MDC PARTNERS INC
Form 10-K
March 16, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2006

Commission File Number: 001 13178

MDC Partners Inc.

(Exact name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

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

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

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

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

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

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 ý NO ¨

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

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

(Check one):

Large accelerated filer ¨	Accelerated filer ý	Non-accelerated ¨

The aggregate market value of the shares of all classes of voting and non-voting common stock of the registrant held by non-affiliates of the registrant on June 30, 2006 was approximately $179.0 million, computed upon the basis of the closing sales price of the common stock on that date. For purposes of this computation, shares held by directors (and shares held by entities in which they serve as officers), and officers of the registrant have been excluded.

As of March 1, 2007, there were 24,487,205 outstanding shares of Class A subordinate voting shares without par value, and 2,502 outstanding shares of Class B multiple voting shares without par value, of the registrant.

MDC PARTNERS INC.

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

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

DOCUMENTS INCORPORATED BY REFERENCE

The following sections of the Proxy Statement for the Annual Meeting of Stockholders to be held on June 1, 2007, are incorporated by reference in Parts I and III: Election of Directors, Section 16(a) Beneficial Ownership Reporting Compliance, Compensation of Executive Officers, Report of the Compensation Committee of the Board, Outstanding Shares, Transactions with MDC Partners Inc. and Appointment of Independent Accountants .

AVAILABLE INFORMATION

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

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

FORWARD-LOOKING STATEMENTS

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

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

- risks associated with effects of national and regional economic conditions;
- the Company s ability to attract new clients and retain existing clients;
- the financial success of the Company s clients;
- the Company s ability to remain in compliance with its debt agreements and the Company s ability to finance its contingent payment obligations when due and payable, including but not limited to those relating to put option rights;
- the Company s ability to retain and attract key employees;
- the successful completion and integration of acquisitions which complement and expand the Company s business capabilities;
- foreign currency fluctuations; and
- risks arising from the Company s historical option grant practices.

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

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

SUPPLEMENTARY FINANCIAL INFORMATION

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

PART I

Item 1. Business

BUSINESS

MDC PARTNERS INC.

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

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

MDC s subsidiaries provide a comprehensive range of marketing communications and consulting services in the United States, Canada, the United Kingdom, Jamaica and Mexico, including advertising, direct marketing, database and customer relationship management, sales promotion, corporate communications, market research, corporate identity, design and branding, interactive marketing, strategic entertainment and other related services.

Part I Business

MDC s strategy is to build, grow and acquire market-leading businesses that deliver innovative, value-added marketing communications services to their clients. MDC Partners strategy supports its vision of being a network of best in class marketing communications and consulting companies whose strategic, creative and innovative solutions challenge the status quo, attract the finest talent and achieve superior results for clients and stakeholders.

MDC s Partner firms support this vision through attracting the most innovative and creative talent and by being the most innovative at providing value-added services, expertise, and capabilities that help clients grow their brands and businesses while the Corporate Group ensures that MDC is the most Partner responsive marketing services network.

The MDC model is driven by three key mandates:

Perpetual Partnership. The perpetual partnership creates ongoing alignment of interest and drives performance. The perpetual partnership model functions by (1) identifying the right Partners; (2) creating the right Partnership; (3) providing access to more resources; and (4) delivering financial results.

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

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

MDC believes that its model supports its mission to deliver shareholder value through profitable and sustainable growth.

The Marketing Communications Businesses operates through partner companies within the following reportable segments:

Strategic Marketing Services (SMS)

The SMS segment consists of firms that offer a full integrated complement of marketing communication and consulting services, including advertising and media, direct marketing, public relations, corporate communications, market research, corporate identity and branding, interactive marketing and sales promotion to national and global clients. The SMS segment is comprised of the following agencies: Allard Johnson; ACLC; Colle + McVoy; Crispin Porter + Bogusky; Fletcher Martin; kirshenbaum bond + partners; Mono Advertising,; VitroRobertson; Zig; and Zyman Group.

Customer Relationship Management (CRM)

The CRM segment, comprised of Accent Marketing Services, provides marketing services that interface directly with the consumer of a client s product or service. These services include the design, development and implementation of a complete customer service and direct marketing initiative intended to acquire, retain and develop each client s customer base. This is accomplished primarily through sophisticated database management and analytical services and through customer care services using eight domestic and two foreign-based customer contact facilities to regional, national and global clients.

