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MDC PARTNERS INC
Form 10-Q/A
December 20, 2004

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

FORM 10-Q/A

(AMENDMENT NO. 1)

(MARK ONE)

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

For the quarterly period ended JUNE 30, 2004 or

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

For the transition period from to

Commission file number: 000-50303

MDC PARTNERS INC.

(Exact name of registrant as specified in its charter)

ONTARIO, CANADA N / A
(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

45 HAZELTON AVENUE M5R 2E3
Toronto, Ontario, Canada (Zip Code)
(Address of principal executive offices)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(416) 960-9000

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

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12(b)-2 of the Act). Yes No

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

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

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The numbers of shares outstanding as of August 3, 2004 were: 22,208,696 Class A shares and 2,502 Class B shares.

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WEBSITE ACCESS TO COMPANY REPORTS

MDC Partners Inc.'s internet website address is www.mdc-partners.com. The Company's annual reports on Form 40-F, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act will be made available free of charge through the Company's website as soon as reasonably practical after those reports are electronically filed with, or furnished to, the Securities and Exchange Commission.

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MDC PARTNERS INC.

QUARTERLY REPORT ON FORM 10-Q

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EXPLANATORY NOTE

This Form 10-Q/A for the quarter ended June 30, 2004 is being filed to restate

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our interim unaudited condensed consolidated financial statements to reflect (1) corrections in the recognition of compensation expense on the privatization of Maxxcom, (2) corrections in the timing of recognition and the classification of the amortization and write-off of deferred financing fees, (3) the recognition of fair value adjustments related to an embedded derivative in the Company's exchangeable debentures, (4) corrections in the timing and amounts recognized on the gain on sale of the investment in Custom Direct Inc. and the correction of an associated income tax expense, (5) correction for the timing of recognition and the classification of certain foreign exchange gains and losses on intercompany balances, (6) corrections to revenue recognition related to certain Secure Products contracts, (7) corrections to the accounting for certain investments, (8) corrections to the purchase price allocations for certain business acquisitions and the related amortization of identified intangible assets, (9) corrections in the timing of the recognition of stock-based compensation, and (10) corrections to the computation of the dilutive effect of convertible debentures on diluted earnings per share.

Refer to Note 2 of the notes to the interim unaudited condensed consolidated financial statements included herein which discloses the adjustments to the Company's interim unaudited condensed consolidated financial statements resulting from these restatements.

Several of the corrections relate to transactions and events that arose in prior periods. The Company has filed an amended Form 40-F/A for the fiscal year ended December 31, 2003 and an amended Form 10-Q/A for the quarter ended March 31, 2004.

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In addition, the Company has restated and reflected corresponding corrections to the Management Discussion and Analysis in Part I, Item 2. In addition, the Company revised Item 4 to include information about the impact of the restatements on its internal controls. This Form 10-Q/A does not reflect events occurring after the original filing date of the Form 10-Q.

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Item 1. Financial Statements

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

| | THREE MONTHS ENDED JUNE 30 2004 | 2003 |
|----------|------------------------------------|--------------------------|
| | (Restated - See Note 2) | (Restated See Note 2) |
| Revenue: | | |
| Services | \$ 58,327 | \$ 42,74 |
| Products | 17,233 | 33,08 |
| | 75,560 | 75,82 |
| | ----- | ----- |

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| | | |
|---|------------|-----------|
| Operating Expenses: | | |
| Cost of products sold | 10,386 | 14,93 |
| Salary and related costs * | 31,099 | 27,29 |
| General and other operating costs | 27,654 | 28,64 |
| Depreciation and amortization | 3,028 | 2,66 |
| Write-down of fixed assets and other assets | -- | 8,12 |
| Goodwill charges | -- | 10,01 |
| | ----- | ----- |
| | 72,167 | 91,67 |
| | ----- | ----- |
| Operating Profit (Loss) | 3,393 | (15,84) |
| | ----- | ----- |
| Other Income (Expenses): | | |
| Gain (loss) on sale of assets and settlement of long-term debt (Note 11) | (73) | 44,62 |
| Foreign exchange gain (loss) | 288 | (87) |
| Interest expense | (2,315) | (5,46) |
| Interest income | 50 | 7 |
| | ----- | ----- |
| | (2,050) | 38,36 |
| | ----- | ----- |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | 1,343 | 22,52 |
| Income Taxes (Recovery) | (589) | 5,93 |
| | ----- | ----- |
| Income Before Equity in Affiliates and Minority Interests | 1,932 | 16,58 |
| Equity in Affiliates | 1,343 | 1,22 |
| Minority Interests in Income of Consolidated Subsidiaries | (2,343) | (17) |
| | ----- | ----- |
| Net Income | \$ 932 | \$ 17,63 |
| | ===== | ===== |
| Earnings Per Common Share: | | |
| Basic - Net Income | \$ 0.04 | \$ 1.0 |
| Diluted - Net Income | 0.04 | 0.8 |
| Weighted Average Number of Common Shares: | | |
| Basic | 21,772,706 | 16,915,34 |
| Diluted | 23,727,869 | 22,378,85 |

* Includes stock-based compensation recovery of \$1,060 and an expense of \$975, during the three months ended June 30, 2004 and 2003, respectively, and an expense of \$4,999 and \$975 during the six months ended June 30, 2004 and 2003, respectively.

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

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(thousands of United States dollars)

| | JUNE 30, 2004 | DECEMBER 31, 2003 |
|---|--|-------------------------------------|
| | ----- (UNAUDITED) (Restated - See Note 2) | ----- (Restated - See Note 2) |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 48,069 | \$ 65,929 |
| Accounts receivable, less allowance for doubtful accounts of \$959 and \$529 | 99,225 | 58,864 |
| Expenditures billable to clients | 7,159 | 7,153 |
| Inventories (Note 7) | 8,459 | 7,735 |
| Prepaid expenses and other current assets | 6,086 | 4,863 |
| | ----- | ----- |
| Total Current Assets | 168,998 | 144,544 |
| Fixed Assets, at cost, less accumulated depreciation and amortization of \$55,254 and \$51,596 | | |
| Investment in Affiliates | 45,163 | 38,775 |
| Goodwill | 22,875 | 34,362 |
| Intangibles, less accumulated amortization of \$580 | 122,237 | 83,199 |
| Deferred Tax Asset | 3,520 | -- |
| Other Assets | 11,381 | 11,563 |
| | 7,606 | 9,096 |
| | ----- | ----- |
| Total Assets | \$ 381,780 | \$ 321,539 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 74,724 | \$ 38,451 |
| Accruals and other liabilities | 50,446 | 34,245 |
| Advance billings | 21,557 | 15,731 |
| Current portion of long-term debt (Note 8) | 36,835 | 16,378 |
| Deferred acquisition consideration | 791 | 1,113 |
| | ----- | ----- |
| Total Current Liabilities | 184,353 | 105,918 |
| Long-Term Debt (Note 8) | 45,064 | 95,970 |
| Convertible Notes (Note 13) | -- | 37,794 |
| Other Liabilities | 502 | 516 |
| | ----- | ----- |
| Total Liabilities | 229,919 | 240,198 |
| | ----- | ----- |
| Minority Interests | 2,040 | 2,432 |
| Commitments and Contingencies (Note 14) | ----- | ----- |
| Subsequent event (Note 12) | | |
| Shareholders' Equity: | | |
| Share capital (Note 13) | 165,806 | 115,996 |

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| | | |
|---|------------|------------|
| Share capital to be issued | 3,909 | -- |
| Additional paid-in capital | 14,903 | 4,610 |
| Retained earnings (deficit) | (31,584) | (39,169) |
| Accumulated other comprehensive income (loss) | (3,213) | (2,528) |
| | ----- | ----- |
| Total Shareholders' Equity | 149,821 | 78,909 |
| | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$ 381,780 | \$ 321,539 |
| | ===== | ===== |

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

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

| | Six Months Ended June | |
|---|----------------------------|----------------------------|
| | 2004 | 2003 |
| | (Restated - See Note 2) | (Restated - See Note 2) |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income | \$ 9,397 | \$ 17,160 |
| Adjustments for non-cash items: | | |
| Stock-based compensation | 4,999 | 5,100 |
| Depreciation and amortization | 5,573 | 5,573 |
| Amortization and write-off of deferred financing charges | 3,063 | 2,800 |
| Non-cash interest expense | -- | 2,800 |
| Deferred income taxes | 510 | 5,100 |
| Foreign exchange | (458) | 1,100 |
| Gain on sale of assets and settlement of long-term debt (Note 11) | (18,160) | (46,000) |
| Write-down of fixed assets and other assets | -- | 8,000 |
| Goodwill charges | -- | 10,000 |
| Earnings of affiliates, net of distributions | 1,729 | (2,000) |
| Minority interest and other | 97 | -- |
| Changes in non-cash working capital | (7,093) | -- |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | (343) | 5,000 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Capital expenditures | (8,065) | (7,000) |
| Proceeds of dispositions | (5,739) | 83,000 |
| Other assets, net | 349 | 2,000 |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | (13,455) | 78,000 |
| | ----- | ----- |
| Cash flows from financing activities: | | |

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| | | |
|---|-------------|-------|
| Proceeds from issuance of long-term debt | 2,007 | 11 |
| Repayment of long-term debt | (4,185) | (87) |
| Issuance of share capital | 3,245 | |
| Purchase of share capital | (5,117) | |
| | ----- | ----- |
| Net cash used in financing activities | (4,050) | (76) |
| | ----- | ----- |
| Effect of exchange rate changes on cash and cash equivalents | (12) | 2 |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (17,860) | 9 |
| Cash and cash equivalents at beginning of period | 65,929 | 31 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 48,069 | \$ 41 |
| | ===== | ===== |
| Supplemental disclosures: | | |
| Income taxes paid | \$ 949 | \$ |
| Interest paid | \$ 4,312 | \$ 2 |
| Non-cash consideration: | | |
| Share capital issued, or to be issued, on acquisitions (Note 9) | \$ 18,860 | |
| Share capital issued on settlement of convertible notes | \$ 34,919 | |
| Stock-based awards issued, on acquisitions (Note 9) | \$ 1,315 | |
| Settlement of debt with investment in affiliate | | |
| Reduction in exchangeable securities (Note 11) | (\$ 33,991) | |
| Proceeds on sale of investment (Note 11) | \$ 33,991 | |

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

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

1. BASIS OF PRESENTATION

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

The accompanying financial statements reflect all adjustments, consisting of normally recurring accruals, which in the opinion of management are necessary for a fair presentation, in all material respects, of the information contained therein. These statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's amended annual report on Form 40-F/A for the year ended December 31, 2003.

Results of operations for interim periods are not necessarily indicative of annual results.

As of the first quarter of 2004, the Company changed its method of accounting from Canadian GAAP to US GAAP. The comparative financial

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statements included in these interim financial statements have been restated following US GAAP. This change in accounting method resulted from the conversion of Class B multiple voting shares into Class A Subordinate Voting Shares during the first quarter of 2004 (see Note 13). Due to the conversion of these shares, the majority of shareholder votes now belong to shareholders of the Company who reside in the US and, as a result, the Company is now deemed to be a US domestic issuer as defined under the SEC regulations to which the Company is subject.

Under Canadian securities requirements, the Company is required to provide a reconciliation setting out the differences between US and Canadian GAAP as applied to the Company's financial statements for the interim periods and years ended in the fiscal periods for 2004 and 2005. This required disclosure for the three months and six months ended June 30, 2004 and 2003 is set out in Note 15.

2. RESTATEMENT OF FINANCIAL STATEMENTS

In preparing the financial statements for the three and nine-month periods ended September 30, 2004, the Company determined that its previously filed audited consolidated financial statements for the years ended December 31, 2001, 2002 and 2003 and its previously issued interim unaudited condensed consolidated financial statements for the three months ended March 31, 2003 and 2004 for the three and six months ended June 30, 2003 and 2004 and for the three and nine months ended September 30, 2003 contained misapplications of Canadian and US GAAP and those financial statements required restatement.

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These adjustments pertained to the correction of the accounting for various transactions including the correction for the following: (1) corrections in the recognition of compensation expense on the privatization of Maxxcom, (2) corrections in the timing of recognition and the classification of the amortization and write-off of deferred financing fees, (3) the recognition of fair value adjustments related to an embedded derivative in the Company's exchangeable debentures, (4) corrections in the timing and amounts recognized on the gain on sale of the investment in Custom Direct Inc. and the correction of an associated income tax expense, (5) correction for the timing of recognition and the classification of certain foreign exchange gains and losses on intercompany balances, (6) corrections to revenue recognition related to certain Secure Products contracts, (7) corrections to the accounting for certain investments, (8) corrections to the purchase price allocations for certain business acquisitions and the related amortization of identified intangible assets, (9) corrections in the timing of the recognition of stock-based compensation, and (10) corrections to the computation of the dilutive effect of convertible debentures on diluted earnings per share.

The Company has restated its consolidated financial statements as at and for the years ended December 31, 2003, 2002 and 2001, the effect of which is described in the Company's restated 2003 Annual Report as filed on Form 40-F/A dated December 20, 2004. The Company has also restated its interim unaudited condensed consolidated financial statements for the three months ended March 31, 2004 and 2003. Reliance should be placed solely on the financial statements in the Form 40-F/A and in this Form 10-Q/A and not on the previously filed Form 40-F dated May 10, 2004, and not on the previously filed Form 10-Q for the three months and the six months ended June 30, 2004 and 2003 dated August 4, 2004 or any other previously reported financial statements for the

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periods identified above.

The interim unaudited condensed consolidated financial statements for the three and six months ended June 30, 2004 and 2003 reflect the following restatement adjustments:

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- (1) The correction in the compensation expense on the privatization of Maxxcom. The correction of the recognition of stock-based compensation pursuant to SFAS 123 "Accounting for Stock Based Compensation" related to the stock option remeasurement required on the issuance of vested and unvested options of the Company in exchange for vested and unvested stock options of Maxxcom Inc. associated with the acquisition of the 26% minority interest holding of Maxxcom Inc. by the Company in July 2003 This correction increased salary and related costs, thus reducing operating profit and net income for both the three and six months ended June 30, 2004, by \$45 and \$148, respectively;
- (2) The reclassification of the amortization of deferred financing fees to interest expense and a correction of the period in which the amortization and write-off of deferred financing fees was recorded. Previously, the amortization of certain deferred financing fees were classified as depreciation and amortization expense or were netted against the gain on sale of assets. The amortization of deferred financing fees should be classified as interest expense and the write off of deferred financing fees included in the loss on the settlement of debt. Certain deferred financing fees were written off in the quarter ended December 31, 2003 in anticipation of the refinancing of debt rather than in the quarters ended March 31, 2004 and September 30, 2004 when the debt was repaid. These corrections increased the loss on settlement of debt by \$1,922 and increased interest expense by \$1,141, resulting in a decrease in net income of \$3,063, for the six months ended June 30, 2004. These corrections also increased interest expense by \$605, reducing net income by the same amount for the three months ended June 30, 2004. These corrections reduced depreciation and amortization, and increased interest expense, by \$601 and \$1,220 for the three months and six months ended June 30, 2003, respectively, resulting in no change to net income in either period;
- (3) The recognition of the fair value adjustment related to an embedded derivative in the Company's exchangeable debentures, as required under SFAS 133, as amended by SFAS 138, "Accounting for Derivative Instruments and Hedging Activities", that was not previously recognized, and to separately account for the loss on the exchangeable debentures that was previously netted within the gain on sale of assets delivered on the settlement of the debentures. The loss associated with the change in fair value of the embedded derivative of \$3,974 from December 1, 2003, the date of issuance to December 31, 2003, was not previously recognized in 2003. When the exchangeable debentures were settled in February 2004, the cumulative loss from the date of issuance of \$7,647 was netted against the gain on the sale of investment in Custom Direct Inc. ("CDI"), for which the debentures were exchangeable. The change in fair value of the embedded derivative has been recognized in the applicable period as a correction of an error in the restatement of fiscal 2003. As a result of the correction of this error, for the six months ended June 30, 2004, the fair value adjustment on the embedded derivative increased by \$3,974 and the loss on the settlement of the debentures increased by \$7,674 and the gain on the sale of assets increased by \$7,647 and net income increased by \$3,974.

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- (4) To correct for certain errors in the calculation of the gain on the disposal of the Company's 80% interest in CDI in May 2003, and the corresponding adjustment to the gain on the sale of the remaining 20% interest in CDI in February 2004 relating primarily to the allocation of the cost base of the CDI assets between the two gain amounts. Associated with this transaction, income tax expense was corrected due to income tax benefits having been calculated incorrectly. For the six months ended June 30, 2004, these corrections increased the gain on sale of assets by \$7,094, income taxes decreased by \$1,361, and net income increased by \$8,455. These corrections reduced the gain on sale of assets and net income by \$4,239 in the three and six months ended June 30, 2003;
- (5) The correction of the accounting for foreign exchange gains and losses related to certain intercompany balances previously reflected in accumulated comprehensive income rather than being recognized in the statement of operations. This change resulted in foreign exchange gains of \$288 and \$458 for the three and six months ended June 30, 2004, respectively, correspondingly affecting net income by the same amounts. This change resulted in foreign exchange losses of \$876 and \$1,531 for the three and six months ended June 30, 2003, respectively, correspondingly affecting net income by the same amounts;

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- (6) The correction of revenue recognition related to various revenue arrangements in accordance with the SEC's Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements ("SAB 101"), and as revised and updated by SAB 104 and EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables ("EITF 00-21). The correction of the accounting includes: (a) The Company incorrectly accounted for certain contracts entered into in the Secured Products segment relating to multiple element manufacturing arrangements. The Company incorrectly recognized revenue on an "as billed" basis as they completed various deliverables under the contract. The Company has determined that the multiple elements should be accounted for as one unit of accounting under both SAB 101, as amended and under EITF 00-21 as the Company does not have reliable, verifiable and objectively determinable evidence of the fair value of the various elements in these arrangements, and specifically the undelivered elements. Revenue should be recognized when the final element of the arrangement is completed and the product shipped to the customer or end user. Amounts received in advance of this date have been deferred and recognized at the shipping date; (b) The Company incorrectly recorded revenue related to its stamp printing business using the percentage of completion method consistent with the guidance provided by Statement of Position 81-1, Accounting for Performance of Construction/Production Contracts ("SOP 81-1"). The manufacture of stamps is not within the scope of SOP 81-1. Revenue related to the manufacture of stamps has been restated to be recognized when the stamps are shipped to the customer and the Company's obligations under the contractual arrangements are completed; and (c) Under the contractual arrangements in both (a) and (b) above, the Company has the ability to recover any costs incurred to date under possible termination of the contract, and accordingly the Company has restated the financial statements to give effect to the deferral of costs related to the manufacturing activities as inventory work-in-process. To reflect this correction, the Company has retroactively restated its annual financial statements at the beginning of the first quarter of 2001 as presented in the Company's restated

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annual consolidated financial statements included in the Company's Form 40-F/A for the year ended December 31, 2003, with retained earnings at January 1, 2001 adjusted for the effects of the restatement on prior years.

This increased product revenue by \$74, reduced costs of sales by \$344, increased operating profit by \$418, increased income taxes expense by \$48 and net income by \$370 for the three months ended June 30, 2004. This reduced product revenue by \$736, reduced costs of sales by \$736, operating profit by nil, reduced income taxes expense by \$89 and increased net income by \$89 for the six months ended June 30, 2004. Similarly, for the three months ended June 30, 2003, these corrections reduced product revenue by \$666, reduced costs of sales by \$688, increased operating profit by \$22, increased income taxes expense by \$12 and increased net income by \$10. This reduced product revenue by \$877, costs of sales by \$910, increased operating profit by \$33, reduced income taxes expense by \$43 and reduced net income by \$10 for the six months ended June 30, 2003. This correction increased inventory by \$1,310 and advance billings by \$3,524 as at June 30, 2004;

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- (7) The correction of the accounting for five investments: (a) A joint venture operating entity owning a rental property, in which the significant financial operating policies are by contractual arrangement jointly controlled by all parties having an equity interest in the entity, was previously accounted for on a proportionately consolidated basis. Pursuant to APB Opinion No. 18 "The Equity Method of Accounting for Investments in Common Stock", the investment in the joint venture is now accounted for using the equity method; (b) The accounting for an investment in an affiliate, previously equity accounted commencing in the quarter ended June 30, 2004, was determined to be a variable interest entity for which the Company was the primary beneficiary, thus requiring consolidation pursuant to Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities an interpretation of ARB 51 (revised December 2003)" ("FIN 46R"); (c) A majority owned investee, Accumark Promotions Group, Inc., was previously accounted for on a consolidated basis. Upon evaluation pursuant to EITF 96-16 "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights", management determined the investee could not be consolidated and accordingly it is now accounted for by the Company using the equity method; (d) A 49.9% owned investee, Mono Advertising, LLC, ("Mono") acquired in April 2004 which was previously accounted for on a consolidated basis as the Company believed it controlled the significant financial operating policies through a contractual arrangement with Mono and its other shareholders. However such contractual arrangements did not meet the requirements for consolidation accounting and the investee is now being accounted for under the equity method; (e) The Company's 20% interest in CDI, up to the date of its sale in February 2004, was previously accounted for on the cost basis and has now been restated and accounted for under the equity method as management has determined significant influence existed. Due to the nature of the adjustments, the corrections impacted most line items on the statement of operations and balance sheets. However, other than item (e) above, the corrections had no impact on net income (loss). For the period, the impact of these changes was to decrease operating profit for the three months ended June 30, 2004 and 2003 by \$997 and \$962, respectively and to decrease operating profit for the six months ended June 30, 2004 and 2003 by \$1,232 and \$1,209,

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respectively;

- (8) The correction related to the allocation to identifiable amortizable intangibles acquired in business combinations that resulted in a reallocation of a gross amount of \$4,100 as at June 30, 2004 from goodwill to other identifiable amortizable intangible assets. This change increased depreciation and amortization and reduced net income by \$340 and \$580 for the three and six months ended June 30, 2004, respectively;
- (9) The correction of the accounting for stock-based compensation to recognize, on a cumulative basis, compensation cost to the end of each reporting period equal to the value of the vested portion of the stock-based award at that same date. This change increased salary and related costs by \$24 and \$206 for the three months ended June 30, 2004 and 2003, respectively, and by \$58 and \$206 for the six months ended June 30, 2004 and 2003, respectively. Net income was reduced by the same amounts in the corresponding periods; and
- (10) The correction to the computation of the dilutive effect of convertible debentures, in calculating diluted earnings per share figures.

