to maintain and expand its business using cash from operating activities, together with funds available under the Financing Agreement. Management believes that the Company s cash flow from operations and funds available under the Financing Agreement will be sufficient to meet its ongoing working capital, capital expenditures and other cash needs over the next eighteen months. If the Company has 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 and Contingent Consideration (Earnouts)

Acquisitions of businesses by the Company include commitments to contingent deferred purchase consideration payable to the seller. The contingent purchase obligations are generally payable annually over a three-year period following the acquisition date, and are based on achievement of certain thresholds of future earnings and, in certain cases, also based on the rate of growth of those earnings. The contingent consideration is recorded as an obligation of the Company when the contingency is resolved and the amount is reasonably determinable. At December 31, 2007, the deferred consideration relates to acquisitions in 2007 and is presented on the Company s balance sheet. Based on the various assumptions as to future operating results of the relevant entities, including the October 2007 acquisition of the remaining 40% of KBP, management estimates that approximately $23.4 million of additional deferred purchase obligations could be triggered during 2008 or thereafter, including approximately $5.9 million which may be paid in the form of issuance by the Company of its Class A shares. The actual amount that the Company pays in connection with the obligations may be materially different from this estimate.

Off-Balance Sheet Commitments

Put Rights of Subsidiaries Minority Shareholders

Owners of interests in certain of the Company s 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 2008 to 2015. It is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights.

The amount payable by the Company in the event such rights are exercised is dependent on various valuation formulas and on future events, such as the average earnings of the relevant subsidiary through that date of exercise, the growth rate of the earnings of the relevant subsidiary during that period, and, in some cases, the currency exchange rate at the date of payment.

Management estimates, assuming that the subsidiaries owned by the Company at December 31, 2007, perform over the relevant future periods at their 2007 earnings levels, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate amount of approximately $69.7 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 $11.8 million by the issuance of the Company s Class A Shares. In addition, the Company is obligated under similar put option rights to pay an aggregate amount of approximately $8.5 million only upon termination of such owners employment with the applicable subsidiary. 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 $12.1 million of the estimated $69.7 million that the Company would be required to pay subsidiaries minority shareholders upon the exercise of outstanding put rights, relates to rights exercisable within the next twelve months. In January 2008, certain owners of Allard Johnson put to the Company 9.9% of their ownership in Allard Johnson for approximately $2.3 million in cash. See Item 1A Risk Factors.

The following table summarizes the potential timing of the consideration and incremental operating income before depreciation and amortization based on assumptions as described above excluding certain put option rights exercisable only pursuant to a termination of employment.

Consideration[4]	2008	2009	2010	2011	2012 & Thereafter	Total
	($ Millions)					
Cash	$11.8	$ 2.1	$ 26.3	$ 2.0	$ 15.7	$ 57.9
Shares	0.3	0.9	6.5	1.1	3.0	11.8
	$12.1	$ 3.0	$ 32.8	$ 3.1	$ 18.7	$ 69.7 [1]
Operating income before depreciation and amortization to be received[2]	$2.8	$ 0.6	$ 4.1	$ 1.6	$ 3.4	$ 12.5
Cumulative operating income before depreciation and amortization[3]	$2.8	$ 3.4	$ 7.5	$ 9.1	12.5	(5)

(1) Of this, approximately $19.6 million has been recognized in Minority Interest on the Company s balance sheet in conjunction with the consolidation of CPB as a variable interest entity in 2004. As a result, the net off-balance sheet commitment is $50.1 million.

(2) This financial measure is presented because it is the basis of the calculation used in the underlying agreements relating to the put rights and is based on actual 2007 operating results. This amount represents amounts to be received commencing in the year the put is exercised.

(3) Cumulative operating income before depreciation and amortization represents the cumulative amounts to be received by the company.

(4) The timing of consideration to be paid varies by contract and does not necessarily correspond to the date of the exercise of the put.

(5) Amounts are not presented as they would not be meaningful due to multiple periods included.