Specialized Communication Services (SCS)

The SCS segment includes marketing services firms that are normally engaged to provide a single or a few specific marketing services to regional, national and global clients. These firms provide niche solutions by providing world class expertise in selected marketing services. The services they provide include advertising, sales promotion, direct marketing, media relations, design and branding, research, interactive and corporate communications. The SCS segment is comprised of the following agencies: Accumark Communications, Banjo; Bratskeir; Bruce Mau Design; Bryan Mills Group; Chinnici Direct; Computer Composition; Hello Design; henderson bas; Integrated Healthcare Communications; Ito Partners; Yamamoto Moss Mackenzie; Margeotes Fertitta Powell; Northstar Research Partners; Onbrand; Pro-Image; Source Marketing; TargetCom; and Veritas Communications.

Equity Accounted Affiliates:

The following are the Company s affiliates that are accounted for under the equity method: Cliff Freeman and Partners and Fuse Project. These entities provide a range of advertising, marketing communication and design services.

Ownership Information

The following table includes certain information about MDC s operating subsidiaries. The Put and Call Options information represents existing contractual rights. Owners of interests in certain Marketing Communications subsidiaries have the right in certain circumstances to require MDC to acquire additional ownership interests held by them. The owners ability to exercise any such put option right is subject to the satisfaction of certain conditions, including conditions requiring notice in advance of exercise. In addition, these rights cannot be exercised prior to specified staggered exercise dates. The exercise of these rights at their earliest contractual date would result in obligations of MDC to fund the related amounts during the periods described in the accompanying notes. It is not determinable, at this time, if or when the owners of these rights will exercise all or a portion of these rights. The amount payable by MDC in the event such rights are exercised is dependent on defined valuation formulas and on future events, such as the average earnings of the relevant subsidiary through the date of exercise, the growth rate of the earnings of the relevant subsidiary during that period, and, in some cases, the currency exchange rate at the date of payment. See also Management s Discussion and Analysis Off-Balance Sheet Commitments Put Rights of Subsidiaries Minority Shareholders for further discussion.

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

MDC PARTNERS INC.

SCHEDULE OF CURRENT AND POTENTIAL OWNERSHIP

Company	% Owned at 12/31/06	Year Acquired	PUT/CALL OPTIONS 2007	Thereafter (See Notes)
Consolidated:				
Strategic Marketing Services				
ACLC Inc	100.0 %	1992		
Allard Johnson Communications Inc.	60.2 %	1992	69.1 %	
Colle & McVoy, Inc.	100.0 %	1999		
Crispin Porter & Bogusky, LLC	49.0 %	2001	60.0 %	Note 1
Fletcher Martin, LLC	85.0 %	1999	100.0 %	
kirshenbaum bond & partners, LLC	60.0 %	2004		Note 2
Mono Advertising, LLC	49.9 %	2004		Note 3
Vitro Robertson, LLC	68.0 %	2004		Note 4
Zig Inc.	50.1 %	2004		Note 5
Zyman Group, LLC.	62.1 %	2005		Note 6
Customer Relationship Management				
Accent Marketing Services, LLC	93.7 %	1999	99.5 %	Note 7
Specialized Communication Services				
Accumark Communications Inc.	55.0 %	1993		Note 8
Banjo Strategic Entertainment, LLC	75.0 %	2004		
Bratskeir & Company, Inc.	100.0 %	2000		
Bruce Mau Design Inc.	50.1 %	2004		
Bryan Mills Group Ltd.	71.2 %	1989	100.0 %	
Chinnici Direct, Inc.	100.0 %	2000		
Computer Composition of Canada Inc.	100.0 %	1988		
Hello Design, LLC	51.0 %	2004		
henderson bas partnership	65.0 %	2004	100.0 %	
Integrated Healthcare Communications, Inc.	80.0 %	1997		
Ito Partners LLC	60.0 %	2006		Note 9
Margeotes Fertitta Powell, LLC	95.0 %	1998		Note 10
Northstar Research Partners Inc.	70.1 %	1998	100.0 %	
Onbrand	85.0 %	1992		
Pro–Image Corporation	100.0 %	1994	—	
Source Marketing, LLC	80.0 %	1998	—	Note 11
TargetCom, LLC	100.0 %	2000	—	
Veritas Communications Inc.	58.8 %	1993	—	

Yamamoto Moss Mackenzie (formerly Mackenzie Marketing, Inc.)	100.0 %	2000	—	
Equity Accounted:				
Cliff Freeman and Partners, LLC	19.9 %	2004		
Fuse Project, LLC.	20.0 %	2005		Note 12

Notes

1.