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The Company has restated its consolidated financial statements for the years ended December 31, 2003, 2002 and 2001 the effect of which is described in the Company's 2003 Annual Report as filed on Form 40-F/A. The effect of this restatement was to increase the accumulated deficit by \$14,021 as of January 1, 2004. The Company has also restated its interim unaudited condensed consolidated financial statements for the three months ended March 31, 2004 and 2003 as filed on Form 10-Q/A. The cumulative effect of these restatement adjustments to all restated periods through March 31, 2004 was to increase the accumulated deficit by \$4,538 and to decrease shareholder's equity by \$458. The following tables present the effect of these restatements and these changes in classification for the three and six months ended June 30, 2004 and 2003, and as at June 30, 2004:

| | For the Three Months | |
|-----------------------------------|----------------------|--------|
| | As Reported | Adjust |
| Revenue: | | |
| Services | \$ 58,828 | |
| Products | 17,159 | |
| | 75,987 | |
| Operating Expenses: | | |
| Cost of products sold | 10,730 | |
| Salary and related costs | 31,424 | |
| General and other operating costs | 26,726 | |
| Depreciation and amortization | 2,726 | |
| | 71,606 | |
| Operating Profit | 4,381 | |

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| | | |
|---|----|------------|
| Other Income (Expenses): | | |
| Gain (loss) on sale of assets | | (73) |
| Foreign exchange gain | | -- |
| Interest expense | | (1,784) |
| Interest income | | 51 |
| | | ----- |
| | | (1,806) |
| | | ----- |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | | 2,575 |
| Income Taxes (Recovery) | | (386) |
| | | ----- |
| Income Before Equity in Affiliates and Minority Interests | | 2,961 |
| Equity in Affiliates | | 939 |
| Minority Interests | | (2,505) |
| | | ----- |
| Net Income | \$ | 1,395 |
| | | ===== |
| Earnings Per Common Share: | | |
| Basic | \$ | 0.06 |
| Diluted | | 0.06 |
| Weighted Average Number of Common Shares: | | |
| Basic | | 21,772,706 |
| Diluted | | 23,870,460 |

13

| | For the Three Months | |
|---|----------------------|----------|
| | As Reported | Adj |
| | ----- | ----- |
| Revenue: | | |
| Services | \$ | 45,849 |
| Products | | 33,750 |
| | | ----- |
| | | 79,599 |
| | | ----- |
| Operating Expenses: | | |
| Cost of products sold | | 15,620 |
| Salary and related costs | | 27,666 |
| General and other operating costs | | 30,165 |
| Depreciation and amortization | | 3,310 |
| Write-down of fixed assets and other assets | | 8,126 |
| Goodwill charges | | 10,012 |
| | | ----- |
| | | 94,899 |
| | | ----- |
| Operating Profit (Loss) | | (15,300) |
| | | ----- |
| Other Income (Expenses): | | |

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| | |
|---|------------|
| Gain (loss) on sale of assets and settlement of long-term debt | 48,594 |
| Foreign exchange gain (loss) | -- |
| Interest expense | (4,936) |
| Interest income | 78 |
| | ----- |
| | 43,736 |
| | ----- |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | 28,436 |
| Income Taxes (Recovery) | 6,012 |
| | ----- |
| Income Before Equity in Affiliates and Minority Interests | 22,424 |
| Equity in Affiliates | 724 |
| Minority Interests | (361) |
| | ----- |
| Net Income | \$ 22,787 |
| | ===== |
| Earnings Per Common Share: | |
| Basic | \$ 1.35 |
| Diluted | 0.99 |
| Weighted Average Number of Common Shares: | |
| Basic | 16,915,341 |
| Diluted | 23,469,828 |

14

| | For the Six Months | |
|-----------------------------------|--------------------|-------|
| | As Reported | Adju |
| | ----- | ----- |
| Revenue: | | |
| Services | \$ 115,094 | |
| Products | 36,006 | |
| | ----- | ----- |
| | 151,100 | |
| | ----- | ----- |
| Operating Expenses: | | |
| Cost of products sold | 22,297 | |
| Salary and related costs | 68,192 | |
| General and other operating costs | 55,841 | |
| Depreciation and amortization | 5,069 | |
| | ----- | ----- |
| | 151,399 | |
| | ----- | ----- |
| Operating Profit (Loss) | (299) | |
| | ----- | ----- |
| Other Income (Expenses): | | |
| Gain (loss) on sale of assets | 7,092 | |
| Foreign exchange gain | -- | |
| Interest expense | (4,097) | |

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| | | |
|---|------------|-------|
| Interest income | 471 | |
| | ----- | ----- |
| | 3,466 | |
| | ----- | ----- |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | 3,167 | |
| Income Taxes (Recovery) | 1,367 | |
| | ----- | ----- |
| Income Before Equity in Affiliates and Minority Interests | 1,800 | |
| Equity in Affiliates | 2,385 | |
| Minority Interests | (3,808) | |
| | ----- | ----- |
| Net Income | \$ 377 | |
| | ===== | ===== |
| Earnings Per Common Share: | | |
| Basic | \$ 0.02 | |
| Diluted | 0.02 | |
| Weighted Average Number of Common Shares: | | |
| Basic | 20,388,169 | |
| Diluted | 22,593,239 | |

15

| | For the Six Months | |
|--|--------------------|----------|
| | As Reported | Adjusted |
| | ----- | ----- |
| Revenue: | | |
| Services | \$ 85,538 | |
| Products | 77,275 | |
| | ----- | ----- |
| | 162,813 | |
| | ----- | ----- |
| Operating Expenses: | | |
| Cost of products sold | 34,349 | |
| Salary and related costs | 54,805 | |
| General and other operating costs | 58,527 | |
| Depreciation and amortization | 6,675 | |
| Write-down of fixed assets and other assets | 8,126 | |
| Goodwill charges | 10,012 | |
| | ----- | ----- |
| | 172,494 | |
| | ----- | ----- |
| Operating Profit (Loss) | (9,681) | |
| | ----- | ----- |
| Other Income (Expenses): | | |
| Gain (loss) on sale of assets and settlement of long-term debt | 48,594 | |
| Foreign exchange gain (loss) | -- | |
| Interest expense | (9,262) | |
| Interest income | 171 | |

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| | | | |
|---|-------|------------|-------|
| | ----- | 39,503 | ----- |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | | 29,822 | |
| Income Taxes (Recovery) | | 5,991 | |
| | | ----- | |
| Income Before Equity in Affiliates and Minority Interests | | 23,831 | |
| Equity in Affiliates | | 1,222 | |
| Minority Interests | | (1,379) | |
| | | ----- | |
| Net Income | | \$ 23,674 | ===== |
| Earnings Per Common Share: | | | |
| Basic - Net Income | | \$ 1.40 | |
| Diluted - Net Income | | 0.99 | |
| Weighted Average Number of Common Shares: | | | |
| Basic | | 16,915,341 | |
| Diluted | | 24,575,935 | |

16

| | At June 30, 2004 | | |
|--|------------------|-------------|------------|
| | As Reported | Adjustments | As Restat |
| | ----- | ----- | ----- |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 48,668 | (\$599) | \$ 48,069 |
| Accounts receivable, net | 100,352 | (1,127) | 99,225 |
| Expenditures billable to clients | 7,753 | (594) | 7,159 |
| Inventories | 7,149 | 1,310 | 8,459 |
| Prepaid expenses and other current assets | 6,138 | (52) | 6,086 |
| | ----- | ----- | ----- |
| Total Current Assets | 170,060 | (1,062) | 168,998 |
| Fixed Assets, net | 48,364 | (3,201) | 45,163 |
| Investment in Affiliates | 19,328 | 3,547 | 22,875 |
| Goodwill | 129,029 | (6,792) | 122,237 |
| Intangibles, less accumulated amortization | -- | 3,520 | 3,520 |
| Deferred Tax Asset | 10,938 | 443 | 11,381 |
| Other Assets | 6,693 | 913 | 7,606 |
| | ----- | ----- | ----- |
| Total Assets | \$ 384,412 | (\$2,632) | \$ 381,780 |
| | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accounts payable and other liabilities | \$ 125,511 | (\$341) | \$ 125,170 |
| Advance billings | 18,957 | 2,600 | 21,557 |
| Current portion of long-term debt | 36,972 | (137) | 36,835 |
| Deferred acquisition consideration | 791 | -- | 791 |
| | ----- | ----- | ----- |
| Total Current Liabilities | 182,231 | 2,122 | 184,353 |

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| | | | |
|---|------------|-----------|------------|
| Long-Term Debt | 48,848 | (3,784) | 45,064 |
| Other Liabilities | 502 | -- | 502 |
| | ----- | ----- | ----- |
| Total Liabilities | 231,581 | (1,662) | 229,919 |
| | ----- | ----- | ----- |
| Minority Interests | 1,892 | 148 | 2,040 |
| | ----- | ----- | ----- |
| Shareholders' Equity: | | | |
| Share capital | \$ 165,806 | -- | 165,806 |
| Share capital to be issued | 3,909 | -- | 3,909 |
| Additional paid-in capital | 13,359 | 1,544 | 14,903 |
| Retained earnings (deficit) | (26,583) | (5,001) | (31,584) |
| Accumulated other comprehensive income (loss) | (5,552) | 2,339 | (3,213) |
| | ----- | ----- | ----- |
| Total Shareholders' Equity | 150,939 | (1,118) | 149,821 |
| | ----- | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$ 384,412 | (\$2,632) | \$ 381,780 |
| | ===== | ===== | ===== |

17

| | For the Six Months Ended June | |
|--|-------------------------------|-------------|
| | As Reported | Adjustments |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net income | \$ 377 | \$ 9,020 |
| Adjustments for non-cash items: | | |
| Stock-based compensation | 4,793 | 206 |
| Depreciation and amortization | 5,069 | 504 |
| Amortization and write-off of deferred finance charges | -- | 3,063 |
| Deferred income taxes | 1,970 | (1,460) |
| Foreign exchange | -- | (458) |
| Gain on sale of assets | (7,092) | (11,068) |
| Earnings of affiliates, net of distributions | 1,566 | 163 |
| Minority interest and other | -- | 97 |
| Changes in non-cash working capital | (7,370) | 277 |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | (687) | 344 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Capital expenditures | (8,113) | 48 |
| Acquisitions, net of cash | (5,493) | (246) |
| Other assets, net | 349 | -- |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | (13,257) | (198) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 2,007 | -- |
| Repayment of long-term debt | (4,237) | 52 |
| Issuance of share capital | 3,245 | -- |
| Purchase of share capital | (5,117) | -- |
| | ----- | ----- |
| Net cash used in financing activities | (4,102) | 52 |
| | ----- | ----- |

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| | | |
|--|------------|---------|
| Effect of exchange rate changes on cash and cash equivalents | (12) | -- |
| | ----- | ----- |
| Net decrease in cash and cash equivalents | (18,058) | 198 |
| Cash and cash equivalents at beginning of period | 66,726 | (797) |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 48,668 | (\$599) |
| | ===== | ===== |
| Supplemental disclosures: | | |
| Income taxes paid | \$ 949 | |
| Interest paid | \$ 4,312 | |
| Non-cash consideration: | | |
| Share capital issued, or to be issued, on acquisitions | \$ 18,860 | |
| Share capital issued on settlement of convertible notes | \$ 34,919 | |
| Stock-based awards issued, on acquisitions | \$ 1,315 | |
| Settlement of debt with investment in affiliate | | |
| Reduction in exchangeable securities | (\$26,344) | (7,647) |
| Proceeds on sale of investment | \$ 26,344 | 7,647 |

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| | For the Six Months Ended June | |
|--|-------------------------------|-------------|
| | As Reported | Adjustments |
| Cash flows from operating activities: | | |
| Net income | \$ 23,674 | (\$5,825) |
| Adjustments for non-cash items: | | |
| Stock-based compensation | 769 | 206 |
| Depreciation and amortization | 6,675 | (1,298) |
| Amortization and write-off of deferred finance charges | -- | 2,892 |
| Non-cash interest expense | 2,064 | -- |
| Deferred income taxes | 5,171 | 43 |
| Foreign exchange | -- | 1,531 |
| Gain on sale of assets and settlement of long-term debt | (48,594) | 2,297 |
| Write-down of fixed assets and other assets | 8,126 | -- |
| Goodwill charges | 10,012 | -- |
| Earnings of affiliates, net of distributions | (2,526) | 133 |
| Minority interest and other | (843) | -- |
| Changes in non-cash working capital | 198 | 345 |
| | ----- | ----- |
| Net cash provided by operating activities | 4,726 | 324 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Capital expenditures | (7,543) | (16) |
| Acquisitions, net of cash | 83,474 | -- |
| Other assets, net | 2,816 | 29 |
| | ----- | ----- |
| Net cash provided by (used in) investing activities | 78,747 | 13 |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 11,439 | -- |
| Repayment of long-term debt | (87,562) | 45 |
| | ----- | ----- |
| Net cash used in financing activities | (76,123) | 45 |
| | ----- | ----- |
| Effect of exchange rate changes on cash and cash equivalents | 2,082 | -- |

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| | | |
|--|-----------|---------|
| Net decrease in cash and cash equivalents | 9,432 | 382 |
| Cash and cash equivalents at beginning of period | 32,250 | (1,024) |
| Cash and cash equivalents at end of period | \$ 41,682 | (\$642) |
| Supplemental disclosures: | | |
| Income taxes paid | \$ 932 | |
| Interest paid | \$ 2,878 | |

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Use of Estimates. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents. The Company's cash equivalents are primarily comprised of investments in overnight interest-bearing deposits, commercial paper and money market instruments and other short-term investments with original maturity dates of three months or less at the time of purchase. Included in cash and cash equivalents at June 30, 2004 is \$1,215 of cash restricted as to withdrawal pursuant to a collateral agreement.

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Allowance for Doubtful Accounts. Trade receivables are stated at invoiced amounts less allowances for doubtful accounts. The allowances represent estimated uncollectible receivables associated with potential customer defaults usually due to customers' potential insolvency. The allowances include amounts for certain customers where a risk of default has been specifically identified. The assessment of the likelihood of customer defaults is based on various factors, including the length of time the receivables are past due, historical experience and existing economic conditions.

Expenditures Billable to Clients. Expenditures billable to clients consist principally of costs incurred on behalf of clients when providing advertising, marketing and corporate communications services to clients that have not been invoiced. Such amounts are invoiced to clients at various times over the course of the production process. In the majority of the Company's Marketing Communications businesses, it acts as agent and records revenue equal to the net amount retained when

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the fee or commission is earned.

Inventories. Finished goods and work-in-process inventories are valued at the lower of cost and net realizable value. Raw materials are valued at the lower of cost and replacement cost. Cost is determined on a first-in, first-out method.

Depreciation of Fixed Assets. Buildings are depreciated on a straight-line basis over the estimated useful lives of 20 to 25 years. Computers, furniture and fixtures are depreciated on a declining balance basis at rates of between 20% to 50% per year. Machinery and equipment are depreciated on a declining balance basis at rates of between 10% to 20% per year. Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related lease or the estimated useful life of these assets.

Long-lived Assets. In accordance with SFAS 144 "Accounting for the Impairment or Disposal of Long-lived Assets," a long-lived asset or asset group is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When such events occur, the Company compares the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group to the carrying amount of the long-lived asset or asset group. If this comparison indicates that there is an impairment, the amount of the impairment is typically calculated using discounted expected future cash flows where observable fair values are not readily determinable. The discount rate applied to these cash flows is based on the Company's weighted average cost of capital, risk adjusted where appropriate.

Equity Method Investments. The equity method is used to account for investments in entities in which the Company has an ownership interest of less than 50%, and has significant influence, or joint control over; the operating and financial policies of the affiliate; or has an ownership interest of greater than 50%, however, the substantive participating rights of the minority interest shareholders preclude the Company from exercising unilateral control over the operating and financial policies of the affiliate. The Company's investments accounted for using the equity method are Accumark Promotions Group Inc., 55% owned by the Company, Crispin Porter + Bogusky, LLC, 49.9% owned by the Company and, and a 50% undivided interest in a real estate joint venture. In 2004 this also included Cliff Freeman & Partners, LLC, 19.9% owned by the Company and Mono Advertising LLC, 49.9% owned by the Company. The Company's management periodically evaluates these investments to determine if there have been any, other than temporary, declines in value.

Goodwill. In accordance with SFAS 142, "Goodwill and Other Intangible Assets", goodwill acquired as a result of a business combination for which the acquisition date was after June 30, 2001 is no longer amortized, but is periodically tested for impairment. Additionally, in accordance with SFAS 141, "Business Combinations", the cost of an acquired entity is allocated to the assets acquired and liabilities assumed based on their estimated fair values including other identifiable intangible assets, as applicable, such as trade names, customer relationships and client lists.

Goodwill is tested annually for impairment, and is tested for impairment more frequently if events and circumstances indicate that

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the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with FASB Statement No. 141, "Business Combinations". The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Impairment losses, where applicable, will be charged to operating profit (loss).

Intangible Assets. In accordance with SFAS 142, "Goodwill and Other Intangible Assets", intangibles with a definite life, other than goodwill, acquired as a result of a business combination are subject to amortization. The method of amortization selected reflects the pattern in which the economic benefits of the specific intangible asset is consumed or otherwise used up. If that pattern cannot be reliably determined, a straight-line amortization method is used. Intangible assets that are subject to amortization are reviewed for potential impairment in accordance with SFAS 144 at least annually or whenever events or circumstances indicate that carrying amounts may not be recoverable. The Company is amortizing its intangible assets on a straight-line basis over a period of 3 years.

Deferred Taxes. Deferred income taxes are provided for the temporary difference between the financial reporting basis and tax basis of the Company's assets and liabilities. Deferred tax benefits result principally from recording certain expenses in the financial statements that are not currently deductible for tax purposes and from differences between the tax and book basis of assets and liabilities recorded in connection with acquisitions. Deferred tax liabilities result principally from deductions recorded for tax purposes in excess of that recorded in the financial statements.

Guarantees. Guarantees granted by the Company to third parties (or modified) after January 1, 2003 are generally recognized, at the inception of a guarantee, as a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The initial measurement of that liability is the fair value of the guarantee at its inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee. The Company's liability associated with guarantees is insignificant.

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

Marketing Communications

Substantially all of the Marketing Communications reportable segment revenue is derived from fees for services. Additionally, the Company often earns commissions based upon the placement of advertisements in various media. Generally, the Company acts as agent for its customers and records revenue equal to the net amount retained. Revenue is realized when the service is performed in accordance with the terms of each client arrangement and upon completion of the earnings process.

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This includes when services are rendered, upon presentation date for media, when costs are incurred for radio and television production and when print production is completed and collection is reasonably assured and all other revenue recognition criteria have been met.

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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 performance against qualitative goals is determined by the Company's clients.

Secured Products

Substantially all of the Secured Products International reportable segment revenue is derived from the sale of products. The Company has the following revenue recognition policies.

Revenue derived from the stamp operations is recognized upon shipment or upon delivery of the product to the customer when the Company's obligations under the contractual arrangements are completed, the customer takes ownership and assumes the risk of loss of the product, the selling price is determined and the collection of the related receivable is reasonably assured. The Company performs quality control testing procedures prior to shipment to ensure that its contractual obligations are met. Under these contractual arrangements, the Company has the ability to recover any costs incurred to date under possible termination of the contract, accordingly the Company accounts for the manufacturing costs incurred as inventory work-in-process, until completion of production.