Guarantees

In connection with certain dispositions of assets and/or businesses in 2001 and 2003, as well as the 2006 sale of SPI, the Company has provided customary representations and warranties whose terms range in duration and may not be explicitly defined. The Company has also retained certain liabilities for events occurring prior to sale, relating to tax, environmental, litigation and other matters. Generally, the Company has indemnified the purchasers in the event that a third party asserts a claim against the purchaser that relates to a liability retained by the Company. These types of indemnification guarantees typically extend for several years.

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

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

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

Transactions with Related Parties

CEO Services Agreement

On April 27, 2007, the Company entered into a new Management Services Agreement (the Services Agreement) with Miles Nadal and with Nadal Management, Inc. to set forth the terms and conditions on which Mr. Nadal will continue to provide services to the Company as its Chief Executive Officer. Mr. Nadal s

prior services agreement with the Company was scheduled to expire on October 31, 2007, subject to two-year annual renewals. If the Company were not going to enter into a new agreement with Mr. Nadal and did not intend to allow the prior agreement to renew, it would have been required to give Mr. Nadal notice of such non-renewal by April 30, 2007.

As an incentive to enter into the Services Agreement, the Company paid a one-time non-renewal fee of $3.5 million upon execution of the Services Agreement, which has been expensed during the second quarter of 2007. Mr. Nadal used a portion of the proceeds to repay to the Company the $2.7 million (C$3.0 million) note receivable due on November 1, 2007 from Nadal Management, Inc. In addition, during 2007 and in accordance with this new Services Agreement, Mr. Nadal repaid an additional $0.5 million of loans due to the Company.

At December 31, 2007, outstanding loans due from Nadal Management to the Company, with no stated maturity date, amounted to C$6.4 million ($6.4 million), which have been reserved for in the Company s accounts.

Trapeze Media

In 2000, the Company purchased 1,600,000 shares in Trapeze Media Limited (Trapeze) for $0.2 million. At the same time, the Company s CEO purchased 4,280,000 shares of Trapeze for $0.6 million, the Company s former Chief Financial Officer and a Managing Director of the Company each purchased 50,000 Trapeze shares for $7,000 and a Board Member of the Company purchased 75,000 shares of Trapeze for $10,000. In 2001, the Company purchased an additional 1,250,000 shares for $0.2 million, and the Company s CEO purchased 500,000 shares for $0.1 million. In 2002, the Company s CEO purchased 3,691,930 shares of Trapeze for $0.5 million. All of these purchases were made at identical prices (i.e., C$0.20/unit).

During 2007 and 2006, Trapeze provided services to certain partner firms of MDC, and the total amount of such services provided was $0.4 million and $0.3 million, respectively.

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

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

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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, which require delivery of a number of service acts, the Company uses the Proportional Performance model, which generally results in revenue being recognized based on the straight-line method due to the acts being non-similar and there being insufficient evidence of fair value for each service provided.

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 follows EITF 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 revenue has been earned from the sale of goods or services, or the net amount retained because a fee or commission has been earned. The Company s business at times acts as an agent and records revenue equal to the net amount retained, when the fee or commission is earned. The Company also follows EITF No. 01-14 for reimbursements received for out-of-pocket expenses. This issue summarized the EITF s views that reimbursements received for out-of-pocket expenses incurred should be characterized in the income statement as revenue. Accordingly, the Company has included in revenue such reimbursed expenses.

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 includes 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

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 fair value of the award, and is recorded into operating income over the service period, that is the vesting period of the award. Changes in the Company s payment obligation are revalued each period and recorded as compensation cost over the service period in operating income.

Effective January 1, 2006, the Company adopted SFAS 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 SFAS 123(R) for new awards granted or modified after the adoption of SFAS 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.

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

New Accounting Pronouncements

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

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 adoption of this interpretation did not have a material effect on its financial statements.

Effective in Future Periods

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 new statement on our financial statements.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement expands the use of fair value measurement and applies to entities that elect the fair value option. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact of this new statement on our financial statements.