MDC has the right to increase its ownership in Crispin Porter & Bogusky, LLC (CPB) through acquisition of an incremental interest, up to 60% in 2007, up to 77% in 2008, up to 94% in 2010 and up to 100% in 2012. The other interest holders have the right to put to MDC an incremental interest up to 60% in 2007, up to 77% in 2008, up to 94% in 2010 and up to 100% in 2012.

2.

MDC has the right to increase its ownership in kirshenbaum bond & partners, LLC through acquisition of an incremental interest, and the other interest holders have the right to put to MDC the same incremental interest, up to 100% of this entity in 2008.

3.

MDC has the right to increase its ownership in Mono Advertising, LLC through acquisition of an incremental interest, and the other interest holders have the right to put to MDC the same incremental interest, up to 54% of this entity in 2010, up to 59% in 2011, up to 64% in 2012, up to 69% in 2013 and up to 74.0% in 2014.

4.

MDC has the right to increase its ownership in Vitro Robertson, LLC through acquisition of an incremental interest, and the other interest holders have the right to put to MDC the same incremental interest, up to 100% of this entity in 2011.

5.

MDC has the right to increase its ownership in Zig Inc. through acquisition of an incremental interest, and the other interest holders have the right to put to MDC the same incremental interest, up to 76.4% in 2009 and up to 80% in 2010.

6.

MDC has the right to increase its ownership in Zyman Group, LLC through acquisition of an incremental interest, and the other interest holders have the right to put to MDC the same incremental interest, up to 67.6% in 2008. MDC also has the right to further increase its ownership interest in Zyman Group through acquisition of an incremental interest up to 93.2% in 2013.

7.

MDC has the right to increase its ownership in Accent Marketing Services LLC through acquisition of an incremental interest, and the other interest holders have the right to put to MDC the same incremental interest, up to 99.5% in 2007.

8.

MDC, has the right to increase its ownership in Accumark Communications Inc. through acquisition of an incremental interest, and the other interest holders have the right to put to MDC the same incremental interest up to 61.7% in 2010, up to 68.3% in 2011 and up to 75.0% in 2012.

9.

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

10.

MDC has the right to increase its ownership in Margeotes Fertitta Powell LLC through acquisition of an incremental interest, and the interest holder has the right to put to MDC the same incremental interest, up to 100% in 2010.

11.

MDC has the right to increase its ownership in Source Marketing, LLC through acquisition of an incremental interest, and the interest has the right to put to MDC the same incremental interest up to 86.7% in 2008, 93.4% in 2010 and 100% in 2012.

12.

CPB has a 20% interest in Fuse Project, LLC and MDC owns 49% of CPB.

Highlights Since January 1, 2006

Since January 1, 2006, the following significant developments in MDC s business have occurred.

February 7, 2006	MDC purchased 12.33% of the membership interests of Source Marketing LLC (Source) following the minority holder s exercise of a put option in October 2005. The purchase price of $2.3 million consisted of cash of $1.8 million and the delivery of 1,063,516 shares of LifeMed valued at $0.5 million. Following this transaction, the Company s ownership in LifeMed was 13.2%.
February 15, 2006	Source issued 15% of its currently outstanding membership interests to certain members of management. The purchase price for these membership interests was equal to $1.5 million, which consisted of cash of $0.4 million and recourse notes in a principal amount equal to $1.1 million, An amended and restated LLC agreement was entered into with these new shareholders. The agreement also permits these shareholders to put to the Company these membership interests from December 2008-2012. As a result of the above transactions, the Company owned 85% of Source.