Revenue derived from secured printing arrangements whereby the Company manufactures and stores the printed product for a period of time at the direction of its customer with delivery at a future date within a 90 day period is accounted for on a "bill and hold" basis whereby the Company allocates the arrangement consideration on a relative fair value basis between the printing service and the storage service. The Company recognizes the printing revenue when the customized printed products moves to the secure storage facility and the printing process is complete and when title transfers to the customer. The Company has no further obligations under the printing segment of the arrangement. The Company recognizes the storage fee revenue when the customized printed products are delivered to the customer's premises. Although amounts are generally not billed by the Company until the customized print product is delivered to the customer's premises, collection of the entire consideration is due under certain contracts within 90 days of completion of the printing segment of the arrangement.

Revenue derived from the design, manufacturing, inventory management and personalization arrangements of secured cards is recognized as a single unit of accounting when the secured card is shipped to the cardholder and the Company's service obligations to the card issuer are complete under the terms of the contractual arrangement and the total selling price related to the card is known and collection of the related receivable is reasonably assured. Any amounts billed and/or collected in advance of this date are deferred and recognized at the shipping date. Under these contractual arrangements, the Company has the ability to recover any costs incurred to date under possible

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termination of the contract, accordingly the Company accounts for the effect of costs incurred related to design and manufacturing relative to the secured card arrangement as inventory work-in-process related to the arrangements.

The Company's revenue recognition policies are in compliance with the SEC Staff Accounting Bulletin 104 ("SAB 104"). SAB 104 summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. Also, in July 2000, the EITF of the Financial Accounting Standards Board released Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" ("EITF 99-19"). This Issue summarized the EITF's views on when revenue should be recorded at the gross amount billed because it has earned revenue from the sale of goods or services, or the net amount retained because it has earned a fee or commission. In the Marketing Communications businesses, it acts as an agent and records revenue equal to the net amount retained, when the fee or commission is earned.

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In June 2003, EITF No. 00-21, Revenue Arrangements with Multiple Deliverables ("EITF 00-21"), became effective. This issue addressed certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. The Company adopted the provisions of EITF 00-21 effective January 1, 2003. Additionally, in January 2002, the EITF released Issue No. 01-14, Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred ("EITF 01-14"). This Issue summarized the EITF's views on when out-of-pocket expenses should be characterized as revenue. The adoption of the provisions of these two EITF's had no material impact on the Company's financial position, results of operations, or cashflows. The Company's revenue recognition policies are in compliance with SAB 104, EITF 99-19, EITF 00-21 and EITF 01-14.

Stock-Based Compensation. Effective January 1, 2003, the Company prospectively adopted fair value accounting for stock based awards as prescribed by SFAS 123 "Accounting for Stock-Based Compensation". Prior to January 1, 2003, the Company elected not to apply fair value accounting to stock-based awards to employees, other than for direct awards of stock and awards settleable in cash, which required fair value accounting. Prior to January 1, 2003, for awards not elected to be accounted for under the fair value method, the Company accounted for stock based compensation in accordance with Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25"). APB 25 is based upon an intrinsic value method of accounting for stock-based compensation. Under this method, compensation cost is measured as the excess, if any, of the quoted market price of the stock issuance at the measurement date over the amount to be paid by the employee.

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

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portion previously credited to additional paid-in capital when compensation costs were charged against income or acquisition consideration.

Stock-based awards that are settled in cash or may be settled in cash at the option of employees are recorded as liabilities. The measurement of the liability and compensation cost for these awards is based on the intrinsic value of the award, and is recorded into operating profit (loss) over the service period that is the vesting period of the award. Changes in the Company's payment obligation subsequent to vesting of the award and prior to the settlement date are recorded as compensation cost over the service period in operating profit (loss). The final payment amount for Share Appreciation Rights is established on the date of the exercise of the award by the employee.

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

As noted, prior to January 1, 2003, the Company did not use the fair value method to account for certain employee stock-based compensation plans but disclosed this pro forma information for options granted commencing in fiscal 1995.

The table below summarizes the quarterly pro forma effect for the three months and six months ended June 30, 2004 and 2003, respectively, had the Company adopted the fair value method of accounting for stock options and similar instruments for awards issued prior to 2003:

| | Three Months Ended June 30, | |
|---|-----------------------------|-----------|
| | 2004 | 2003 |
| | (Restated - See Note 2) | |
| Net income as reported | \$ 932 | \$ 17,637 |
| Fair value costs, net of income tax, of stock-based employee compensation for options issued prior to 2003 | 293 | 483 |
| Net income pro forma | \$ 639 | \$ 17,154 |
| Basic net income per share, as reported | \$ 0.04 | \$ 1.04 |
| Basic net income per share, pro forma | \$ 0.03 | \$ 1.01 |
| Diluted net income per share, as reported | \$ 0.04 | \$ 0.81 |
| Diluted net income per share, pro forma | \$ 0.03 | \$ 0.78 |

The fair value of the stock options and similar awards at the grant date used to compute pro forma net income (loss) and net income (loss)

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per share was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for each of the three months ended:

| | Three Months Ended June 30, | | Six Months |
|---|-----------------------------|---------|------------|
| | 2004 | 2003 | 2004 |
| Expected dividend | 0.00% | 0.00% | 0.00% |
| Expected volatility | 40% | 40% | 40% |
| Risk-free interest rate | 3.30% | 6.00% | 3.30% |
| Expected option life in years | 5 | 5 | 5 |
| Weighted average stock option fair value per option granted | \$ 4.98 | \$ 2.26 | \$ 5.11 |

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Earnings Per Common Share. Basic earnings per share is based upon the weighted average number of common shares outstanding during each period, including the "Share capital to be issued" as reflected in the Shareholders' Equity on the balance sheet. Diluted earnings per share is based on the above, plus, if dilutive, common share equivalents, which include outstanding options and warrants. For purposes of computing diluted earnings per share for the three months ended June 30, 2004 and 2003, respectively, 1,955,163 and 5,463,509 shares, and for the six months ended June 30, 2004 and 2003, respectively, 2,081,881 and 5,341,940 shares, were assumed to have been outstanding related to common share equivalents. Additionally, the assumed increase in net income related to the after tax interest costs of convertible debentures used in the computations was \$216 and \$397 for the three months ended June 30, 2004 and 2003, respectively, and \$853 and \$764 for the six months ended June 30, 2004 and 2003, respectively.

The following table details the weighted average number of common shares outstanding for each of the three months and six months ended June 30, 2004 and 2003, respectively:

| | Three Months Ended June 30, | | Six Months |
|---|-----------------------------|------------|------------|
| | 2004 | 2003 | 2004 |
| Basic weighted average shares outstanding | 21,772,706 | 16,915,341 | 20,388,166 |
| Weighted average shares dilution adjustments: | | | |
| Dilutive stock options and warrants (a) | 1,955,163 | 319,476 | 2,081,881 |
| 7% convertible senior notes | -- | 5,144,033 | -- |
| Diluted weighted average shares outstanding (b) | 23,727,869 | 22,378,850 | 22,470,047 |

(a) Dilutive and anti-dilutive stock options and similar awards were determined by using the average closing price of the Class A Subordinate Voting shares for

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the period. For the three months ended June 30, 2004 and 2003, the average share price used was \$12.65 per share and \$6.07 per share, respectively. For the six months ended June 30, 2004 and 2003, the average share price used was \$13.42 per share and \$4.85 per share, respectively

(b) Had certain stock options, similar awards and the convertible debt been dilutive, they would have added 964,716 dilutive shares and nil dilutive shares for the three months ended June 30, 2004 and 2003, respectively, and added 1,768,907 dilutive shares and nil dilutive shares for the six months ended June 30, 2004 and 2003, respectively.

Foreign Currency Translation. The Company's financial statements were prepared in accordance with the requirements of SFAS No. 52, "Foreign Currency Translation". The functional currency of the Company is Canadian dollars and it has decided to use U.S. dollars as its reporting currency for consolidated reporting purposes. All of the Company's subsidiaries use their local currency as their functional currency in accordance with SFAS 52. Accordingly, the currency impacts of the translation of the balance sheets of the Company's non-US dollar based subsidiaries to U.S. dollar statements are included as cumulative translation adjustments in other accumulated comprehensive income. Cumulative translation adjustments are not included in net earnings unless they are actually realized through a sale or upon complete or substantially complete liquidation of the Company's net investment in the foreign operation. The income statements of non-US dollar based subsidiaries are translated at average exchange rates for the period.

Gains and losses arising from the Company's foreign currency transactions are reflected in net earnings other than those unrealized gains or losses arising on the translation of certain intercompany foreign currency transactions that are of a long-term nature (that is settlement is not planned or anticipated in the future) and which are included as cumulative translation adjustments in other accumulated comprehensive income.

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Derivative Financial Instruments. The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", on January 1, 2001. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts and debt instruments) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Company issued adjustable rate exchangeable debentures, in December 2003, which included an embedded derivative. The derivative met the SFAS No. 133 criteria for separation from the debt contract and was marked to market, with changes in the fair value being recorded in net earnings for the period, until the exchangeable debentures were settled on February 13, 2004.

Effective July 1, 2002, management designated the Company's 10.5% U.S. senior subordinated notes ("Notes") as an economic hedge against foreign exchange exposure of the U.S. operation, Custom Direct, Inc. ("CDI"). The hedge was applied prospectively from the effective date whereby any foreign exchange translation adjustment of the Notes reduced any offsetting foreign exchange translation adjustment of the U.S. operations, the net of which was reflected in the cumulative translation account within shareholders' equity. The application of hedge accounting ceased on the repayment of the Company's 10.5% US senior subordinated notes on June 30, 2003 which corresponded with the

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Company's sale of 80% of its investment in CDI.

4. COMPREHENSIVE INCOME

Total comprehensive income and its components were:

| | (in thousands of dollars) | | |
|--|-----------------------------|-----------|------------|
| | Three Months Ended June 30, | | Six Months |
| | 2004 | 2003 | 2004 |
| | ----- | ----- | ----- |
| | (Restated - See Note 2) | | (Restated) |
| Net income for the period | \$ 932 | \$ 17,637 | \$ 9,397 |
| Unrealized gain on marketable securities | -- | 2,090 | -- |
| Foreign currency cumulative translation adjustment | 434 | (6,273) | (685) |
| | ----- | ----- | ----- |
| Comprehensive income for the period | \$ 1,366 | \$ 13,454 | \$ 8,712 |
| | ===== | ===== | ===== |

5. NEW ACCOUNTING PRONOUNCEMENTS

The following recent pronouncements were issued by the Financial Accounting Standards Board ("FASB") and became effective in 2004:

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, An Interpretation of ARB No. 51 ("FIN 46"). This Interpretation addresses the consolidation by business enterprises of variable interest entities, as defined in the Interpretation. The Interpretation was to be applied immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. In December 2003, the FASB issued FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities Revised." (FIN 46R). FIN 46R modifies certain scope exceptions provided in FIN 46. Entities would be required to replace FIN 46 provisions with FIN 46R provisions for all newly created post-January 31, 2003 entities as of the end of the first interim or annual reporting period ending after March 15, 2004. See note 10 for the impact the effective provisions of FIN46R had on the Company's consolidated financial statements.

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In November 2003, the EITF reached a consensus on Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments ("EITF 03-01"). EITF 03-01 established additional disclosure requirements for each category of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities ("SFAS 115"), investments in a loss position. Effective for years ended after December 15, 2003, the adoption of this EITF requires the Company to include certain quantitative and qualitative disclosures for debt and marketable equity securities classified as available-for-sale or held-to-maturity under SFAS 115 that are impaired at the balance sheet date for which an other-than-temporary impairment has not been recognized. Additionally, certain qualitative disclosures should be

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made to clarify a circumstance whereby an investment's fair value that is below cost is not considered other-than-temporary. The provisions of this consensus do not have a material impact on the Company's interim unaudited condensed consolidated financial statements.

6. SEGMENTED INFORMATION

Based on the Company's internal management structure, the Company's operations form two reportable segments - Marketing Communications and Secure Products International.

Marketing Communications services, through the Company's network of entrepreneurial firms, include advertising and media, customer relationship management, and marketing services. These businesses provide communications services to similar type clients on a global, national and regional basis. The businesses have similar cost structures and are subject to the same general economic and competitive risks. Given these similarities, the results are aggregated into one reportable segment.

Secure Products International operations provide security products and services in three primary areas: electronic transaction products such as credit, debit, telephone and smart cards; secure ticketing products such as airline, transit and event tickets; and stamps, both postal and excise. Again, given the similarities in types of clients, cost structure, risks and long-term financial results, the results are aggregated into one reportable segment. The significant accounting policies of these segments are the same as those described in the summary of significant accounting policies included in these notes to the unaudited condensed consolidated financial statements, except as where indicated.

Many of the Company's Marketing Communications businesses have significant other interestholders and in some cases, the Company operates the business in a fashion similar to a joint venture with these other interestholders. The Company's management oversees these businesses as active managers rather than a passive investor, reviewing all aspects of their operations with the management of these businesses, regardless of the Company's ownership interest. Within the marketing communications industry, the monitoring of operating costs, such as salary and related costs, relative to revenues, among other things, are key performance indicators. Consequently, the Company's management reviews, analyses and manages these elements of the businesses as a whole, rather than just being concerned with it as an investment. Management believes the presentation of the whole of the businesses comprising this segment also provides readers with a complete view of the elements of all operations that significantly affect the Marketing Communications reportable segment's profitability. Accumark Promotions Group Inc., owned 55% by the Company, and Crispin Porter + Bogusky, LLC, ("CPB"), owned 49% by the Company, which are operated as joint ventures with the other interest holders, as well as Cliff Freeman & Partners, LLC, owned 19.9% by the Company and Mono Advertising LLC, owned 49.9% by the Company, are required to be equity accounted for under US GAAP. For purposes of the segmented information disclosure, 100% of the results of operations of these entities have been combined with the other business of the Marketing Communications reportable segment and the alternate operating results have been described as "Combined". A reconciliation of "Combined" results of operations of the Marketing Communications reportable segment to the US GAAP reported results of operations has been provided by the Company in the tables included in the segmented information disclosure.

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Summary financial information concerning the Company's reportable segments for the three months ended June 30 is shown in the following table:

THREE MONTHS ENDED JUNE 30, 2004 (Restated - See Note 2):

| | Combined | | As Reported | |
|---|---|---------------------------|-----------------------------|-------------------------------------|
| | ----- | | ----- | ----- |
| | Combined Marketing Communications | Less Equity Affiliates | Marketing Communications | Secure Products International |
| | ----- | ----- | ----- | ----- |
| Revenue | \$ 73,669 | \$ 15,342 | \$ 58,327 | \$ 17,233 |
| | ----- | ----- | ----- | ----- |
| Operating Expenses: | | | | |
| Cost of products sold | -- | -- | -- | 10,386 |
| Salary and related costs* | 34,897 | 7,414 | 27,483 | 3,370 |
| General and other operating costs | 27,699 | 4,108 | 23,591 | 2,100 |
| Depreciation and amortization | 2,536 | 341 | 2,195 | 807 |
| | ----- | ----- | ----- | ----- |
| | 65,132 | 11,863 | 53,269 | 16,663 |
| | ----- | ----- | ----- | ----- |
| Operating Profit (Loss) | \$ 8,537 | \$ 3,479 | \$ 5,058 | \$ 570 |
| | ===== | ===== | ===== | ===== |
| Other Income (Expense): | | | | |
| Loss on sale of assets | | | | |
| Foreign exchange gain | | | | |
| Interest expense, net | | | | |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | | | | |
| Income Taxes (Recovery) | | | | |
| Income Before Equity in Affiliates and Minority Interests | | | | |
| Equity in Affiliates | | | | |
| Minority Interests | | | | |
| Net Income | | | | |
| Capital expenditures | \$ 3,272 | \$ 525 | \$ 2,747 | \$ 2,187 |
| *Includes stock-based compensation (recovery) | \$ 220 | \$ 74 | \$ 146 | \$ -- |

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THREE MONTHS ENDED JUNE 30, 2003 (Restated - See Note 2):

| | Combined | | As Reported u | |
|---|---|---------------------------|-----------------------------|-------------------------------------|
| | Combined Marketing Communications | Less Equity Affiliates | Marketing Communications | Secure Products International |
| Revenue | \$ 51,594 | \$ 8,850 | \$ 42,744 | \$ 33,084 |
| Operating Expenses: | | | | |
| Cost of products sold | -- | -- | -- | 14,932 |
| Salary and related costs* | 23,523 | 3,521 | 20,002 | 5,683 |
| General and other operating costs | 19,747 | 2,629 | 17,118 | 10,469 |
| Depreciation and amortization | 1,587 | 138 | 1,449 | 1,081 |
| Write-down of fixed assets and other assets | -- | -- | -- | 8,126 |
| Goodwill charges | -- | -- | -- | 10,012 |
| | 44,857 | 6,288 | 38,569 | 50,303 |
| Operating Profit (Loss) | \$ 6,737 | \$ 2,562 | \$ 4,175 | (\$ 17,219) |
| Other Income (Expense): | | | | |
| Gain on sale of assets and settlement of long-term debt | | | | |
| Foreign exchange loss | | | | |
| Interest expense, net | | | | |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | | | | |
| Income Taxes | | | | |
| Income Before Equity in Affiliates and Minority Interests | | | | |
| Equity in Affiliates | | | | |
| Minority Interests | | | | |
| Net Income | | | | |
| Capital expenditures | \$ 4,848 | \$ 3,057 | \$ 1,791 | \$ 3,480 |
| *Includes stock-based compensation | \$ -- | \$ -- | \$ -- | \$ -- |

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SIX MONTHS ENDED JUNE 30, 2004 (Restated - See Note 2):

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| | Combined | | As Reported | |
|---|---|---------------------------|-----------------------------|-------------------------------------|
| | Combined Marketing Communications | Less Equity Affiliates | Marketing Communications | Secure Products International |
| Revenue | \$ 138,101 | \$ 27,816 | \$ 110,285 | \$ 35,270 |
| Operating Expenses: | | | | |
| Cost of products sold | -- | -- | -- | 21,561 |
| Salary and related costs* | 64,969 | 12,087 | 52,882 | 6,846 |
| General and other operating costs | 52,453 | 6,932 | 45,521 | 4,501 |
| Depreciation and amortization | 4,570 | 531 | 4,039 | 1,482 |
| | 121,992 | 19,550 | 102,442 | 34,390 |
| Operating Profit (Loss) | \$ 16,109 | \$ 8,266 | \$ 7,843 | \$ 880 |
| Other Income (Expense): | | | | |
| Gain on sale of assets | | | | |
| Foreign exchange gain | | | | |
| Interest expense, net | | | | |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | | | | |
| Income Taxes | | | | |
| Income Before Equity in Affiliates and Minority Interests | | | | |
| Equity in Affiliates | | | | |
| Minority Interests | | | | |
| Net Income | | | | |
| Capital expenditures | \$ 5,449 | \$ 918 | \$ 4,531 | \$ 3,460 |
| *Includes stock-based compensation | \$ 277 | \$ 74 | \$ 203 | \$ -- |

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SIX MONTHS ENDED JUNE 30, 2003 (Restated - See Note 2):

| | Combined | | As Reported u | |
|--|---|---------------------------|-----------------------------|-------------------------------------|
| | Combined Marketing Communications | Less Equity Affiliates | Marketing Communications | Secure Products International |

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| | ----- | ----- | ----- | ----- |
|---|-----------|-----------|-----------|-------------|
| Revenue | \$ 96,586 | \$ 16,060 | \$ 80,526 | \$ 76,398 |
| | ----- | ----- | ----- | ----- |
| Operating Expenses: | | | | |
| Cost of products sold | -- | -- | -- | 33,439 |
| Salary and related costs* | 46,404 | 6,939 | 39,465 | 11,766 |
| General and other operating costs | 36,364 | 4,580 | 31,784 | 22,519 |
| Depreciation and amortization | 3,091 | 230 | 2,861 | 2,255 |
| Write-down of fixed assets and other assets | -- | -- | -- | 8,126 |
| Goodwill charges | -- | -- | -- | 10,012 |
| | ----- | ----- | ----- | ----- |
| | 85,859 | 11,749 | 74,110 | 88,117 |
| | ----- | ----- | ----- | ----- |
| Operating Profit (Loss) | \$ 10,727 | \$ 4,311 | \$ 6,416 | (\$ 11,719) |
| | ===== | ===== | ===== | ===== |
| Other Income (Expense): | | | | |
| Gain on sale of assets and settlement of long-term debt | | | | |
| Foreign exchange loss | | | | |
| Interest expense, net | | | | |

Income Before Income Taxes, Equity in Affiliates and Minority Interests
Income Taxes

Income Before Equity in Affiliates and Minority Interests
Equity in Affiliates
Minority Interests

Net Income

| | | | | |
|---------------------------------------|----------|----------|----------|----------|
| Capital expenditures | \$ 6,931 | \$ 4,394 | \$ 2,537 | \$ 5,019 |
| *Includes stock-based compensation | \$ -- | \$ -- | \$ -- | \$ -- |

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A summary of our revenue by geographic area as of June 30, 2004 and 2003 is set forth in the following table (Restated - See Note 2):

| | (in thousands of dollars) | | |
|-------------------------------------|---------------------------|----------|----------|
| | ----- | ----- | ----- |
| | United States | Canada | Other |
| | ----- | ----- | ----- |
| Revenue | | | |
| Three Months Ended June 30, 2004 | \$ 48,474 | \$19,325 | \$ 5,761 |

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| | | | |
|---------------------------|-----------|----------|----------|
| 2003 | 52,236 | 17,821 | 5,771 |
| Revenue | | | |
| Six Months Ended June 30, | | | |
| 2004 | \$ 94,699 | \$38,855 | \$12,001 |
| 2003 | 110,485 | 35,931 | 10,508 |
| Long-lived Assets | | | |
| at June 30, | | | |
| 2004 | \$ 23,019 | \$17,574 | \$ 5,409 |
| 2003 | 11,308 | 17,896 | 4,572 |

7. INVENTORIES

The components of inventory are listed below:

| | June 30, 2004 | December 31, 2003 |
|----------------------------|-------------------------|----------------------|
| | ----- | ----- |
| | (Restated - See Note 2) | |
| Raw materials and supplies | \$3,693 | \$3,743 |
| Work-in-process | 4,766 | 3,992 |
| | ----- | ----- |
| Total | \$8,459 | \$7,735 |
| | ===== | ===== |

8. LONG-TERM DEBT

MDC Partners Inc. is principally a holding company and the Company's assets consist principally of its investments in Maxxcom Inc. ("Maxxcom"), which in turn owns a substantial portion of its interests in the Marketing Communications businesses, and in the Secured Products International (SPI) businesses.