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In December 2007, FASB issued SFAS No. 141R Business Combination (SFAS 141R). This revised statement retains some fundamental concepts of the current standard, including the acquisition method of accounting (known as the purchase method in Statement 141) for all business combinations but SFAS 141R broadens the definitions of both businesses and business combinations, resulting in the acquisition method applying to more events and transactions. This statement also requires the acquirer to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values. SFAS 141R will require both acquisition-related costs and restructuring costs to be recognized separately from the acquisition and be expensed as incurred. In addition, acquirers will record contingent consideration at fair value on the acquisition date as either a liability or equity. Subsequent changes in fair value will be recognized in the income statement for any contingent consideration recorded as a liability. SFAS 141R is to be applied prospectively for financial statements issued for fiscal years beginning on or after December 15, 2008. Early application is prohibited. The Company is currently evaluating the impact of this new statement on its financial statements.

In December 2007, FASB issued SFAS No. 160 Non-controlling Interests in Consolidated Financial Statements (SFAS 160). This statement amends ARB No. 51 Consolidated Financial Statements, to now require the classification of noncontrolling (minority) interests and dispositions of noncontrolling interests as equity within the consolidated financial statements. The income statement will now be required to show net income/loss with and without adjustments for noncontrolling interests. SFAS 160 is to be applied prospectively for financial statements issued for fiscal years beginning on or after December 15, 2008 and interim periods within those years. However, this statement requires companies to apply the presentation and disclosure requirements retrospectively to comparative financial statements. Early application is prohibited. The Company is currently evaluating the impact of this new statement on its financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Debt Instruments: At December 31, 2007, the Company s debt obligations consisted of amounts outstanding under its Financing Agreement. This facility bears interest at variable rates based upon the Eurodollar rate, US bank prime rate and, US base 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 $113.4 million, as of December 31, 2007, a 1.0% increase or decrease in the weighted average interest rate, which was 9.22% at December 31, 2007, would have an interest impact of approximately $1.1 million annually.

Foreign Exchange: The Company conducts business in five currencies, the US dollar, the Canadian dollar, Jamaican dollar, the Mexican Peso 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 the Management s Discussion and Analysis of Financial Condition and Result of Operations and in Note 2 of our consolidated financial statements. For the most part, our revenues and expenses incurred related to our non-US operations are denominated in their functional 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 and recorded a gain of $0.2 million.

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Item 8. Financial Statements and Supplementary Data

MDC PARTNERS INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
MDC Partners, Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of MDC Partners, Inc. and subsidiaries as of December 31, 2007 and 2006 and the related consolidated statements of operations, shareholders equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MDC Partners, Inc. and subsidiaries at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), MDC Partners, Inc. and subsidiaries internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO) and our report dated March 7, 2008 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

New York, New York
March 7, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
MDC Partners Inc.:

We have audited the accompanying consolidated statements of operations, shareholders equity and cash flows for the year ended December 31, 2005 of MDC Partners Inc. and subsidiaries (the Company). In connection with our audit of the consolidated financial statements, we also have audited the financial statement schedules II for the year ended December 31, 2005. These consolidated financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of its operations, shareholder s equity, and its cash flows for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules for the year ended December 31, 2005, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Toronto, Canada
March 15, 2006, except as to Note 10, which is as of March 7, 2008

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MDC PARTNERS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Thousands of United States Dollars, Except Share and per Share Amounts)

	Years Ended December 31,		
	2007	2006	2005
Revenue:			
Services	$547,319	$412,207	$349,824
Operating Expenses:			
Cost of services sold	351,851	236,916	201,433
Office and general expenses	143,207	127,347	103,443
Depreciation and amortization	29,246	24,162	22,636
	524,304	388,425	327,512
Operating Profit	23,015	23,782	22,312
Other Income (Expenses)			
Gain on sale of assets and other	3,065	1,246	729