Currently, substantially all of the long-term debt is held at Maxxcom or its subsidiaries. Maxxcom's ability to meet the repayment of its long-term debt and to make distributions to MDC Partners Inc., is dependent upon the availability of cash from its parent MDC Partners Inc. and from the cash flows from its subsidiaries and affiliated companies through dividends, distributions, intercompany advances, management fees and other payments. A number of Maxxcom's subsidiaries are not wholly-owned and pursuant to operating agreements with some of the other shareholders of these subsidiaries and affiliates and certain subsidiary and affiliate lending agreements, there are certain restrictions on the payment of dividends, distributions and advances to Maxxcom. In addition, pursuant to certain lending agreements entered into by MDC Partners Inc., there are restrictions on MDC's ability to transfer available cash to Maxxcom.

As at June 30, 2004, \$7,963 of (December 31, 2003 - \$9,725) the consolidated cash position is held by subsidiaries, which, although available for the subsidiaries' use, does not represent cash that is distributable as earnings to Maxxcom for use to reduce Maxxcom indebtedness.

During the second quarter of 2004, the Company reached agreements with its senior credit lenders to amend the terms of the credit facility of its subsidiary, Maxxcom Inc., to eliminate the scheduled quarterly borrowing reductions after March 31, 2004 and to change the facility's maturity date from March 31, 2005 to September 30, 2004. As a result of this amendment, the Company was not required to make a debt repayment in the second quarter of \$5.2 million (Canadian \$7.0 million). At June 30, 2004 the maximum amount which would be borrowed under this facility is \$33.1 million (C\$44.1 million) (December 31, 2003 - \$39.4 million) of which \$30.0 million was utilized.

The Company is actively seeking to refinance the amounts owing on September 30, 2004 under its bank credit facility. The Company has a commitment letter with a lender and the lender is undertaking its due diligence. In the event that such a definitive credit agreement cannot be secured by September 30, 2004, the Company would need to seek alternative sources of financing, seek an extension to the current credit facility or reach an agreement with certain other shareholders to permit the advance of cash balances held in those subsidiaries or affiliates to Maxxcom in order to meet or amend its obligation under its existing credit facilities. There is no certainty that such events will occur.

On June 10, 2004, MDC Partners Inc. entered into a revolving credit facility with a syndicate of banks providing for borrowings of up to \$18.7 million (Canadian \$25.0 million) maturing in May of 2005. The facility is available for general corporate purposes including acquisitions, however may not be used to repay existing debt or to provide financial assistance to businesses securing such debt. This facility bears interest at variable rates based upon LIBOR, Canadian bank prime or US bank base rate, at the Company's option. Based on the level of debt relative to certain operating results, the interest rates on loans are calculated by adding between 175 to 275 basis points to the LIBOR and Bankers Acceptance based interest rate loans and between 75 to 175 basis points to all other loan interest rates. The provisions of the facility contain various covenants pertaining to debt to EBITDA ratios, debt to capitalization ratio, and the maintenance of certain interest coverage and minimum shareholders' equity levels. The facility is secured by a pledge of the Company's assets principally comprised of ownership interests in its subsidiaries and by the underlying assets of the businesses comprising the Company's Secure Products International operating segment and Kirshenbaum Bond + Partners, carried at a value represented by the total assets reflected on the Company's consolidated balance sheet at June 30, 2004. At June 30, 2004, the Company had not drawn any funds under this facility.

Included in long-term debt, as at December 31, 2003, is an obligation in the amount of \$3,974, being the fair value of the embedded derivative in the Company's exchangeable debentures. On February 13, 2004, the exchangeable debentures were settled in full as described in Note 11.

9. ACQUISITIONS

FIRST QUARTER 2004 ACQUISITIONS

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Kirshenbaum Bond + Partners

On January 29, 2004, the Company acquired a 60% ownership interest in kirshenbaum bond + partners, LLC ("KBP") in a transaction accounted for under the purchase method of accounting. KBP is comprised of four units: kirshenbaum bond (New York and San Francisco) which are primarily advertising agencies, LIME Public Relations + Promotion, The Media Kitchen, which handles media buying and planning and Dotglu, an interactive and direct marketing unit. KBP is recognized for creating very successful non-traditional marketing campaigns and as such was acquired by the Company to enhance the creative talent within the MDC Partners Marketing Communications segment of businesses. As part of the acquisition, the Company paid \$20,654 in cash, issued 148,719 shares of the Company's common stock to the selling interestholders of KBP (valued at approximately \$2,027 based on the share price on or about the commencement date), issued warrants to purchase 150,173 shares of the Company's common stock to the selling interestholders of KBP (the fair value of which, using a Black Scholes option pricing model, was approximately \$955 based on the share price on the date of closing) and incurred transaction costs of approximately \$1,175. Under the terms of the agreement, the selling interestholders of KBP could receive additional cash and/or share consideration, totaling up to an additional \$735 within one year from the date of acquisition, based upon achievement of certain predetermined earnings targets. Such contingent consideration will be accounted for as goodwill when the contingency is resolved and the amount becomes determinable.

Exclusive of future contingent consideration, the recorded purchase price of the net assets acquired in the transaction was \$24,811. The purchase price was allocated to the fair value of net assets acquired as follows:

| | Previously Reported | Adjustments |
|---|------------------------|-------------|
| | ----- | ----- |
| Cash and cash equivalents | \$ 25,283 | \$ -- |
| Accounts receivable and other current assets | 18,540 | -- |
| Furniture, equipment and leasehold improvements | 3,872 | -- |
| Goodwill | 25,632 | (292) |
| Intangible assets | 1,200 | -- |
| Accounts payable and accrued expenses | (49,440) | 747 |
| Minority interest | (432) | (299) |
| Total purchase price | ----- | ----- |
| | \$ 24,655 | \$ 156 |
| | ===== | ===== |

The allocation of the purchase price to assets acquired and liabilities assumed is based on preliminary estimates of fair value and certain assumptions that the Company believes are reasonable under the circumstances and will be adjusted in a subsequent period upon finalization of such assumptions and estimates. The Company's consolidated financial statements include KBP's results of operations subsequent to its acquisition on January 29, 2004. During the six months ended June 30, 2004, the operations of KBP contributed \$20,960 of revenue and \$1,631 of net income to the Company's consolidated operating results.

Accent Marketing Services

On March 29, 2004, the Company acquired an additional 39.3% ownership interest in the Accent Marketing Services LLC ("Accent"), increasing its total ownership interest in this subsidiary from 50.1% to approximately 89.4%. Accent has established itself as an integrated direct marketing services company providing customer contact centers and direct mail services to its clients, offering a unique customer relationship and product life cycle management program to its clients. As part of the acquisition, the Company paid \$1,444 in cash, issued, and to be issued, 1,103,331 shares of the Company's common stock to the selling interestholders of Accent (valued at approximately \$16,833 based on the share price on or about the commencement date), and incurred transaction costs of approximately \$72. Under the terms of the agreement, the selling interestholders of Accent could receive up to a maximum additional consideration of 742,642 common shares of the Company, or the cash equivalent, based upon achievement of certain predetermined earnings targets, by June 2005. Such contingent consideration will be accounted for when it becomes determinable. This acquisition was accounted for as a purchase and accordingly, the Company's consolidated financial statements, which have consolidated Accent's financial results since 1999, reflect a further 39.3% ownership participation subsequent to the additional acquisition on March 29, 2004.

The purchase price was allocated based on the fair value of the net assets acquired of this purchase price, \$12,534 was allocated to goodwill and \$1,200 was allocated to intangible assets.

The allocation of the purchase price to assets acquired and liabilities assumed is based on preliminary estimates of fair values and certain assumptions that the Company believes are reasonable under the circumstances and will be adjusted in a subsequent period upon finalization of such estimates and assumptions.

Other First Quarter 2004 Acquisitions

During the quarter ended March 31, 2004, the Company acquired several other ownership interests. In March 2004, the Company acquired a 19.9% ownership interest in Cliff Freeman + Partners LLC ("CF") in a transaction accounted for under the equity method of accounting. CF is a New York based advertising agency. CF has long been recognized for its creative abilities, winning numerous national and international advertising awards, and as such was acquired by the Company to enhance the creative talent within the MDC Partners Marketing Communications segment of businesses. Also during the quarter, the Company acquired further equity interests in the existing subsidiaries of Allard Johnson Communications Inc. and Targetcom LLC, as well as several other insignificant investments. In aggregate, as part of these acquisitions, the Company paid \$3,076 in cash and incurred transaction costs of approximately \$413. Under the terms of the CF agreement, the selling interestholders could receive additional cash and/or share consideration after two years based upon achievement of certain predetermined cumulative earnings targets. Based on current earnings levels, the additional consideration would be nil. Such contingent consideration will be accounted for as goodwill when it becomes determinable.

Exclusive of future contingent consideration, the aggregate purchase

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price of the net assets acquired in these transactions was approximately \$3,489. The purchase price was allocated based on the fair value of the net assets acquired of the purchase price, \$2,142 was allocated to goodwill and intangible assets.

The allocation of the purchase price to assets acquired and liabilities assumed is based on preliminary estimates of fair value and certain assumptions that the Company believes are reasonable under the circumstances and will be adjusted in a subsequent period upon finalization of such estimates and assumptions.

The Company's consolidated financial statements include the results of operations from their respective acquisition dates and balance sheet, accounted for on a consolidated basis except for CF, which is accounted for on an equity basis due to the significant influence of the management of the operation obtained through contractual rights. During this period, the aggregated operations of these acquisitions did not have a material effect on the Company's results of operations.

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SECOND QUARTER 2004 ACQUISITIONS

During the quarter ended June 30, 2004, the Company acquired several other ownership interests. On April 14, 2004, the Company acquired a 65% ownership interest in Henderson bas ("HB") in a transaction accounted for under the purchase method of accounting. HB is a Toronto based agency providing interactive and direct marketing advertising services. HB has been recognized for its creative abilities, winning several interactive advertising awards, and as such was acquired by the Company to enhance the creative talent within the MDC Partners Marketing Communications segment of businesses. On May 27, 2004, the Company acquired a 50.1% ownership interest in Bruce Mau Design Inc. ("BMD") in a transaction accounted for under the purchase method of accounting. BMD is a Toronto based design studio providing visual identity and branding such as environmental graphics, exhibition development and design, and cultural and business programming services. BMD is world-renowned, working with internationally acclaimed architects and leading cultural and commercial enterprises and as such was acquired by the Company to add a new aspect to the creative talent within the Marketing Communications segment of businesses. During the quarter ended June 30, 2004, the Company also acquired the following interests in three smaller agencies: a 49.9% interest in Mono Advertising LLC ("Mono"), a 51% interest in Hello Design, LLC and a 51% interest in Banjo, LLC. These agencies provide advertising, interactive direct marketing, and film production related marketing communications services, respectively. These transactions were all accounted for under the purchase method of accounting. Subsequently, these acquisitions are consolidated from the date of acquisition with the exception of Mono, which is accounted for under the equity method.

During the quarter-ended June 30, 2004, in aggregate, the Company paid and will pay \$4,194 in cash, issued warrants to purchase 90,000 shares of the Company's common stock to certain selling interestholders of certain businesses (valued at approximately \$360 using the Black-Scholes option-pricing model assuming a 40% expected volatility, a risk free interest rate of 3.3% and an expected option life of 3 years) and incurred transaction costs of approximately \$275 for these acquisitions completed during the quarter ended June 30, 2004. Under the terms of the Mono, Hello Design, LLC, and BMD agreements, the selling interest holders could receive additional cash and/or share

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consideration after two to three years based on achievement of certain pre-determined cumulative earning targets. Based on current earning levels, the additional consideration would be \$0.1 million. Such contingent consideration will be accounted for as goodwill when it becomes determinable.

The aggregate purchase price of the net assets acquired in these transactions was approximately \$4,829. The purchase price was allocated to the fair value of the net tangible assets acquired of this purchase price, \$1,278 was allocated to goodwill and nil to intangible assets.

The allocation of the purchase price to assets acquired and liabilities assumed is based on preliminary estimates of fair value and certain assumptions that the Company believes are reasonable under the circumstances and will be adjusted in a subsequent period upon finalization of such estimates and assumptions. During this period, the aggregated operations of these acquisitions did not have a material effect on the Company's results of operations.

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The following unaudited pro forma results of operations of the Company for the periods ended June 30, 2004 and 2003, respectively, assume that the acquisition of the operating assets of the businesses acquired during the first six months of 2004 had occurred on January 1, 2004 and 2003, respectively. These unaudited pro forma results are not necessarily indicative of either the actual results of operations that would have been achieved had the companies been combined during these periods, or are they necessarily indicative of future results of operations. The unaudited pro forma results may also require adjustment pending finalization of the purchase price allocation to the assets and liabilities acquired.

| | Three Months Ended June 30, | | Six Months Ended Ju | |
|----------------------|-----------------------------|-----------|---------------------|------|
| | 2004 | 2003 | 2004 | |
| | ---- | ---- | ---- | ---- |
| | (Restated - See Note 2) | | (Restated - See No | |
| Revenues | \$ 76,186 | \$ 86,900 | \$ 151,146 | \$ |
| Net income | 963 | 18,035 | 9,557 | |
| Earnings per share: | | | | |
| Basic - net income | \$ 0.04 | \$ 1.07 | \$ 0.47 | \$ |
| Diluted - net income | \$ 0.04 | \$ 0.82 | \$ 0.43 | \$ |

10. VARIABLE INTEREST ENTITIES

In December 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities Revised" ("FIN 46R"), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights, and accordingly, whether it should consolidate the entity. The Company was required to apply FIN 46R to such variable interest entities ("VIEs") commencing with the quarter ended March 31, 2004. In addition, the Company is required, upon the occurrence of certain triggering events, to reconsider whether an entity is a VIE.

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Based upon a review of the provisions of FIN 46R, the Company has identified Banjo, a business in which the Company acquired a majority voting interest in the second quarter of 2004, as a variable interest entity for which the Company is the primary beneficiary. In addition, the Company has also identified an investee in which the Company has a 45% interest, as a variable interest entity for which the Company is the primary beneficiary, thereby requiring consolidation for the three months ended June 30, 2004. To June 30, 2004, the Company has funded \$680 towards this start-up venture to finance the development of proprietary content-driven marketing material. The venture, which commenced operations in the second quarter of 2004, has no significant assets or liabilities and no revenues, and amounts expended by the venture have been principally in respect of salaries and related costs, and general and other operating costs.

11. GAIN ON SALE OF ASSETS AND SETTLEMENT OF LONG-TERM DEBT

| | Three Months Ended June 30, | | Six Months |
|--|-----------------------------|----------------------------|------------|
| | 2004 | 2003 | 2004 |
| | ----- | ----- | ----- |
| | | (Restated - See Note 2) | (Restated) |
| Fair value adjustment on embedded derivative | \$ -- | \$ -- | \$ (3,974) |
| Loss on settlement of exchangeable debentures | -- | -- | (9,569) |
| Gain (loss) on sale of assets | (73) | (1,344) | (73) |
| Loss on settlement of long-term debt | -- | (4,908) | -- |
| Gain on sale of equity interest in Custom Direct Inc. | -- | 50,877 | 21,906 |
| | ----- | ----- | ----- |
| | (\$ 73) | \$ 44,625 | \$ 16,238 |
| | ===== | ===== | ===== |

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In February 2004, the Company sold its remaining 20% interest in Custom Direct Income Fund (the "Fund") through the exchange of its interest in the Fund for the settlement of the adjustable rate exchangeable debentures issued on December 1, 2003 with a face value of \$26,344. Based on the performance of the Fund for the period ended December 31, 2003, the Company was entitled to exchange its shares of Custom Direct, Inc. for units of the Fund. On February 13, 2004, the adjustable rate exchangeable debentures were exchanged for units of the Fund in full settlement of the adjustable rate exchangeable debentures.

The embedded derivative within the exchangeable debentures had a fair value of nil at the date of issuance and an unrealized loss of \$3,974 as at December 31, 2003. At the date of settlement, the fair value of the CDI Units for which the debentures were exchangeable was \$33,991 which exceeded the issue price of the debentures by \$7,647. The total loss on settlement of the exchangeable debenture of \$9,569 includes \$1,922 in respect of the write off of unamortized deferred financing costs.

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From January 1, 2004 to the date of settlement, the accrued loss on the derivative increased by \$3,673 to a total of \$7,647 at the date of settlement. The fair value adjustment for the six months ended June 30, 2004 represents the increase to the accrued loss net of the amount realized on settlement. The fair value of the units of the Fund on February 13, 2004 received by the Company exceeded the Company's equity carrying value of the 20% interest in Custom Direct, Inc., of \$12,085, accordingly the Company recognized a gain on the sale of the CDI equity of \$21,906.

In the second quarter of 2003, the Company completed an Initial Public Offering ("IPO") of the Custom Direct Income Fund ("the Fund") and sold 80% of its interest in Custom Direct Inc. to the Fund for cash and units of the Fund representing an 18.9% interest. Such units were sold in July 2003 for cash consideration equivalent to the IPO price per share. On June 30, 2003, the Company completed the repurchase of the remaining 10.5% senior subordinated notes for 103.5% of the face value of the notes, resulting in a loss on redemption of \$4,908, including the writeoff of \$1,672 of unamortized deferred financing costs.

12. SUBSEQUENT EVENT

In July 2004, the Company acquired a 68% ownership interest in Vitro Robertson, LLC in a transaction to be accounted for under the purchase method of accounting. The agency's expertise is in brand market share management. As part of the acquisition, the Company paid \$7.0 million in cash and will issue common stock with a fair value of valued at \$0.5 million to the selling interestholders. Transaction costs of approximately \$0.2 million are also expected to be incurred. Under the terms of this acquisition agreement, the selling interestholders could receive additional cash and/or share consideration after two years based upon achievement of certain predetermined cumulative earnings targets. Based on current earnings levels, the additional consideration would be nil.

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13. SHARE CAPITAL

Changes to the Company's issued and outstanding share capital during the six months ended June 30, 2004 are as follows:

| Class A | Shares ----- |
|--|---------------------|
| Balance, January 1, 2004 | 18,369,451 |
| Shares acquired and cancelled pursuant to a normal course issuer bid | (423,200) |
| Share options exercised | 175,821 |
| Shares issued - private placement | 120,919 |
| Shares issued - acquisitions (Note 9) | 985,194 |
| Shares issued upon conversion of Class B shares | 447,968 |
| Shares issued on settlement of convertible notes | 2,582,027 |
| | ----- |
| Balance, June 30, 2004 | 22,258,180 ----- |
| | |
| Class B | |
| Balance, January 1, 2004 | 450,470 |

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| | |
|---|------------|
| Shares converted to Class A shares | (447,968) |
| | ----- |
| Balance, June 30, 2004 | 2,502 |
| | ----- |
| Total Class A and Class B share capital | 22,260,682 |
| | ===== |

During the six months ended June 30, 2004, the Company acquired and cancelled, pursuant to a normal course issuer bid, 423,200 Class A subordinate voting shares for \$5,117. The premium paid on the repurchase of the Class A subordinate voting shares, in the amount of \$1,812, was charged to retained earnings.

During the second quarter of 2004, the Company amended its share appreciation rights ("SAR") plan to amend the method of settlement from cash exclusively to cash or equity settlement at the option of the Company. The amendment caused the existing SAR awards to be modified, triggering a remeasurement date for accounting purposes. The modification is accounted for as a settlement of the old awards through the issuance of new awards. As a result, the Company measured the settlement value of the SARs immediately prior to the modification date and adjusted the previously accumulated amortized expense and liability based on the revised calculation. The settlement value of \$6,142 was reclassified from accounts payable and accrued liabilities to Additional paid-in capital and the adjustment to the accumulated expense resulted in a recovery of \$2,591. The Company then measured the fair value of the equity settleable SAR awards using the Black-Scholes option pricing model on the date of modification. The excess of the fair value calculated using the Black-Scholes option pricing model over the settlement value of \$5,046 will be accounted for as additional compensation expense over the remaining vesting period of the SAR awards.

On May 5, 2004, the Company settled in full the \$34,919 (Canadian \$48,000) of 7% Convertible Notes with the issuance of 2,582,027 Class A subordinate voting shares.

On March 17, 2004, the Company completed a private placement issuing 120,919 shares at an average price of \$11.65 per share and issuing 120,919 warrants with exercise prices ranging from Canadian \$15.72 to Canadian \$19.13 and expiring in March 2009. The Company undertook the private placement as a means to provide the Company's Board of Directors and potential Board members the ability to increase their share holdings in the Company in order to further align their interests with those of the Company. As a result of the offering, a stock-based compensation charge in the amount of \$1.0 million was taken in the first quarter to account for the fair value of the benefits conveyed to the recipients of the awards on the granting of warrants and the issuing of shares at a price less than the trading value on the day of issuance.

On February 26, 2004 the Company's then controlling shareholder, Miles S. Nadal (the Company's Chairman and Chief Executive Officer) gave formal notice to the Company's Board of Directors that he had initiated the process to effect conversion of 100% of his Class B multiple voting shares into Class A Subordinate Voting Shares on a one-for-one basis,

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without any cash or non-cash consideration. The conversion was completed during the first quarter of 2004. Mr. Nadal's equity interest in the Company prior to the conversion was approximately 20.2%, and he controlled 44.9% of the voting rights attached to the corporation. Prior to the conversion Mr. Nadal owned 447,968 Class B multiple voting shares, which represented 99% of the Class B shares and carry 20 votes per share, in addition to 3,400,351 Class A subordinate voting shares, which carry one vote per share. After the conversion, both Mr. Nadal's equity interest and voting interest in the Company are approximately 20.2%, or 3,848,319 Class A subordinated voting shares.

Additional paid-in capital increased during the six months ended June 30, 2004 from \$4,312 to \$14,547 due primarily to the amendment of the SARs during the period in the amount of \$7,399 and an amount of \$2,836 related to compensatory stock options and warrants granted during the period.

Share option transactions during the six months ended June 30, 2004 are summarized as follows:

| | Options Outstanding | | Options Exer |
|------------------------------|-----------------------|--|-----------------------|
| | Number Outstanding | Weighted Average Price per Share | Number Outstanding |
| | ----- | ----- | ----- |
| Balance, beginning of period | 2,066,728 | \$ 6.60 | 870,979 |
| Granted | 69,052 | 11.48 | |
| Exercised | (175,821) | 10.44 | |
| Expired and cancelled | (18,955) | 12.03 | |
| | ----- | | |
| Balance, end of period | 1,941,004 | \$ 6.19 | 986,661 |
| | ===== | | |

Shares options outstanding as at June 30, 2004 are summarized as follows:

| | Options Outstanding | | | Options |
|-----------------------------|-----------------------|--------------------------------------|---|-----------------------|
| Range of Exercise Prices | Outstanding Number | Weighted Average Contractual Life | Weighted Average Price per Share | Exercisable Number |
| ----- | ----- | ----- | ----- | ----- |
| \$2.89 - \$4.50 | 770,474 | 3.3 | \$ 4.01 | 319,907 |
| \$4.51 - \$6.00 | 523,010 | 3.9 | \$ 5.44 | 219,594 |
| \$6.01 - \$9.00 | 355,055 | 4.5 | \$ 7.26 | 287,046 |
| \$9.01 - \$15.30 | 278,992 | 4.1 | \$10.52 | 146,641 |
| \$22.50 - \$42.50 | 13,473 | 1.0 | \$41.61 | 13,473 |

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Warrants issued and outstanding as of June 30, 2004 are as follows:

| | Class A Stock Warrants ----- |
|------------------------------|------------------------------------|
| Balance at December 31, 2002 | -- |
| Warrants issued (a) | 507,146 |
| | ----- |
| Balance at December 31, 2003 | 507,146 |
| Warrants issued (b) | 736,186 |
| | ----- |
| Balance at June 30, 2004 | 1,243,332 |
| | ===== |

- (a) During the year ended December 31, 2003, the Company issued 507,146 warrants with a weighted average exercise price of Canadian \$14.28 and terms of two to five years. These warrants were issued as compensation to a lender and to an advisor.
- (b) During the six months ended June 30, 2004, the Company issued 736,186 warrants with a weighted average exercise price of Canadian \$17.66 and a term of five years. Of these warrants, 496,013 were issued as acquisition consideration and 240,173 were issued as compensation and treated as such for accounting purposes.

14. COMMITMENTS AND CONTINGENCIES

In addition to the consideration paid by the Company in respect of its acquisitions, additional consideration may be payable based on the achievement of certain threshold levels of earnings. Should the current level of earnings be maintained by these acquired companies, additional consideration of approximately \$1 million could be owing in 2004 and 2007, of which approximately \$0.9 million could be payable in shares of the Company at the Company's discretion.

Owners of interests in certain of the Company's subsidiaries and investments have the right in certain circumstances to require the Company to purchase additional ownership stakes. The exercise of these rights at their earliest contractual date would result in obligations of the Company to fund related amounts during the period 2004 to 2010. The amount payable by the Company in the event such rights are exercised is dependent on various valuation formulas and on future events such as the average earnings of the relevant subsidiary through the date of exercise, and the growth rate of the earnings of the relevant subsidiary during the period. The Company has not received any notices to exercise such rights that are not currently reflected on the Company's balance sheet.

Under the terms of a joint venture agreement to develop a certain marketing communications product concept, the Company has committed to fund up to \$1.2 million in 2004. As of June 30, 2004, the Company has funded \$0.7 million.

The Company has agreed to provide to its Chairman, President and Chief Executive Officer a bonus of Canadian \$10 million in the event that the market price of the Company's Class A subordinate voting shares is Canadian \$30 per share or more for more than 20 consecutive trading

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days. The after tax proceeds of such bonus are to be applied first as repayment of any outstanding loans due to the Company from this officer, and his related companies in the amount of \$5,113 (Cdn\$6,820) and \$2,249 (Cdn\$3,000) respectively, as at June 30, 2004, both of which have been fully provided for in the Company's accounts.

In connection with certain dispositions of assets and/or businesses in 2001 and 2002, 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 relate to a liability retained by the Company. These types of indemnification guarantees typically extend for a number of years.

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In connection with the sale of the Company's investment in CDI, the amounts of indemnification guarantees were 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 amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification guarantees. The Company continues to monitor the conditions that are subject to guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under any guarantees or indemnifications in the period when those losses are probable and estimable.

For guarantees and indemnifications entered into after January 1, 2003, in connection with the sale of the Company's investment in CDI, the Company has estimated the fair value of its liability, which was insignificant, and included such amount in the determination of the gain or loss on the sale of the business.

15. CANADIAN GAAP RECONCILIATION

During the third quarter of fiscal 2003, the Company changed its reporting currency from Canadian dollars to US dollars. The comparative financial information for the three months and six months ended June 30, 2003 prepared under Canadian GAAP included in this reconciliation differ from amounts previously reported as a result of the change in reporting currency to US dollars and the impact of the adjustments recorded in connection with the restatement described in Note 2. The change in reporting currency had no impact on the measurement of earnings under Canadian GAAP. Under Canadian securities requirements, the Company is required to provide a reconciliation setting out the differences between US and Canadian GAAP as applied to the Company's financial statements for the interim periods and years ended in the fiscal periods for 2004 and 2005.

The Company has restated its consolidated financial statements, prepared in accordance with Canadian GAAP, as at and for the year ended December 31, 2003, 2002, and 2001, the effect of which is described in the Company's restated 2003 Annual Report filed on Form 40-F/A. The

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Company has also restated its interim unaudited condensed consolidated financial statements prepared in accordance with US GAAP, as described in Note 2. As a result of these errors the Company has also restated its Canadian GAAP reconciliation as follows: (i) to correct the adjustment for "Proportionate Consolidation of Affiliates" for the three months and six months ended June 30, 2004 and 2003 and as at June 30, 2004 and December 31, 2003 to now include the Company's proportionate share of the financial position, results of operation and cash flows of Accumark, a joint venture for Canadian GAAP purposes. (See Note 2, Item 7(c)) and a joint venture owning rental property (See Note 2, item 7(a)); and (ii) to correct the adjustment in respect of derivatives as at December 31, 2003 and for the six months ended June 30, 2004, in respect of the fair value adjustment for the embedded derivative in the Company's exchangeable debentures. (See Note 2, Item 3).

The reconciliation from US to Canadian GAAP, of the Company's results of operations for the three months and six months ended June 30, 2004 and 2003, the Company's financial position as at June 30, 2004 and December 31, 2003 are set out below:

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Convertible Notes - 2003 Adjustments

Under US GAAP, the convertible notes are classified entirely as debt. Accordingly, interest expense is recorded based upon the effective interest rate associated with the underlying debt.

Under Canadian GAAP, in accordance with EIC 71, the Company has classified the convertible notes as equity as the Company has the ability and intent to satisfy the obligation on redemption or maturity in freely tradeable Class A shares. Under Canadian GAAP, the Company has recorded an amount in long-term and current debt representing the present value of the future interest payments owing on the convertible debt. The interest in respect of the convertible debt is recorded as a credit on account of the equity portion of the compound financial instrument such that the equity component is accreted to the face of the convertible debt upon maturity.

This difference results in a reclassification on the balance sheet between long-term debt and equity, and a reduction in the interest expense for the amount of the accretion that is not expensed for Canadian GAAP purposes.

Convertible Notes - 2004 Adjustments

During the quarter ended June 30, 2004, the notes were converted to equity. Therefore, the adjustments reflected in 2004 pertain only to the interest adjustment up to the date of conversion and the accumulated reclassification from retained earnings to share capital.

Proportionate Consolidation of Affiliate - 2004 and 2003 Adjustment

Under US GAAP, joint ventures in which the Company has joint control are accounted for under the equity method. Under Canadian GAAP, joint ventures are accounted for on the proportionate consolidation method whereby the Company consolidates on a line-by-line basis their interest in the financial position and results of operations and cash flows of the joint venture.

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Exchangeable Debentures

Under Canadian GAAP, EIC 117 prohibits the bifurcation of the embedded derivative in the Exchangeable debentures. In addition under EIC 56, until such time as the exchange right is no longer contingent upon future events, no adjustment to the carrying value of the debentures are necessary. In February 2004, the debentures became Exchangeable for CDI units and at that time the carrying value of the debenture was required to be increased by \$7,647 to reflect the underlying market value of the CDI units, for which the debentures are exchangeable, with a corresponding change to earnings.

Under US GAAP, the Company must recognize in earnings each period the changes in the fair value of the embedded derivative within the contingently exchangeable debentures and such amount cannot be deferred. This results in a loss on the derivative of \$3,974 in the fourth quarter of 2003 and a further loss in the first quarter of 2004 of \$3,673 immediately prior to settlement.

As a result of this difference, under Canadian GAAP, net income in the first quarter of 2004 is lower than that reported under US GAAP by \$3,974, being loss on the embedded derivative recognized in the prior period.

Stock-based Compensation - 2004 Adjustment

Under US GAAP, the Company accounted for the modification of the SAR awards as a settlement, measuring the incremental value of the awards based on the fair value of the modified awards on the date of modification. Under Canadian GAAP, the Company measures the incremental value based on the fair value of the award on the date of grant. The difference in measurement date results in a lower amount of additional compensation recorded under Canadian GAAP in the quarter and a corresponding lower amount credited to Additional paid-in capital.

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Goodwill Charges

Historically, under US GAAP, the Company expensed as incurred certain costs related to existing plant closures where production was shifted to acquired facilities. Historically, under Canadian GAAP, the expenditures were accrued as part of the business acquired and allocated to goodwill. Accordingly the timing of the recognition of such costs in the statement of operations is different under Canadian GAAP. The resulting gain on sale of such assets in the six months ended June 30, 2004 is lower under Canadian GAAP than under US GAAP by \$2,780.

Other Adjustments

Other adjustments represent cumulative translation differences as a result of timing differences between recognition of certain expenses under US and Canadian GAAP. Accumulated other comprehensive income under US GAAP represents the cumulative translation adjustment account, the exchange gains and losses arising from the translation of the financial statements of self sustaining foreign subsidiaries under Canadian GAAP.

THREE MONTHS ENDED JUNE 30, 2004
(thousands of United States dollars)

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| | US GAAP ----- (Restated - See Note 2) | Stock-based Compensation and Convertible Notes ----- | Proportionate Consolidation of Affiliates ----- (Restated) | (R |
|--|---|---|--|-------------|
| Revenue: | | | | |
| Services | \$ 58,327 | \$ -- | \$ 7,263 | \$ |
| Products | 17,233 | -- | -- | |
| | ----- 75,560 | ----- -- | ----- 7,263 | |
| Operating Expenses: | | | | |
| Cost of products sold | 10,386 | -- | -- | |
| Salary and related costs | 31,099 | (945) | 2,850 | |
| General and other operating costs | 27,654 | -- | 1,848 | |
| Depreciation and amortization | 3,028 | -- | 182 | |
| | ----- 72,167 | ----- (945) | ----- 4,880 | |
| Operating Profit | ----- 3,393 | ----- 945 | ----- 2,383 | |
| Other Income (Expenses): | | | | |
| Gain (loss) on sale of assets | (73) | -- | -- | |
| Foreign exchange gain | 288 | -- | -- | |
| Interest expense | (2,315) | 197 | (95) | |
| Interest income | 50 | -- | 9 | |
| | ----- (2,050) | ----- 197 | ----- (86) | |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | ----- 1,343 | ----- 1,142 | ----- 2,297 | |
| Income Taxes (Recovery) | (589) | -- | 863 | |
| Income Before Equity in Affiliates and Minority Interests | ----- 1,932 | ----- 1,142 | ----- 1,434 | |
| Equity in Affiliates | 1,343 | -- | (1,434) | |
| Minority Interests | (2,343) | -- | -- | |
| Net Income | ----- \$ 932 | ----- \$ 1,142 | ----- \$ -- | ----- \$ |

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SIX MONTHS ENDED JUNE 30, 2004
(thousands of United States dollars)

Stock-based

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| | US GAAP ----- (Restated - See Note 2) | Compensation and Convertible Notes ----- | Embedded Derivative and Goodwill Charges ----- (Restated) |
|---|---|--|---|
| Revenue: | | | |
| Services | \$ 110,285 | \$ -- | \$ -- |
| Products | 35,270 | -- | -- |
| | ----- | ----- | ----- |
| | 145,555 | -- | -- |
| | ----- | ----- | ----- |
| Operating Expenses: | | | |
| Cost of products sold | 21,561 | -- | -- |
| Salary and related costs | 67,370 | (945) | -- |
| General and other operating costs | 53,368 | -- | -- |
| Depreciation and amortization | 5,573 | -- | -- |
| | ----- | ----- | ----- |
| | 147,872 | (945) | -- |
| | ----- | ----- | ----- |
| Operating Profit (Loss) | (2,317) | 945 | -- |
| | ----- | ----- | ----- |
| Other Income (Expenses): | | | |
| Gain on sale of assets | 16,238 | -- | (6,754) |
| Foreign exchange gain | 458 | -- | -- |
| Interest expense | (5,089) | 718 | -- |
| Interest income | 471 | -- | -- |
| | ----- | ----- | ----- |
| | 12,078 | 718 | (6,754) |
| | ----- | ----- | ----- |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | 9,761 | 1,663 | (6,754) |
| Income Taxes (Recovery) | (392) | -- | -- |
| | ----- | ----- | ----- |
| Income Before Equity in Affiliates and Minority Interests | 10,153 | 1,663 | (6,754) |
| Equity in Affiliates | 2,884 | -- | -- |
| Minority Interests | (3,640) | -- | -- |
| | ----- | ----- | ----- |
| Net Income | \$ 9,397 | \$ 1,663 | (\$ 6,754) |
| | ===== | ===== | ===== |

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AS AT JUNE 30, 2004
(thousands of United States dollars)

| | | |
|----|---|--------------------------------|
| US | Stock-based Compensation and Convertible | Proportionate Consolidation |
|----|---|--------------------------------|

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| | GAAP ---- | Notes ----- | of Affiliates ----- | |
|---|----------------------------|----------------|------------------------|-------|
| | (Restated - See Note 2) | | (Restated) | (Re |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 48,069 | \$ -- | \$ 5,636 | \$ |
| Accounts receivable, net | 99,225 | -- | 12,540 | 1 |
| Expenditures billable to clients | 7,159 | -- | 8,767 | |
| Inventories | 8,459 | -- | -- | |
| Prepaid expenses and other current assets | 6,086 | -- | 413 | |
| | ----- | ----- | ----- | ----- |
| Total Current Assets | 168,998 | -- | 27,356 | 1 |
| Fixed Assets, net | 45,163 | -- | 5,940 | |
| Investment in Affiliates | 22,875 | -- | (20,796) | |
| Goodwill | 122,237 | -- | 18,509 | 1 |
| Intangibles | 3,520 | -- | -- | |
| Deferred Tax Assets | 11,381 | -- | 228 | |
| Other Assets | 7,606 | -- | 18 | |
| | ----- | ----- | ----- | ----- |
| Total Assets | \$ 381,780 | \$ -- | \$ 31,255 | \$ 4 |
| | ===== | ===== | ===== | ===== |
| Current Liabilities | | | | |
| Accounts payable | \$ 74,724 | \$ -- | \$ 7,991 | \$ |
| Accruals and other liabilities | 50,446 | -- | 8,764 | |
| Advance billings | 21,557 | -- | 9,808 | |
| Current portion of long-term debt | 36,835 | -- | 109 | |
| Deferred acquisition consideration | 791 | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Total Current Liabilities | 184,353 | -- | 26,672 | 2 |
| Long-Term Debt | 45,064 | -- | 3,784 | |
| Other Liabilities | 502 | -- | 799 | |
| | ----- | ----- | ----- | ----- |
| Total Liabilities | 229,919 | -- | 31,255 | 2 |
| | ----- | ----- | ----- | ----- |
| Minority Interests | 2,040 | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Shareholders' Equity | | | | |
| Share capital | 165,806 | 1,296 | -- | 1 |
| Share capital to be issued | 3,909 | -- | -- | |
| Additional paid-in capital | 14,903 | (945) | -- | |
| Retained earnings (deficit) | (31,584) | (351) | -- | (|
| Accumulated other comprehensive income (loss) | (3,213) | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Total Shareholders' Equity | 149,821 | -- | -- | 1 |
| | ----- | ----- | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$ 381,780 | \$ -- | \$ 31,255 | \$ 4 |
| | ===== | ===== | ===== | ===== |

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SIX MONTHS ENDED JUNE 30, 2004
(thousands of United States dollars)

| | US GAAP ----- (Restated - See Note 2) | Stock-based Compensation, Convertible Notes and Other ----- (Restated) | Proportionate Consolidation of Affiliates ----- (Restated) | Can G ----- (Res |
|---|---|---|--|---------------------------|
| Operating Activities | | | | |
| Net income | \$ 9,397 | \$ 5,091 | \$ -- | \$ |
| Stock-based compensation | 4,999 | (945) | -- | |
| Depreciation and amortization | 5,573 | -- | 300 | |
| Amortization and write-off of deferred finance charges | 3,063 | -- | -- | |
| Deferred income taxes | 510 | -- | -- | |
| Foreign exchange | (458) | -- | -- | |
| Gain on sale of assets | (18,160) | 6,754 | -- | (1 |
| Earnings of affiliates, net of distributions | 1,729 | -- | (1,206) | |
| Minority interest and other | 97 | -- | -- | |
| Changes in non-cash working capital | (7,093) | -- | 1,688 | (|
| | ----- (343) | ----- 718 | ----- 782 | ----- --- |
| Investing activities | | | | |
| Capital expenditures | (8,065) | -- | (471) | (|
| Acquisitions, net of cash acquired | (5,739) | -- | (226) | (|
| Other assets, net | 349 | -- | (68) | |
| | ----- (13,455) | ----- -- | ----- (765) | ----- (1 |
| Financing activities | | | | |
| Proceeds from issuance of long- term debt | 2,007 | -- | -- | |
| Repayment of long-term debt | (4,185) | (718) | (52) | (|
| Issuance of share capital | 3,245 | -- | -- | |
| Purchase of share capital | (5,117) | -- | -- | (|
| | ----- (4,050) | ----- (718) | ----- (52) | ----- (|
| Foreign exchange effect on cash and cash equivalents | (12) | -- | -- | --- |
| | ----- (17,860) | ----- -- | ----- (35) | ----- (1 |
| Net increase (decrease) in cash and cash equivalents | | | | |
| Cash and cash equivalents beginning of period | 65,929 | -- | 5,671 | 7 |
| | ----- \$ 48,069 | ----- \$ -- | ----- \$ 5,636 | ----- \$ 5 |
| Cash and cash equivalents end of period | ===== | ===== | ===== | ===== |