Foreign exchange gain, (loss)	(7,192)	614	80
Interest expense	(13,672)	(11,238)	(7,777)
Interest income	1,726	540	251
	(16,073)	(8,838)	(6,717)
Income from continuing operations before income taxes, equity in affiliates and minority interests	6,942	14,944	15,595
Income taxes	5,620	7,120	3,248
Income from continuing operations before equity in affiliates and minority interests	1,322	7,824	12,347
Equity in earnings of non consolidated affiliates	165	168	1,402
Minority interests in income of consolidated subsidiaries	(20,565)	(16,715)	(21,587)
Loss from continuing operations	(19,078)	(8,723)	(7,838)
Loss from discontinued operations	(7,277)	(24,816)	(111)
Net loss	$(26,355)	$(33,539)	$(7,949)
Loss Per Common Share:			
Basic and diluted			
Continuing operations	$(0.76)	$(0.37)	$(0.34)
Discontinued operations	(0.29)	(1.03)	(0.00)
Net loss	$(1.05)	$(1.40)	$(0.34)
Weighted Average Number of Common Shares Outstanding:			
Basic	25,000,582	23,875,286	23,298,795
Diluted	25,000,582	23,875,286	23,298,795

Non cash stock-based compensation expense is included in the following line items above:

Cost of services sold	$ 4,245	$ 3,373	$ 578
Office and general expenses	5,972	4,988	2,694
Total	$ 10,217	$ 8,361	$ 3,272

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

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MDC PARTNERS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Thousands of United States Dollars)

	December 31, 2007	2006
ASSETS		
Current Assets:		

Cash and cash equivalents	$10,410	$6,591
Accounts receivable, less allowance for doubtful accounts of $1,357 and $1,633	135,260	125,744
Expenditures billable to clients	19,409	28,077
Prepaid expenses	5,937	4,816
Other current assets	2,422	1,248
Total Current Assets	173,438	166,476
Fixed assets, net	47,440	44,425
Investment in affiliates	1,434	2,058
Goodwill	217,726	203,693
Other intangible assets, net	55,399	48,933
Deferred tax assets	9,175	13,332
Other assets	16,086	14,584
Total Assets	$520,698	$493,501
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Bank debt	$	$4,910
Revolving credit facility		45,000
Accounts payable	65,839	90,588
Accrued and other liabilities	74,668	75,315
Advance billings, net	50,988	51,804
Current portion of long-term debt	1,796	1,177
Deferred acquisition consideration	2,511	2,721
Total Current Liabilities	195,802	271,515
Revolving credit facility	1,901	
Long-term debt	115,662	5,754
Convertible notes	45,395	38,613
Other liabilities	8,267	5,512
Deferred tax liabilities	819	1,140
Total Liabilities	367,846	322,534
Minority interests	24,919	46,553
Commitments, contingencies and guarantees (Note 17)		
Shareholders Equity:		
Preferred shares, unlimited authorized, none issued		
Class A Shares, no par value, unlimited authorized, 26,235,932 and 23,923,522 shares issued in 2007 and 2006, respectively	207,958	184,698
Class B Shares, no par value, unlimited authorized, 2,503 and 2,502 shares issued in 2007 and 2006, respectively, convertible into one Class A share	1	1
Share capital to be issued	214	
Additional paid-in capital	26,743	26,216
Accumulated deficit	(112,969)	(86,614)
Stock subscription receivable	(357)	(643)
Accumulated other comprehensive income	6,343	756
Total Shareholders Equity	127,933	124,414
Total Liabilities and Shareholders Equity	$520,698	$493,501

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

MDC PARTNERS INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (Thousands of United States

MDC PARTNERS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Thousands of United States Dollars)

	Years Ended December 31, 2007	2006	2005
Cash flows from operating activities:			
Net loss	$(26,355)	$(33,539)	$(7,949)
Loss from discontinued operations	(7,277)	(24,816)	(111)
Loss from continuing operations	(19,078)	(8,723)	(7,838)
Adjustments to reconcile net loss from continuing operations to cash provided by operating activities:			
Stock-based compensation	9,088	7,360	3,272
Depreciation	14,638	13,251	9,226
Amortization of intangibles	14,608	10,911	13,410
Amortization and write-off of deferred finance charges	2,330	2,213	1,305
Deferred income taxes	5,253	4,861	34
(Gain) loss on disposition of assets	(1,691)		128
Earnings of non consolidated affiliates	(165)	(168)	(1,402)
Other non-current assets and liabilities	3,754	(2,617)	(2,968)
Foreign exchange	7,278	(2,157)	887
Changes in non-cash working capital			
Accounts receivable	(12,712)	(21,045)	9,013
Expenditures billable to clients	8,635	(19,416)	528
Prepaid expenses and other current assets	(1,160)	(1,817)	(421)
Accounts payable, accruals and other current liabilities	(25,083)	35,435	(15,652)
Advance billings	(1,662)	15,897	(7,666)
Cash flows from continuing operating activities	4,033	33,985	1,856
Discontinued operations	99	5,720	2,814
Net cash provided by operating activities	4,132	39,705	4,670
Cash flows from investing activities:			
Capital expenditures	(20,072)	(22,398)	(10,712)
Net proceeds from sale of business		16,407	
Proceeds from dispositions	8,270	656	
Acquisitions, net of cash acquired	(47,648)	(7,230)	(55,046)
Profit distributions from non consolidated affiliates		940	1,796
Other investments	(1,464)		848
Discontinued operations		(2,690)	(4,290)
Net cash used in investing activities	(60,914)	(14,315)	(67,404)
Cash flows from financing activities:			
Increase (decrease) in bank indebtedness	(4,910)	1,171	(2,287)
(Repayments) proceeds under old revolving credit facility	(45,000)	(28,506)	27,501
Proceeds from term loans	111,500		

Proceeds from new credit facility	1,901		
Proceeds from issuance of convertible notes			36,723
Proceeds from notes payable	3,250		
Repayment of long-term debt	(5,843)	(1,477)	(4,330)
Deferred financing costs	(3,946)		(3,316)

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

MDC PARTNERS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Thousands of United States Dollars)

	Years Ended December 31,		
	2007	2006	2005
Subsidiary issuance of share capital		385	
Issuance of share capital	4,893	177	31
Purchase of share capital	(769)		
Discontinued operations	(147)	(3,347)	(2,006)
Net cash provided by (used in) financing activities	60,929	(31,597)	52,316
Effect of exchange rate changes on cash and cash equivalents	(328)	(125)	697
Increase (decrease) in cash and cash equivalents	3,819	(6,332)	(9,721)
Cash and cash equivalents at beginning of year	6,591	12,923	22,644
Cash and cash equivalents at end of year	$10,410	$6,591	$12,923
Supplemental disclosures:			
Cash paid to minority partners	$25,033	$19,359	$17,559
Cash income taxes paid	$1,216	$1,459	$918
Cash interest paid	$14,085	$9,920	$5,762
Non-cash transactions:			
Share capital issued, or to be issued, on acquisitions	$10,302	$4,459	$14,794
Capital leases	$1,756	1,351	$1,467
Note receivable exchanged for shares of subsidiary	$125	$1,540	$122
Notes and equity received on sale business	$	$5,648	$

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

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MDC PARTNERS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
(Thousands of United States Dollars)

	2007 Number of Shares	Amount	2006 Number of Shares	Amount	2005 Number of Shares	Amount
Class A Shares						
Balance at beginning of year	23,923,522	$184,698	23,437,615	$178,589	21,937,871	$164,064
Stock appreciation rights exercised	350,264	4,948	99,844	830		
Share options exercised	592,000	4,993	30,400	820	5,258	31
Shares acquired and cancelled	(93,848)	(770)				
Shares issued as acquisition consideration	988,394	10,088	30,058	250	1,139,975	11,257
Shares issued as deferred acquisition consideration	108,097	856	315,247	4,209	354,511	3,237
Shares issued on privatization of Maxxcom	3		10,358			
Issuance of restricted stock	367,500	3,145				