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THREE MONTHS ENDED JUNE 30, 2003
(thousands of United States dollars)

| | US GAAP ----- (Restated - See Note 2) | Convertible Notes and Other ----- (Restated) | Proportionate Consolidation of Affiliate ----- (Restated) |
|--|---|--|---|
| Revenue: | | | |
| Services | \$ 42,744 | \$ -- | \$ 4,789 |
| Products | 33,084 | -- | -- |
| | ----- 75,828 | ----- -- | ----- 4,789 |
| Operating Expenses: | | | |
| Cost of products sold | 14,932 | -- | -- |
| Salary and related costs | 27,294 | -- | 1,765 |
| General and other operating costs | 28,642 | -- | 1,549 |
| Depreciation and amortization | 2,667 | 186 | 95 |
| Write-down of fixed assets and other assets | 8,126 | -- | -- |
| Goodwill charges | 10,012 | -- | -- |
| | ----- 91,673 | ----- 186 | ----- 3,409 |
| Operating Profit (Loss) | ----- (15,845) | ----- (186) | ----- 1,380 |
| Other Income (Expense): | | | |
| Gain on sale of assets and settlement of long-term debt | 44,625 | (11,121) | 101 |
| Foreign exchange gain (loss) | (876) | -- | -- |
| Interest expense | (5,461) | 425 | (75) |
| Interest income | 78 | -- | 10 |
| | ----- 38,366 | ----- (10,696) | ----- 36 |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | 22,521 | (10,882) | 1,416 |
| Income Taxes | 5,936 | 57 | 526 |
| | ----- | ----- | ----- |
| Income Before Equity in Affiliates and Minority Interests | 16,585 | (10,939) | 890 |
| Equity in Affiliates | 1,229 | -- | (890) |
| Minority Interests | (177) | -- | -- |
| | ----- | ----- | ----- |
| Net Income | ===== | ===== | ===== |

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SIX MONTHS ENDED JUNE 30, 2003
(thousands of United States dollars)

| | US GAAP ----- (Restated - See Note 2) | Convertible Notes and Other ----- (Restated) | Proportio Consolida of Affil ----- (Restat |
|---|---|--|--|
| Revenue: | | | |
| Services | \$ 80,526 | \$ -- | \$ 8,7 |
| Products | 76,398 | -- | |
| | ----- | ----- | ----- |
| | 156,924 | -- | 8,7 |
| | ----- | ----- | ----- |
| Operating Expenses: | | | |
| Cost of products sold | 33,439 | -- | |
| Salary and related costs | 53,891 | -- | 3,4 |
| General and other operating costs | 55,922 | -- | 2,7 |
| Depreciation and amortization | 5,377 | 371 | 1 |
| Write-down of fixed assets and other assets | 8,126 | -- | |
| Goodwill charges | 10,012 | -- | |
| | ----- | ----- | ----- |
| | 166,767 | 371 | 6,3 |
| | ----- | ----- | ----- |
| Operating Profit (Loss) | (9,843) | (371) | 2,3 |
| | ----- | ----- | ----- |
| Other Income (Expense): | | | |
| Gain on sale of assets and settlement of long-term debt | 44,625 | (11,121) | 1 |
| Foreign exchange loss | (1,531) | -- | |
| Interest expense | (10,338) | 850 | (1 |
| Interest income | 171 | -- | |
| | ----- | ----- | ----- |
| | 32,927 | (10,271) | (|
| | ----- | ----- | ----- |
| Income (Loss) Before Income Taxes, Equity in Affiliates and Minority Interests | 23,084 | (10,642) | 2,3 |
| Income Taxes | 5,910 | 212 | 8 |
| | ----- | ----- | ----- |
| Income (Loss) Before Equity in Affiliates and Minority Interests | 17,174 | (10,854) | 1,4 |
| Equity in Affiliates | 1,791 | -- | (1,4 |
| Minority Interests | (1,116) | -- | |
| | ----- | ----- | ----- |
| Net Income | \$ 17,849 | (\$ 10,854) | \$ |
| | ===== | ===== | ===== |

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AS AT DECEMBER 31, 2003

(thousands of United States dollars)

| | US GAAP ----- (Restated - See Note 2) | Convertible Notes ----- | Proportionate Consolidation Affiliate ----- (Restated) |
|--|---|-------------------------------|--|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 65,929 | \$ -- | \$ 5,671 |
| Accounts receivable, net | 58,864 | -- | 11,095 |
| Expenditures billable to clients | 7,153 | -- | 3,183 |
| Inventories | 7,735 | -- | -- |
| Prepaid expenses and other current assets | 4,863 | -- | 180 |
| | ----- | ----- | ----- |
| Total Current Assets | 144,544 | -- | 20,129 |
| Fixed Assets, net | 38,775 | -- | 5,839 |
| Investment in Affiliates | 34,362 | -- | (22,159) |
| Goodwill | 83,199 | -- | 18,580 |
| Deferred Tax Benefits | 11,563 | -- | -- |
| Other Assets | 9,096 | -- | 19 |
| | ----- | ----- | ----- |
| Total Assets | \$ 321,539 ===== | \$ -- ===== | \$ 22,408 ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 38,451 | \$ -- | \$ 6,331 |
| Accruals and other liabilities | 34,245 | -- | 10,579 |
| Advance billings | 15,731 | -- | 573 |
| Current portion of long-term debt | 16,378 | 2,160 | 108 |
| Deferred acquisition consideration | 1,113 | -- | -- |
| | ----- | ----- | ----- |
| Total Current Liabilities | 105,918 | 2,160 | 17,591 |
| Long-Term Debt | 95,970 | -- | 3,950 |
| Convertible Notes | 37,794 | (33,011) | -- |
| Other Liabilities | 516 | -- | 867 |
| | ----- | ----- | ----- |
| Total Liabilities | 240,198 | (30,851) | 22,408 |
| | ----- | ----- | ----- |
| Minority Interests | 2,432 | -- | -- |
| | ----- | ----- | ----- |
| Shareholders' Equity | | | |
| Share capital | 115,996 | 1,296 | -- |
| Share capital to be issued | -- | -- | -- |
| Additional paid-in capital | 4,610 | 30,851 | -- |
| Retained earnings (deficit) | (39,169) | (1,296) | -- |
| Accumulated other comprehensive income (loss) | (2,528) | -- | -- |
| | ----- | ----- | ----- |

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| | | | |
|--|------------|--------|-----------|
| Total Shareholders' Equity | 78,909 | 30,851 | -- |
| | ----- | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$ 321,539 | \$ -- | \$ 22,408 |
| | ===== | ===== | ===== |

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SIX MONTHS ENDED JUNE 30, 2003
(thousands of United States dollars)

| | US GAAP ----- (Restated - See Note 2) | Convertible Notes ----- | Proportionate Consolidation of Affiliate ----- (Restated) | Adj |
|---|---|-------------------------------|---|-----|
| Operating Activities | | | | |
| Net income | \$ 17,849 | \$ 539 | \$ -- | (\$ |
| Stock-based compensation | 975 | -- | -- | |
| Depreciation and amortization | 5,377 | -- | 165 | |
| Amortization and write-off of deferred finance charges | 2,892 | -- | -- | |
| Non-cash interest | 2,064 | -- | -- | |
| Deferred income taxes | 5,214 | 311 | -- | |
| Foreign exchange | 1,531 | -- | -- | |
| Gain on sale of assets and settlement of long-term debt | (46,297) | -- | (101) | |
| Write-down of fixed assets and other assets | 8,126 | -- | -- | |
| Goodwill charges | 10,012 | -- | -- | |
| Earnings of affiliates, net of Distributions | (2,393) | -- | 2,685 | |
| Minority interest and other | (843) | -- | -- | |
| Changes in non-cash working capital | 543 | -- | (4,200) | |
| | ----- | ----- | ----- | |
| | 5,050 | 850 | (1,451) | |
| | ----- | ----- | ----- | |
| Investing activities | | | | |
| Capital expenditures | (7,559) | -- | (1,069) | |
| Proceeds of dispositions | 83,474 | -- | -- | |
| Other assets, net | 2,845 | -- | (29) | |
| | ----- | ----- | ----- | |
| | 78,760 | -- | (1,098) | |
| | ----- | ----- | ----- | |
| Financing activities | | | | |
| Proceeds on issuance of long-term debt | 11,439 | -- | -- | |
| Repayment of long-term debt | (87,517) | (850) | (45) | |
| | ----- | ----- | ----- | |
| | (76,078) | (850) | (45) | |
| | ----- | ----- | ----- | |
| Foreign exchange effect on cash and cash equivalents | | | | |
| | 2,082 | -- | -- | |
| | ----- | ----- | ----- | |

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| | | | |
|--|-----------|-------|----------|
| Increase in cash and cash equivalents | 9,814 | -- | (2,594) |
| Cash and cash equivalents beginning of period | 31,226 | -- | 6,211 |
| Cash and cash equivalents end of period | \$ 41,040 | \$ -- | \$ 3,617 |

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (RESTATED)

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 2004 MEANS THE PERIOD BEGINNING JANUARY 1, 2004, AND ENDING DECEMBER 31, 2004). THIS REPORT CONTAINS FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 WITH RESPECT TO THE FINANCIAL CONDITION, RESULTS OF OPERATIONS, AND BUSINESS OF THE COMPANY. THESE FORWARD LOOKING STATEMENTS INVOLVE CERTAIN RISKS AND UNCERTAINTIES. NO ASSURANCE CAN BE GIVEN THAT ANY OF SUCH MATTERS WILL BE REALIZED. FACTORS THAT MAY CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE CONTEMPLATED BY SUCH FORWARD LOOKING STATEMENTS INCLUDE, AMONG OTHERS, THE FOLLOWING POSSIBILITIES: (1) COMPETITIVE PRESSURE IN THE COMPANY'S INDUSTRY INCREASES SIGNIFICANTLY; (2) GENERAL ECONOMIC CONDITIONS ARE LESS FAVORABLE THAN EXPECTED; (3) CHANGES IN THE FINANCIAL MARKETS AFFECTING THE COMPANY'S FINANCIAL STRUCTURE AND THE COMPANY'S COST OF CAPITAL AND BORROWED MONEY; AND (4) THE UNCERTAINTIES INHERENT IN INTERNATIONAL OPERATIONS AND FOREIGN CURRENCY FLUCTUATIONS. THE COMPANY HAS NO DUTY UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 TO UPDATE THE FORWARD LOOKING STATEMENTS IN THIS QUARTERLY REPORT ON FORM 10-Q AND THE COMPANY DOES NOT INTEND TO PROVIDE SUCH UPDATES.

The following discussion focuses on the operating performance of MDC Partners Inc. (the "Company") for the three-month and six-month periods ended June 30, 2004 and 2003, and the financial condition of the Company as at June 30, 2004. This analysis should be read in conjunction with the consolidated interim financial statements presented in this interim report and the restated annual audited consolidated financial statements and Management's Discussion and Analysis presented in the Annual Report to Shareholders for the year ended December 31, 2003 as reported on Form 40-F/A. All amounts are in US dollars unless otherwise stated.

The Company has restated its consolidated financial statements and related footnote disclosures to reflect (1) corrections in the recognition of compensation expense on the privatization of Maxxcom, (2) corrections in the timing of recognition and the classification of the amortization and write-off of deferred financing fees, (3) the recognition of fair value adjustments related to an embedded derivative in the Company's exchangeable securities, (4) corrections in the timing and amounts recognized on the gain on sale of the investment in Custom Direct Inc., (5) correction for the timing of recognition and the classification of certain foreign exchange gains and losses on intercompany balances, (6) corrections to revenue recognition related to certain contract terms, (7) corrections to the accounting for certain investments, (8) corrections to the purchase price allocations for certain business acquisitions and the related amortization of identified intangible assets, (9) corrections in the timing of the recognition of stock-based compensation, and (10) corrections

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to the computation of the dilutive effect of convertible debentures on diluted earnings per share.

Refer to Note 2 of the notes to the interim unaudited condensed consolidated financial statements included herein which discloses the adjustments to the Company's consolidated financial statements resulting from these restatements.

The effects of these restatements have been reflected in corresponding corrections to the Management Discussion and Analysis in this Form 10-Q/A. This Form 10-Q/A does not reflect events occurring after the original filing date of the Form 10-Q.

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COMBINED REVENUE, OPERATING COSTS AND OPERATING PROFITS

Many of the Company's marketing communications businesses have significant other interestholders and in some cases, the Company operates the business in a fashion similar to a joint venture with these other interestholders. The Company's management oversees the businesses as active managers rather than a passive investor, reviewing all aspects of their operations with the management of these businesses, regardless of the Company's ownership interest. Within the marketing communications industry, the monitoring of operating costs, such as salary and related costs, relative to revenues, among other things, are key performance indicators. Consequently, the Company's management reviews, analyses and manages these elements of the businesses as a whole, rather than just being concerned with it as an investment. Management believes the presentation of the whole of the Company's marketing communications business provides readers with a complete view of all operations that significantly affect the Marketing Communications reportable segment's profitability and allows readers to evaluate the financial presentation reviewed by management in making business decisions. Accumark Promotions Group Inc. owned 55% but not unilaterally controlled by the Company and Crispin Porter + Bogusky, LLC, ("CPB"), owned 49.9% by the Company, Cliff Freeman & Partners, LLC, 19.9% owned by the Company and Mono Advertising LLC, 49.9% owned by the Company, are required to be equity accounted for under US GAAP. Consequently, for purposes of the Management Discussion and Analysis, 100% of the results of operations of those entities which are required to be equity accounted for under US GAAP have been combined with the other businesses of the Marketing Communications reportable segment, and the alternate operating results have been described as "Combined". These "Combined" results do not constitute a financial measure prepared in accordance with US GAAP. A reconciliation of "Combined" results of operations of the Marketing Communications reportable segment to the GAAP reported results of operations has been provided by the Company in the tables included in this Management Discussion and Analysis.

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RESULTS OF OPERATIONS:

FOR THE THREE MONTHS ENDED JUNE 30, 2004, AS RESTATED (1):
(thousands of United States dollars)

| Combined | As Reported under | | | |
|----------------|-------------------|----------------|---------------|---------------|
| Combined | Less Equity | Marketing | Secure | Corpor |
| Marketing | Affiliates | Communications | Products | International |
| Communications | Affiliates | Communications | International | Other |

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| | ----- | ----- | ----- | ----- | ----- |
|-----------------------------------|-----------|-----------|-----------|-----------|--------|
| Revenue | \$ 73,669 | \$ 15,342 | \$ 58,327 | \$ 17,233 | \$ |
| Operating Expenses: | | | | | |
| Cost of products sold | -- | -- | -- | 10,386 | |
| Salary and related costs | 34,897 | 7,414 | 27,483 | 3,370 | |
| General and other operating costs | 27,699 | 4,108 | 23,591 | 2,100 | 1, |
| Depreciation and Amortization | 2,536 | 341 | 2,195 | 807 | |
| | ----- | ----- | ----- | ----- | ----- |
| | 65,132 | 11,863 | 53,269 | 16,663 | 2, |
| | ----- | ----- | ----- | ----- | ----- |
| Operating Profit (Loss) | \$ 8,537 | \$ 3,479 | \$ 5,058 | \$ 570 | (\$ 2, |
| | ===== | ===== | ===== | ===== | ===== |

Other Income (Expense):
 Loss on sale of assets
 Foreign exchange gain
 Interest expense, net

Income Before Income Taxes, Equity in Affiliates and Minority Interests
 Income Taxes (Recovery)

Income Before Equity in Affiliates and Minority Interests
 Equity in Affiliates
 Minority Interests

Net Income

(1) Refer to Note 2 of the notes to the interim unaudited condensed consolidated financial statements included herein, which disclose the adjustments to the Company's interim unaudited condensed consolidated financial statements.

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FOR THE THREE MONTHS ENDED JUNE 30, 2003, AS RESTATED (1):
 (thousands of United States dollars)

| | ----- | ----- | ----- | ----- | ----- |
|--------------------------|----------------|-------------|---------------------|---------------|-------|
| | Combined | | As Reported under U | | |
| | ----- | ----- | ----- | ----- | ----- |
| | Combined | Less Equity | Marketing | Secure | Cor |
| | Marketing | Affiliates | Communications | Products | |
| | Communications | | | International | |
| | ----- | ----- | ----- | ----- | ----- |
| Revenue | \$ 51,594 | \$ 8,850 | \$ 42,744 | \$ 33,084 | \$ |
| Operating Expenses: | | | | | |
| Cost of products sold | -- | -- | -- | 14,932 | |
| Salary and related costs | 23,523 | 3,521 | 20,002 | 5,683 | |

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| | | | | | |
|---|----------|----------|----------|------------|-------|
| General and other operating costs | 19,747 | 2,629 | 17,118 | 10,469 | |
| Depreciation and amortization | 1,587 | 138 | 1,449 | 1,081 | |
| Write-down of fixed assets and other assets | -- | -- | -- | 8,126 | |
| Goodwill charges | -- | -- | -- | 10,012 | |
| | ----- | ----- | ----- | ----- | |
| | 44,857 | 6,288 | 38,569 | 50,303 | |
| | ----- | ----- | ----- | ----- | |
| Operating Profit (Loss) | \$ 6,737 | \$ 2,562 | \$ 4,175 | (\$17,219) | (\$ |
| | ===== | ===== | ===== | ===== | ===== |
| Other Income (Expense): | | | | | |
| Gain on sale of assets and settlement of long-term debt | | | | | |
| Foreign exchange loss | | | | | |
| Interest expense, net | | | | | |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | | | | | |
| Income Taxes | | | | | |
| Income Before Equity in Affiliates and Minority Interests | | | | | |
| Equity in Affiliates | | | | | |
| Minority Interests | | | | | |
| Net Income | | | | | |

(1) Refer to Note 2 of the notes to the interim unaudited condensed consolidated financial statements included herein, which disclose the adjustments to the Company's interim unaudited condensed consolidated financial statements.

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FOR THE SIX MONTHS ENDED JUNE 30, 2004, AS RESTATED (1):
(thousands of United States dollars)

| | Combined | | As Reported under | | |
|-----------------------------------|----------------|-------------|-------------------|---------------|-------|
| | Combined | Less Equity | Marketing | Secure | Con |
| | Marketing | Affiliates | Communications | Products | |
| | Communications | | | International | |
| | ----- | ----- | ----- | ----- | ----- |
| Revenue | \$ 138,101 | \$ 27,816 | \$ 110,285 | \$ 35,270 | \$ |
| | ----- | ----- | ----- | ----- | ----- |
| Operating Expenses: | | | | | |
| Cost of products sold | -- | -- | -- | 21,561 | |
| Salary and related costs | 64,969 | 12,087 | 52,882 | 6,846 | |
| General and other operating costs | 52,453 | 6,932 | 45,521 | 4,501 | |

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| | | | | | |
|-------------------------------|-----------|----------|----------|--------|-------|
| Depreciation and amortization | 4,570 | 531 | 4,039 | 1,482 | |
| | ----- | ----- | ----- | ----- | ----- |
| | 121,992 | 19,550 | 102,442 | 34,390 | |
| | ----- | ----- | ----- | ----- | ----- |
| Operating Profit (Loss) | \$ 16,109 | \$ 8,266 | \$ 7,843 | \$ 880 | (\$) |
| | ===== | ===== | ===== | ===== | ===== |

Other Income (Expense):
Gain on sale of assets
Foreign exchange gain
Interest expense, net

Income Before Income Taxes, Equity in Affiliates and Minority Interests
Income Taxes

Income Before Equity in Affiliates and Minority Interests
Equity in Affiliates
Minority Interests

Net Income

(1) Refer to Note 2 of the notes to the interim unaudited condensed consolidated financial statements included herein, which disclose the adjustments to the Company's interim unaudited condensed consolidated financial statements.

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FOR THE SIX MONTHS ENDED JUNE 30, 2003, AS RESTATED (1):
(thousands of United States dollars)

| | Combined | | As Reported und | |
|---|----------------|-------------|-----------------|---------------|
| | ----- | | ----- | ----- |
| | Combined | Less Equity | Marketing | Secure |
| | Marketing | Affiliates | Communications | Products |
| | Communications | | | International |
| | ----- | ----- | ----- | ----- |
| Revenue | \$ 96,586 | \$ 16,060 | \$ 80,526 | \$ 76,398 |
| | ----- | ----- | ----- | ----- |
| Operating Expenses: | | | | |
| Cost of products sold | -- | -- | -- | 33,439 |
| Salary and related costs | 46,404 | 6,939 | 39,465 | 11,766 |
| General and other operating costs | 36,364 | 4,580 | 31,784 | 22,519 |
| Depreciation and amortization | 3,091 | 230 | 2,861 | 2,255 |
| Write-down of fixed assets and other assets | -- | -- | -- | 8,126 |
| Goodwill charges | -- | -- | -- | 10,012 |
| | ----- | ----- | ----- | ----- |
| | 85,859 | 11,749 | 74,110 | 88,117 |

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| | | | | |
|---|-----------|----------|----------|-------------|
| | ----- | ----- | ----- | ----- |
| Operating Profit (Loss) | \$ 10,727 | \$ 4,311 | \$ 6,416 | (\$ 11,719) |
| | ===== | ===== | ===== | ===== |
| Other Income (Expense): | | | | |
| Gain on sale of assets and settlement of long-term debt | | | | |
| Foreign exchange loss | | | | |
| Interest expense, net | | | | |
| Income Before Income Taxes, Equity in Affiliates and Minority Interests | | | | |
| Income Taxes | | | | |
| Income Before Equity in Affiliates and Minority Interests | | | | |
| Equity in Affiliates | | | | |
| Minority Interests | | | | |
| Net Income | | | | |

(1) Refer to Note 2 of the notes to the interim unaudited condensed consolidated financial statements included herein, which disclose the adjustments to the Company's interim unaudited condensed consolidated financial statements.

THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO THREE MONTHS ENDED JUNE 30, 2003

Marketing Communications

Marketing Communications revenue on a Combined basis was \$73.7 million in the quarter, 43% more than the comparable \$51.6 million reported in the second quarter of 2003. The increase in the quarter's Combined revenue as compared to the same quarter in 2003 primarily resulted from several significant new business developments which originated in the first quarter of 2004, as described below. The revenue growth is also a result of the acquisitions of several businesses. During the first quarter of 2004, the Company acquired a controlling interest in the integrated marketing communications group of agencies of Kirshenbaum Bond + Partners, LLC and an equity interest in the advertising agency Cliff Freeman + Partners LLC. During the second quarter of 2004 the Company acquired controlling interests in Henderson bas, an interactive marketing agency, Mono Advertising LLC, an advertising agency, Hello Design, LLC and Bruce Mau Design Inc., branding and design studios, and Banjo, LLC, a production studio. These acquired operations contributed \$17.1 million of revenue on a Combined basis during the quarter. Excluding the revenue of these acquisitions in 2004, Combined revenues increased 10% period over period. The currency exchange rate effect of the strengthened Canadian dollar and Pound Sterling, as compared to the same period in 2003, also contributed approximately \$0.7 million to the increase in revenues during this period. On a pro forma basis, comparing a full three months of operations in both the second quarters of 2004 and 2003 for the businesses operated by the Company on June 30, 2004, Combined pro forma revenue would have improved by approximately 13% period over period. This reflects significant pro forma Combined revenue growth in the US businesses and significant revenue growth in the Canadian businesses. However, the UK operations experienced a significant decrease in revenues during this period, as compared to the second quarter in 2003. The growth in Combined pro

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forma US revenues was driven by incremental revenues resulting from the Company's equity accounted affiliate, Crispin Porter + Bogusky's new client, Burger King, and from several new client wins at each of Kirshenbaum Bond + Partners, the Bryan Mills Group, and Henderson bas. The UK operations experienced declines in revenues from their technology industry based clients while experiencing very little in new revenue additions.

The positive organic revenue growth, particularly in the US year over year, has resulted in a shift in the geographic mix of Combined revenues. Of the Combined revenue for the quarter, 78% was from the United States, 19% was derived from Canada and 3% came from the United Kingdom. This compared to 72%, 22% and 6%, respectively, in the second quarter of 2003.

During the second quarter of 2004, the Company's client base composition shifted in several areas as compared to the same quarter in 2003. The Company experienced a relative increase in spending by the consumer products, information technology and telecommunications based clients, while financial, and, to a lesser extent, media and healthcare based client revenues became a relatively smaller component of Combined revenue in 2004 as compared to 2003. In dollar terms, significant increases were noted in revenues from, consumer product, telecommunications and service industry based clients. The composition of revenues added due to business acquisitions in 2004, principally Kirshenbaum Bond + Partners, was proportionately weighted more to the financial and service industry based clients than the Combined revenues of the pre-existing businesses, which contributed dollar revenues primarily from the consumer and financial industries in particular.

Acquisitions in the first quarter did increase the dollar revenues and also the proportionate share of revenues from advertising services, as compared to the "below the line" services. For the second quarter of 2004, advertising services Combined revenues represented approximately 45% of Combined revenues as compared to 36% for the same period in 2003. Excluding the effects of the Kirshenbaum Bond + Partners acquisition, advertising services would have increased to 38% in the quarter, as the Company's existing operations obtained several new clients during the quarter requiring advertising services.

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Combined operating costs increased at a slightly higher pace than the 43% growth in Combined revenues, increasing 45% during the quarter as compared to the same quarter last year. While the "general and other operating" costs component grew at only 40%, the staff costs increased at 48%. These relative changes are a result of several factors. Firstly, if the effects of acquired businesses were excluded from the Combined results, while revenues would have increased at 10%, staff costs would have increased at 7% and "general and other operating" costs would have increased 21%. The staff cost increases reflect some pricing pressures primarily experienced by the Company's customer service center operation, Accent Marketing Services. The increase in the "general and other operating" costs beyond the growth rate of revenues was the result of several factors. During the second quarter of 2004, the Company invested approximately \$0.7 million in the development of a new initiative. This venture relates to a proprietary content-driven marketing initiative, which is still in the research phase and is expected to continue in this phase through the third quarter of 2004. Also, the Company's operations expended an unusual amount on new business development during the quarter, as the UK business in particular invested significant resources into attracting new clients. Finally, Accent Marketing Services expended significant costs expanding its customer service center operations into near-shore and offshore facilities as it prepares for additional business volumes and to maintain its competitive cost structure in the long run.

Excluding the effects in the quarter of the acquisitions, and the investments in

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new ventures and new business, as described above, pro forma Combined operating profits would have decreased 4% to \$6.5 million, from \$6.7 million, resulting in pro forma Combined operating margins of approximately 11% in the second quarter of 2004 and 13% during the same period in 2003. With the addition of Kirshenbaum Bond + Partners and with the resulting impact of the factors affecting revenues and operating costs, as discussed above, actual Combined operating income improved by approximately 27% to \$8.5 million from \$6.7 million, quarter over quarter, while operating margins were 11.6% for the quarter, as compared to 13.1% in the same quarter last year.

Secure Products International

Revenues attributable to Secure Products International were \$17.2 million for the second quarter of 2004, representing a decrease of \$15.9 million or 48% compared to the \$33.1 million recorded in the second quarter of 2003. The decrease was primarily due to the divestiture of Custom Direct ("CDI") last year as revenues from the remaining operations of Secure Products International increased 27% or \$3.7 million from \$13.5 million in the second quarter of 2003. Ashton Potter, the stamp operations, generated a 138% improvement in revenues that related primarily to the USPS contract awarded in 2003. This improvement, together with an increase in revenues from Placard, the Australian card operation, and from Mercury Graphics, the Canadian ticketing business, were partially offset by a decrease in revenues from Metaca, the Canadian card operation.

Secure Products International reported operating costs of \$16.7 million for the second quarter, versus \$50.3 million in the same quarter last year. Excluding the impact of CDI, goodwill charges of \$10.0 million and a charge related to the write-down of fixed and other assets of \$8.1 million from 2003, operating costs increased \$2.3 million or 16% compared to last year. However, operating costs expressed as a percentage of revenue on the same basis, decreased to 96.7% from 106.7% last year. Cost of sales, salaries and related costs and depreciation of the remaining operations of Secure Products International decreased as a percentage of revenue in 2004 to 84.5% compared to 87.8% in the same period of 2003. General and other operating expenses also improved to 12.2% of revenue from 18.1% of revenue in the 2003 second quarter.

As a result, actual operating profit earned by the Secure Products International Division amounted to \$0.6 million for the quarter ended June 30, 2004, compared to a loss of \$17.2 million in the same quarter of 2003. On a more comparative basis, after adjusting the 2003 results to remove income from divested operations, charges against goodwill and write-down of fixed assets and other assets, the operating profit of the remaining Secure Products International businesses improved by approximately \$1.4 million as a result of increased production at Ashton Potter and an improvement in profitability at Mercury Graphics, partially offset by declines at Metaca. As a result of the decreased revenues and operating profit generated by Metaca, management has commenced a plan to reduce the cost structure and improve efficiencies. Severance and other related charges of \$0.2 million were recorded in the quarter.

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Corporate and Other

Operating costs decreased from \$2.8 million in the 2003 second quarter to \$2.2 million this quarter primarily as a result of a recovery related to the provision for stock-based compensation partially offset by an increase in general and other costs. Excluding stock-based compensation, operating expenses increased as a result of combining the corporate offices of MDC and Maxxcom Inc. upon the privatization of Maxxcom Inc. in July 2003 and increased compliance costs associated with US GAAP reporting and Sarbanes-Oxley legislation.

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

The loss on sale of assets was \$0.1 million for the second quarter of 2004 compared to a net gain in 2003 of \$44.6 million that primarily related to the disposition of 80% of CDI through an income fund and the retirement of the Company's remaining 10.5% senior subordinated notes.

Interest, Net

Net interest expense on a consolidated basis for the quarter, at \$2.3 million, was \$3.1 million lower than in 2003, due to a decrease in interest expense reflective of the second quarter redemption of the convertible debentures through the issuance of Class A Subordinate Voting Shares and lower average levels of indebtedness than in the prior year. Amortization of deferred finance charges were \$0.6 million in 2004 compared to \$0.6 million in 2003. Interest income was relatively unchanged compared to the second quarter of 2003.

Income Taxes

The income tax recovery recorded for the second quarter was \$0.6 million, compared to an expense of \$6.0 million for the same period in 2003.

Income Before Equity In Affiliates and Minority Interests

For the quarter, income before equity in affiliates and minority interests was \$1.9 million versus \$16.6 million in 2003, a decrease of \$14.7 million due primarily to the impact of asset dispositions in the second quarter of last year, net of provisions taken against fixed and other assets and goodwill.

Equity in Affiliates

The income attributable to equity-accounted affiliate operations, principally Crispin Porter + Bogusky LLC, was \$1.3 million for the second quarter of 2004, \$0.1 million higher than the \$1.2 million earned in the second quarter of 2003.

Minority Interests

Minority interest expense of Marketing Communications was \$2.3 million for the second quarter of 2004, an increase of \$0.9 million compared to the same prior-year quarter. In 2003, Secure Products International and Corporate and Other had a minority interest recovery of \$1.2 million related to Metaca and Maxxcom, both of which are now wholly-owned.

Net Income

Net income for the quarter ending June 30, 2004 was \$0.9 million versus \$17.6 million in 2003.

SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO SIX MONTHS ENDED JUNE 30, 2003

Marketing Communications

Marketing Communications revenue on a Combined basis was \$138.1 million in the first six months of 2004, 43% more than the comparable \$96.6 million reported in the first six months of 2003. The increase in the period's Combined revenue as compared to the same quarter in 2003 resulted primarily from several significant new client additions which originated in the first quarter of 2004, as described below. The growth also resulted from the acquisition of several businesses. As

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described above, during 2004, the Company acquired interests in Kirshenbaum Bond + Partners, LLC, and Cliff Freeman + Partners LLC, Henderson bas, Mono LLC, Hello Design, LLC, Bruce Mau Design Inc. and Banjo, LLC. These acquired operations contributed \$24.5 million of revenue on a Combined basis during the first six months of 2004. Excluding the revenue of these acquisitions in 2004, Combined revenues would have increased 18% period over period. The currency exchange rate effect of the strengthened Canadian dollar and Pound Sterling as compared to the same period in 2003 also contributed approximately \$2.5 million to the increase in revenues during this period. On a pro forma basis, comparing a full six months of operations in both the first six months of 2004 and 2003 for the businesses operated by the Company on June 30, 2004, pro forma Combined revenue improved by approximately 14% period over period. This reflected very significant pro forma Combined revenue growth in the US businesses and also included significant revenue growth in the Canadian businesses, however, the UK operations experienced a significant decrease in revenues during this period, as compared to the first half of 2003. The growth in Combined pro forma US revenues was driven by revenues derived from the Company's equity accounted affiliate, Crispin Porter + Bogusky's new client, Burger King, and incremental revenues resulting from several new client wins at Kirshenbaum Bond + Partners, increased transaction volumes at Accent Marketing Services, the Bryan Mills Group investor communications new initiatives, and Source Marketing's significant direct marketing projects this year. The UK operations experienced declines in revenues from their technology, and, to a lesser extent, financial industry based clients, while experiencing very little in new revenue additions during 2004.

The positive organic growth particularly in the US year over year has resulted in a shift in the geographic mix of Combined revenues. Of the Combined revenue for the first six months, 78% was from the United States, 19% was derived from Canada and 3% came from the United Kingdom. This compared to 72%, 22% and 6%, respectively, in first half of 2003.

During the second quarter of 2004, the Company's client base composition shifted in several areas as compared to the same quarter in 2003. The Company saw a relative increase in spending by the consumer products, telecommunications and information technology industry based clients, while healthcare, and, to a lesser extent, media based client revenues became a relatively smaller component of Combined revenue in 2004 as compared to 2003. In dollar terms, significant increases were noted in revenues from consumer product, financial, service and telecommunications industry based clients. The composition of revenues added due to business acquisitions in the first half of 2004, principally Kirshenbaum Bond + Partners, was proportionately weighted more to the financial and service industry based clients than the Combined revenues of the pre-existing businesses, contributing dollar revenues primarily from the consumer and financial industries in particular.

Acquisitions in the first half of 2004 did increase the dollar revenues and also the proportionate share of revenues from advertising services as compared to the "below the line" services. For the first half of 2004, advertising services Combined revenues represented approximately 45% of Combined revenues as compared to 36% for the same period in 2003. Excluding the effects of the KBP acquisition, advertising services would have increased to 38% in the year to date period, as the Company's existing operations obtained several new clients during the period requiring advertising services.

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Combined operating costs increased at a slower pace than the 43% growth in Combined revenues, increasing 42% during the first half of 2004 as compared to the same period in 2003. Of the operating costs components, Combined "general and other operating" costs grew at 44% and while staff costs grew at only 40%. These relative changes were a result of several factors. Firstly, if the effects

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of acquired business were excluded from the Combined results, while revenues would have increased at 18%, staff costs would have increased at 9% and "general and other operating" costs would have increased 30%. The reduced staff cost pace of growth relative to revenues reflects the rapid revenue growth in the first quarter of 2004 that outpaced the ability of certain businesses to increase staffing levels to the appropriate sustainable levels for the business volumes, resulting in enhanced profitability during that period. The increase in the "general and other operating" costs beyond the growth rate of revenues was the result of several factors. During 2004, the Company invested approximately \$1.4 million in the development of two new initiatives. During the second quarter of 2004, the Company invested in a new venture to develop a proprietary content-driven marketing initiative, which is still in the research phase and is expected to continue in this phase through the third quarter of 2004. The second venture invested in during 2004, which will not continue beyond the second quarter of 2004, was related to a possible expansion into a new geographic market. A further cause of the increase in operating costs was the unusually high amount expended on new business development during 2004, in particular by the UK business, which invested significant resources into attracting new clients. Finally, Accent Marketing Services expended significant costs to expand its customer service center operations into near-shore and offshore facilities as it prepares for additional business volumes and to maintain its competitive cost structure in the long run.

Excluding the effects in the period of the acquisitions, and the investments in new ventures and new business, as described above, pro forma Combined operating profits would have increased 23% to \$13.2 million, from \$10.7 million, resulting in pro forma Combined operating margins of approximately 11.6% in 2004 to date and approximately 11.1% in the same period in 2003. With the addition of Kirshenbaum Bond + Partners and with the resulting impact of the factors affecting revenues and operating costs, as discussed above, actual Combined operating income improved by approximately 50% to \$16.1 million from \$10.7 million, period over period, while operating margins were 11.7% for the first half of 2004, as compared to 11.1% in the same period in 2003.

Secure Products International

Secure Products International revenues totaled \$35.3 million for the first six months of 2004. The decrease of \$41.1 million, or 54% compared to revenues of \$76.4 million for the same period in 2003, was primarily due to the divestiture of CDI. Revenues from the remaining operations of Secure Products International increased 27% year over year. The most significant increase was generated by the stamp operations of Ashton Potter, where production increased due to the USPS contract awarded in 2003. Placard, the Australian card operation, and Mercury, the Canadian ticketing business also experienced revenue growth. However, revenues of the Canadian card operation, Metaca, decreased period over period.

Operating costs incurred by Secure Products International were \$34.4 million for the first half of the year compared to \$88.1 million in 2003, which included \$41.5 million of costs related to CDI, and expenses related to provisions against fixed assets and goodwill of \$18.1 million. Excluding these costs from the 2003 results, the remaining operations recorded an improvement in operating expenses as a percentage of revenue, from 102.2% for the first half of 2003 to 97.5% for the first half of 2004.

In the 2004 first half, Secure Products International achieved operating income of \$0.9 million, an improvement of \$12.6 million from the loss incurred in 2003 of \$11.7 million. This represents a year over year improvement of \$1.5 million from the adjusted operating loss related to the remaining operations, primarily as a result of the increased production at Ashton Potter partially offset by declines at Metaca.

Corporate and Other

Operating costs, at \$11.0 million, increased \$6.5 million compared to the six months ended June 30, 2003 of \$4.5 million, primarily related to a \$3.8 million increase in charges for stock-based compensation. Corporate and other costs also increased as a result of the merger of head offices upon the privatization of Maxxcom Inc and an increase in compliance costs.

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

The gain on sale of assets of \$16.2 million for the first two quarters of 2004 primarily related to the divestiture of the remaining interest in CDI upon settlement of the adjustable rate exchangeable securities in the first quarter. The 2003 gain related primarily to the disposition of the initial 80% interest in the U.S. check operations.

Interest, Net

On a consolidated basis net interest expense for the first six months of the year was \$4.6 million, compared to the \$10.2 million incurred during the same year-earlier period. Interest expense decreased \$5.3 million due primarily to the repayment of the 10.5% senior subordinated notes and the redemption of the convertible debentures. Interest income increased by \$0.3 million due to higher cash balances at certain agencies and head office in the first quarter of 2004.

Income Taxes

The income tax recoveries recorded for the six months ended June 30, 2004, were \$0.4 million compared to an expense of \$5.9 million for the same period in 2003, primarily due to the recognition of previously unrecognized tax loss benefits in 2004.

Income Before Equity In Affiliates and Minority Interests

The consolidated income before equity in affiliates and minority interests for the year-to-date period ended June 30, 2004 was \$10.2 million, \$7.0 million lower than the \$17.2 million earned during the same prior-year period. The decrease was primarily due to the significant gain on sale of assets related to CDI in 2003, net of goodwill charges and the write-down of assets also recorded in that year.

Equity in Affiliates

Equity in affiliates represents the income attributable to equity-accounted affiliate operations. For the first two quarters of 2004, income of \$2.9 million was recorded. The increase of \$1.1 million over the \$1.8 million earned in the first half of 2003 is principally due to greater income generated by Crispin Porter + Bogusky.

Minority Interests

Minority interest expense of Marketing Communications was \$3.6 million for the first six months of 2004, an increase of \$1.3 million compared to the \$2.3 million in the previous year. In 2003, a recovery of \$1.2 million was recorded related to Metaca and Maxxcom.

Net Income

Net income for the first half of 2004 was \$9.4 million versus the \$17.8 million achieved in 2003.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

The Company had a working capital deficit of \$15.4 million at June 30, 2004, \$54.0 million less than the working capital of \$38.6 million at December 31, 2003. The reduction in working capital is due primarily to cash payments made for acquisitions completed during 2004, the movement of the senior credit facility at Maxxcom from long-term debt to current portion of long-term debt and a decrease in working capital in the Marketing Communications subsidiaries. Compared to December 31, 2003, on a consolidated basis, cash decreased \$17.9 million. Accounts receivable increased by \$40.4 million. Inventory increased by \$0.7 million and prepaid expenses by \$1.2 million. Accounts payable and accruals and other liabilities increased by \$52.5 million. Advance billings increased by \$5.8 million and the current portion of long-term debt increased by \$20.5 million.

At June 30, 2004, Maxxcom had utilized approximately \$30.0 million of its \$33.1 million facility in the form of drawings and letters of credit. During the second quarter, the Company reached agreements with its senior credit lenders to amend the terms of the credit facility of its subsidiary, Maxxcom Inc., to eliminate the scheduled quarterly borrowings reductions after March 31, 2004 and to change the facility's maturity date from March 31, 2005 to September 30, 2004.

Currently, substantially all of the long-term debt is held at Maxxcom or its subsidiaries. Maxxcom's ability to meet the repayment of its long-term debt is dependent upon the availability of cash from its parent MDC Partners Inc. and from the cash flows from its subsidiaries and affiliated companies through dividends, distributions, intercompany advances, management fees and other payments. A number of Maxxcom's subsidiaries are not wholly-owned and pursuant to operating agreements with some of the other shareholders of these subsidiaries and affiliates and certain subsidiary and affiliate lending agreements, there are certain restrictions on the payment of dividends, distributions and advances to Maxxcom. In addition, pursuant to certain lending agreements entered into by MDC Partners Inc, there are restrictions on MDC's ability to transfer available cash to Maxxcom.

On June 10, 2004, the Company entered into a revolving credit facility with a syndicate of banks providing for borrowings of up to \$18.7 million (CDN\$25.0 million) maturing in May of 2005. This facility is secured by a pledge of the Company's assets, principally comprised of ownership interest in its subsidiaries and by the underlying assets of the businesses comprising the Company's Secure Products International segment and Kirshenbaum Bond & Partners. At June 30, 2004, the Company had not drawn any funds under this facility.

Cash and undrawn available bank credit facilities to support the Company's future cash requirements, as at June 30, 2004, was approximately \$70 million.

Long-Term Debt

Long-term indebtedness (including the current portion) at the end of the second quarter was \$81.9 million, a reduction of \$68.2 million from the \$150.1 million outstanding at December 31, 2003. The \$34.9 million outstanding convertible notes were settled in full on May 5, 2004 with the issuance of approximately 2.6 million Class A subordinate voting shares.

MDC Partners Inc., the parent company, is in the process of refinancing its

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indebtedness with a \$100 million credit facility. A term sheet has been signed with a major US financial institution and the credit facility agreement is currently being negotiated. This new facility, combined with a related cash management program, will be used to repay existing outstanding indebtedness under the MDC senior credit facility, the Maxxcom senior credit facility, the Maxxcom mezzanine facility and the Accent Marketing LLC credit facility. Management believes that the new facility will be completed prior to September 30, 2004, the date the Maxxcom senior credit facility is due. Once completed, the new credit facility will reduce the Company's aggregate borrowing costs and provide enhanced liquidity. In the event the new credit facility is not completed prior to maturity of the Maxxcom senior credit facility, management is believes that the Maxxcom facility can be renegotiated and extended.

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Deferred Acquisition Consideration (Earnouts)

Acquisitions of businesses by the Company typically include commitments to contingent 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 payable 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 June 30, 2004, approximately \$0.8 million in deferred acquisition consideration relating to prior year acquisitions is presented on the Company's balance sheet. Based on various assumptions as to future operating results of the relevant entities, management estimates that approximately \$1 million of further additional deferred purchase obligations could be triggered during 2004 or thereafter. The actual amount that the Company pays in connection with the obligations may be materially different from this estimate.

Put Rights of Subsidiaries' Minority Shareholders

Owners of interests in certain of the Marketing Communications subsidiaries have the right in certain circumstances to require the Company to acquire the remaining ownership interests held by them. The owners' ability to exercise any such 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 2004 to 2010. Except as described below, it is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights.

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

Management estimates, assuming that the subsidiaries perform at their current profit levels over the relevant future periods, that these rights, if all exercised, could require the Company, in future periods, to pay an aggregate of approximately \$73 million to the owners of such rights to acquire the remaining ownership interests in the relevant subsidiaries. Of this amount, the Company would be entitled, at its option, to fund approximately \$18 million by the issuance of the Company's share capital.

The actual future amount payable in connection with the exercise of any of the above described rights cannot be determined because it is dependent on the

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future results of operations of the subject businesses and the timing of the exercise of the rights. The actual amounts the Company pays may be materially different from these estimates.

If all of the outstanding rights were exercised, the Company would acquire incremental ownership interests in the relevant subsidiaries entitling the Company to additional annual operating income before other charges estimated by management, using the same earnings basis used to determine the aggregate purchase price noted above, to be approximately \$10 million. The actual additional annual operating income earned by the relevant subsidiaries may be materially different from this estimate.

The Company expects to fund obligations relating to the rights described above, if and when they become due, through the issuance of its common shares to the rights holders, and through the use of cash derived from operations, bank borrowings, and equity and/or debt offerings. There can be no certainty that the Company will have adequate means to satisfy its obligations in respect of the rights described above, if and when such obligations become due.

Approximately \$4 million of the estimated \$73 million that the Company could be required to pay subsidiaries' minority shareholders upon the exercise of outstanding put rights relates to rights exercisable in 2004 in respect of the securities of three subsidiaries. The Company expects to fund the acquisition of these interests, if and when they become due, through the use of cash derived from operations and bank borrowings. Accordingly, the acquisition of any equity interest in connection with the exercise of these rights in 2004 will not be recorded in the Company's financial statements until ownership is transferred.

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Cash Flow from Operations

Cash flow used in operations, including changes in non-cash working capital, for the first six months of 2004 was \$0.3 million, representing a \$5.4 million decrease from the cash flow generated of \$5.1 million from the same period of 2003, primarily as a result of non-cash working capital usage, offset partially by the improved operating profit achieved.

Cash flows used in investing activities amounted to \$13.5 million for the six months ended June 30, 2004, compared with the cash flows generated in the same 2003 period of \$78.8 million. \$4.6 million of the \$8.1 million year-to-date capital expenditures relate to the Marketing Communications segment and the remainder to the purchase of manufacturing equipment in the Secure Products segment. In 2003, proceeds on disposition primarily represent the net proceeds received from the initial public offering of CDI.

At June 30, 2004, cash flows used in financing activities were \$4.1 million and comprised of the proceeds from the issuance of long-term debt of \$2.0 million, a repayment of \$4.2 million of long-term indebtedness, proceeds of \$3.2 million from the issuance of share capital through a private placement and the exercise of options, and \$5.1 million used to repurchase shares of the Company under a normal course issuer bid.

DIFFERENCES IN MD&A PRESENTATION UNDER CANADIAN GAAP

Under Canadian securities requirements, the Company is required to provide supplemental information to highlight the significant differences that would have resulted in the information provided in the MD&A had the Company prepared the MD&A using Canadian GAAP financial information.

The Company has identified and disclosed the significant differences between

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Canadian and US GAAP as applied to its interim consolidated financial statements for the three months and six months ended June 30, 2004 and 2003 in note 15 to the condensed consolidated interim financial statements. The primary GAAP difference impacting the components of operating profit (loss) is the application under Canadian GAAP of proportionate consolidation for investments in joint ventures in the Marketing Communications businesses, while US GAAP requires equity accounting for such investments. This GAAP difference does not have a significant impact on the content of the MD&A as the discussion of the results of the Company's marketing communications businesses has been presented on a combined basis, consistent with the Company's segment disclosures in its condensed consolidated interim financial statements. The Combined financial information has been reconciled to US GAAP financial information by adjusting for the equity accounting for certain the joint ventures in this MD&A as well as in the segment information in note 6 to the condensed consolidated interim financial statements. If the reconciliation of the Combined financial information were prepared to reconcile to Canadian GAAP results, it would have adjusted for the proportionate consolidation of the joint venture.

CRITICAL ACCOUNTING POLICIES

The following supplemental summary of accounting policies has been prepared to assist in better understanding the Company's financial statements and the related management discussion and analysis. Readers are encouraged to consider this supplement together with the Company's consolidated interim financial statements and the related notes to the condensed consolidated interim financial statements 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 valuation allowance for receivables, recognition of goodwill, intangible assets, minority interest, income taxes, stock-based compensation, accruals for bonus compensation and the disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during a reporting period. 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.

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Acquisitions and Goodwill. 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. Additional information about impairment testing under SFAS 142 appears in the notes of the condensed consolidated interim financial statements.

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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 acquired frequently have minimal tangible net assets and identifiable intangible assets, which primarily consist of customer relationships. Accordingly, a substantial portion of the purchase price is allocated to goodwill. An annual impairment test is performed in order to assess that the fair value of the reporting units exceeds their carrying value, inclusive of goodwill.

A summary of the Company's deferred acquisition consideration obligations, sometimes referred to as earn-outs, 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.

Additional information about acquisitions and goodwill appears in the notes to the condensed consolidated interim financial statements of this report.

Revenue. Substantially all of the revenue of the Marketing Communications segment is derived from fees for services. Commissions are earned based on the placement of advertisements in various media. Revenue is realized when the service is performed, in accordance with terms of the arrangement with the clients and upon completion of the earnings process. This includes when services are rendered, generally upon presentation date for media, when costs are incurred for radio and television production and when print production is completed and collection is reasonably assured.

Revenue is recorded at the net amount retained when the fee or commission is earned. In the delivery of certain services to clients, costs are incurred on their behalf for which the Company is reimbursed. Substantially all of the reimbursed costs relate to purchases on behalf of clients of media and production services. There is normally little latitude in establishing the reimbursement price for these expenses and clients are invoiced for these expenses in an amount equal to the amount of costs incurred. These reimbursed costs, which are a multiple of the Company's revenue, are significant. However, the majority of these costs are incurred on behalf of the largest clients and the Company's has not historically experienced significant losses in connection with the reimbursement of these costs by clients.

A small portion of the contractual arrangements with clients includes performance incentive provisions designed to link a portion of the Company's revenue to its performance relative to both quantitative and qualitative goals. This portion of revenue is recognized when the specific quantitative goals are achieved, or when the performance against qualitative goals is determined by the client. Additional information about revenue appears in the notes to the condensed consolidated interim financial statements.

Substantially all of the Secure Products International reportable segment revenue is derived from the sale of products. Revenue derived from the stamp operations is realized as services are performed or upon delivery. Revenue

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derived from the sale of tickets and cards is realized when the product is completed and either shipped or held in the Company's secure facilities at the written request of the customer, title to the product has transferred to the customer, and all bill and hold revenue recognition criteria have been met. Additional information about revenue recognition appears in the notes to the consolidated interim financial statements.

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.

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.

RISKS AND UNCERTAINTIES:

This document contains forward-looking statements. The Company's representatives may also make forward-looking statements orally from time to time. Statements in this document that are not historical facts, including statements about the Company's beliefs and expectations, particularly regarding recent business and economic trends, 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.

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 and political 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;
- Developments from changes in the regulatory and legal environment;
- Foreign currency fluctuations;
- The successful completion and integration of acquisitions which complement and expand the Company's' business capabilities, and;
- Risks arising from potential material weaknesses in internal control over financial reporting.

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Investors should carefully consider these risk factors and the additional risk factors outlined in more detail in the Company's 2003 Form 40-F/A and other SEC filings.

We hereby incorporate by reference the disclosure provided under the header "Risks and Uncertainties" in the Company's Management Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2003, included in the Company's Annual Report on Form 40-F/A for the year ended December 31, 2003. As of June 30, 2004, no material change had occurred that required the Company to update such disclosure.

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OUTLOOK:

2004 will be a year of transformation for MDC. Our vision has been to enhance the conglomerate, simplify the story and focus on the market place that best positions the Company to deliver premium returns to its shareholders.

Our genesis was in the marketing communications business, and our experience and knowledge is greatest in that area. Our growth strategy is based on empowering our partners with equity and autonomy. We believe that combination will deliver accretive investments and attract the best talent. We have identified an opportunity to structure and complete the final act of our structural transformation through the monetization of our secure print properties in the form of an income fund. We are currently evaluating this opportunity.

SUPPLEMENTARY FINANCIAL INFORMATION:

The Company reports its financial results in accordance with US GAAP. However, the Company has included certain non-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 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

QUANTITATIVE INFORMATION ABOUT MARKET RISK

We are currently not invested in market risk sensitive instruments such as derivative financial instruments or derivative commodity instruments.

QUALITATIVE INFORMATION ABOUT MARKET RISK

Our Secure Products International businesses operate in North America and Australia. Certain North American costs are payable in Canadian dollars while North American revenues are principally collectible in US dollars. Our Marketing Communications businesses operate in North America and the United Kingdom, however each business's revenues are collectable and its costs are generally payable in the same local currency. Consequently, our financial results can be affected by changes in foreign currency exchange rates. Fluctuations in the exchange rates between the US dollar, the Sterling Pound, the Australian dollar and the Canadian dollar may have a material effect on our results of operations. In particular, we may be adversely affected by a significant strengthening of the Canadian dollar against any of these currencies. We are not currently a party to any forward foreign currency exchange contract, or other contract that could serve to hedge our exposure to fluctuations in the US/Canada dollar exchange rate.

ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be included in our SEC reports is recorded, processed, summarized and reported within applicable time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as appropriate, to allow timely decisions regarding required disclosures.

The Company disclosed in its quarterly report on Form 10-Q for the quarter ended June 30, 2004 that an evaluation had been performed by the Company's management, including its CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, and that based on that evaluation, the Company's management concluded that the Company's disclosure controls and procedures were effective as of June 30, 2004. Subsequently, management determined that the Company's disclosure controls and procedures were not effective as of June 30, 2004, because the Company had a "material weakness" that resulted in the improper reporting of certain items, as described in Note 2 to the Company's interim condensed consolidated financial statements contained herein.

Prior to the filing date of this Form 10-Q/A, the Company implemented revised control activities to support improved processes under the direction of our Vice Chairman & Executive Vice President. The revised control activities and improved processes include expanded supervisory activities and monitoring procedures, including the corrective actions described below. Based on these changes and improvements, management believes that as of the date of this filing, our disclosure controls and procedures are effective to ensure that material information relating to our Company, including our consolidated subsidiaries, is made known to our CEO and CFO by others within those entities. Furthermore, our management, including our CEO and CFO, believe such controls have improved in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit to the SEC is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. We currently are designing and implementing an improved control environment to address the deficiencies described below.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In the light of restatements of the Company's previously issued financial statements, as described in Note 2 to the Company's interim condensed consolidated financial statements contained herein, the Company's management has concluded that there are significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Management believes that such deficiencies represent material weaknesses in internal control over financial reporting that, by themselves or in combination, result in a more than remote likelihood that a material misstatement in our financial statements will not be prevented or detected by our employees in the normal course of performing their assigned functions. Such material weaknesses in internal control over financial reporting existed as at June 30, 2004.

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Under applicable rules, management may not conclude that the Company's internal control over financial reporting is effective if a material weakness exists. Given the nature of the restatements, the Company's management believes that its material weaknesses relate primarily to significant transactions at the Company's head office accounting and reporting functions, including the following:

- insufficient personnel resources and technical accounting expertise within its accounting functions;
- failure in the design and operating effectiveness of identified controls in preventing or detecting misstatements of accounting information;
- absence of appropriate review of significant transactions and related accounting entries, and the appropriate documentation and application of U.S. GAAP for those significant transactions;
- failure to document approvals required for certain transactions; and
- inadequate procedures and oversight for appropriately assessing and applying accounting principles and changes thereon.

Our management and Audit Committee have dedicated resources to assist in assessing the underlying issues giving rise to the restatement and in ensuring proper steps have been and are being taken to improve our control environment. That assessment found and concluded that our finance and accounting personnel made a number of accounting errors, but that there was no evidence of any fraud, intentional misconduct or concealment on the part of the Company, its officers or its employees. We currently are designing and implementing improved controls to address the material weaknesses described above in our control environment. Specifically, the Company has taken the following corrective actions:

- Hired additional personnel resources, and is actively pursuing appropriate additional resources in its accounting and finance functions, particularly those with US GAAP expertise;
- Developed, distributed and begun to communicate and implement comprehensive accounting policies in a number of areas, including revenue recognition;
- Developed and continues to refine procedures for ensuring appropriate documentation of complex transactions and application of accounting standards to ensure compliance with U.S. GAAP;
- Improving procedures for reviewing underlying business agreements and analyzing, reviewing and documenting the support for management's accounting entries and significant transactions; and
- Improving monitoring controls to ensure internal controls are operating effectively.

The Company believes that these steps should remediate the identified material weaknesses in control over financial reporting.

SECTION 404 ASSESSMENT

Section 404 of the Sarbanes-Oxley Act requires management's annual review and evaluation of our internal controls, and an attestation of the effectiveness of these controls by our independent registered public accountants beginning with our Form 10-K for the fiscal year ending on December 31, 2004. We have dedicated significant resources, including management time and effort, and incurred

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substantial costs in connection with our ongoing Section 404 assessment. We are currently documenting and testing our internal controls and evaluating necessary improvements for maintaining an effective control environment. The evaluation of our internal controls is being conducted under the direction of our senior management in consultation with independent third party consulting firm. In addition, the Company's management is regularly discussing the results of our testing and any proposed improvements to our control environment with the Audit Committee. Despite the dedication of significant resources for our Section 404 assessment, and the incurrence of significant costs, the Company has determined that a significant amount of work will be required to remediate the above-mentioned material weaknesses in its internal control over financial reporting. Accordingly, the Company expects that it is likely that it will have material weaknesses in internal control over financial reporting at year-end. However, based on significant work performed during the past several months, including the measures discussed above, management believes that there are no material inaccuracies or omissions of material fact in this Form 10-Q/A. Management, to the best of its knowledge, also believes that the financial statements contained in this Form 10-Q/A are fairly presented in all material respects. Despite the potential for a material weakness in the Company's internal controls at year-end, management further expects that its corrective measures and improved internal controls will enable the Company to file financial statements for the year ending December 31, 2004, in compliance with U.S. GAAP on a timely basis.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

Issuer Purchases of Equity Securities:

Shares- Class A Subordinate Voting Shares

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Shares yet be under th Pro |
|----------------------------------|-------------------------------------|---------------------------------|--|--|
| | ----- | ----- | ----- | ----- |
| April 1, 2004 -April 30, 2004 | nil | \$ -- | -- | 110 |
| May 1, 2004 -May 31, 2004 | 46,100 | \$11.78 | 46,100 | 63 |
| June 1, 2004 -June 30, 2004 | 17,800 254,300 | \$11.92 \$11.43 | 17,800 254,300 | 1,562 |
| Total | 318,200 | \$11.33 | 318,200 | |

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1. The Class A subordinate voting shares were purchased pursuant to a publicly announced plan which commenced May 30, 2003 and expired June 2, 2004. The number of shares purchased under this plan was 1,223,716.
2. The Class A subordinate voting shares were purchased pursuant to a publically announced plan which commenced June 7, 2004. The maximum number of shares that may be purchased under this plan is 1,816,822. This plan expires June 6, 2005.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held it's annual shareholders' meeting on June 9, 2004. At the meeting, votes were cast for the following proposals as follows:

To appoint KPMG LLP as auditors of the Company and authorizing the Company's Board of Directors to fix the auditors' remuneration:

In excess of 95% of proxy votes were for this resolution.

To elect the following Directors:

Thomas Davidson
Guy P. French
Richard R. Hylland
Michael J.L. Kirby
Miles S. Nadal
Stephen M. Pustil
Francois R. Roy

In excess of 95% of proxy votes were for this resolution.

To approve the special resolution to approve the continuance of the Company from the Business Corporations Act (Ontario) to the Canadian Business Corporations Act:

In excess of 95% of proxy votes were for this resolution.

To approve the ordinary resolution to confirm By-Law No. 1 to be adopted by the Company upon continuance of the Company from the Business Corporations Act (Ontario) to the Canadian Business Corporations Act:

| | |
|-----------|---------------|
| Votes For | Votes Against |
| 6,413,027 | 469,606 |

To the approve the ordinary resolution to approve an amendment to the Company's Stock Appreciation Rights Plan:

| | |
|-----------|---------------|
| Votes For | Votes Against |
| 6,669,903 | 1,115,044 |

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits

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| Exhibit No. ----- | Description ----- |
|----------------------|--|
| 31 | Rule 13a-14(a)/15d-14(a) certifications; |
| 32 | Section 1350 Certifications. |

(b) The Company filed the following Current Reports on Form 8-K for the quarter ended June 30, 2004:

On June 25, 2004, the Company furnished a Current Report on Form 8-K containing historical financial information all prepared in accordance with, or derived from, financial information prepared in accordance with United States generally accepted accounting principles.

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SIGNATURES

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

MDC PARTNERS INC.

/s/Walter Campbell

Walter Campbell
Chief Financial Officer

December 20, 2004

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EXHIBIT INDEX

| Exhibit No. ----- | Description ----- |
|----------------------|--|
| 31 | Rule 13a-14(a)/15d-14(a) certifications; |
| 32 | Section 1350 Certifications. |

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