July 1, 2006	MDC and Mono Advertising, LLC amended its operating agreement to eliminate certain limitations that MDC had on its ability to exercise control of Mono Advertising, LLC. Effective July 1, 2006 MDC has consolidated Mono Advertising, LLC which had previously been accounted for under the equity method.
November 14, 2006	MDC completed the sale of the stock of the Secure Products International Group (SPI) to an affiliate of H.I.G. Capital in exchange for consideration equal to approximately $27 million. Consideration was received in the form of cash of $20 million and additional $1 million annual payments over the next five years. In addition, MDC received a 7.5% equity interest in the newly formed entity acquiring the SPI. The net cash proceeds where used to repay borrowings under the Company s credit facility.
November 17, 2006	MDC, through its subsidiary Zig Inc. (Zig) purchased a controlling interest in Hadrian s Wall Advertising, LLC for $0.6 million. Hadrian s Wall Advertising, LLC is a creative advertising firm that was acquired to facilitate the expansion of Zig s business into the US market. In addition, MDC purchased an additional 0.2% of Zig for nominal cash and 30,000 MDC Stock Appreciation Rights, valued at $0.1 million. Effective November 17, 2006, MDC has consolidated Zig, which had previously been accounted for under the equity method.
November 17, 2006	MDC purchased an additional 20% interest in Northstar Research Partners Inc. for $3.4 million. Northstar Research Partners Inc. is MDC s primary research agency with goals of expanding further into the US and internationally.
December 15, 2006	MDC and Accumark Communications Inc. amended its operating agreement to eliminate certain minority rights. Effective December 15, 2006, MDC has consolidated Accumark Communications Inc. which had previously been accounted for under the equity method.
February 2, 2007	MDC, through its subsidiary Bryan Mills Group Ltd. (Bryan Mills), acquired 100% of the issued and outstanding shares of Iradesso Communications Corp., a Canadian financial communications firm. The purchase price for this transaction included a cash payment equal to approximately $0.3 million and the issuance of shares in Bryan Mills representing 11.85% of the ownership in Bryan Mills valued at approximately $0.7 million.

Financial Information Relating to Business Segments and Geographic Regions

For financial information relating to (a) the Company s Marketing Communications Businesses, and (b) the geographic regions the businesses operate within, refer to Note 16 (Segmented Information) of the notes to the consolidated financial statements included in this Annual Report and to Item 7. Management s Discussion and Analysis for further discussion.

Competition

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

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

Industry Trends

Historically, advertising has been the primary service provided by the marketing communications industry. However, as clients aim to establish one-to-one relationships with customers, and more accurately measure the effectiveness of their marketing expenditures, specialized communications services are consuming a growing portion of marketing dollars. This is increasing the demand for a broader range of non-advertising marketing communications services (i.e., direct marketing, sales promotion, interactive, etc). As well, there is an increasing need for consistent brand communication in response to increased competition from globalization and deregulation.

Clients

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

The Company s significant clients in 2006 included Sprint, Volkswagen of America and Burger King. During 2006, Sprint accounted for approximately 15.5% of revenues. No client accounted for 10% or more of revenues during 2005. In 2004, Sprint, via a vendor relationship with IBM, represented approximately 13% of MDC s revenues for the year. In addition, MDC s ten largest clients (measured by revenue generated) accounted for 39%, 35% and 34% of 2006, 2005 and 2004 revenues, respectively.

Employees

As of December 31, 2006, MDC and its subsidiaries had the following number of employees within its reportable segments:

Segment	**Total**
Strategic Marketing Services	1,438
Customer Relationship Management	2,982
Specialized Communication Services	537
Corporate	37
Total	4,994

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

Effect of Environmental Laws

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

Item 1A. Risk Factors

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

MDC competes for clients in highly competitive industries.

The Company operates in a highly competitive environment in an industry characterized by numerous firms of varying sizes, with no single firm or group of firms having a dominant position in the marketplace. Competitive factors include creative reputation, management, personal relationships, quality and reliability of service and expertise in particular niche areas of the marketplace. In addition, because a firm s principal asset is its people, barriers to entry are minimal, and relatively small firms are, on occasion, able to take all or some portion of a client s business from a larger competitor.

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

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

As of December 31, 2006, MDC had approximately $48.9 million outstanding under its revolving credit facility in the form of borrowings and letters of credit (the Credit Facility). The Credit Facility is scheduled to expire, by its terms, on September 22, 2007. MDC uses amounts available under the Credit Facility, together with cash flow from operations, to fund its working capital needs, to fund the exercise of put option obligations and to fund our strategy of making selective acquisitions of ownership interests in entities in the marketing communications services industry.

MDC amended its Credit Facility five times in 2005, and another four times in 2006. Certain of these amendments to the Credit Facility were necessary in order to avoid an event of default under the Credit Facility and to permit the Company to continue to borrow under the Credit Facility. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operation Liquidity and Capital Resources, for a more detailed discussion of these amendments to the Credit Facility.

The Company is currently in compliance with all of the terms and conditions of its amended Credit Facility, and management believes that the Company will be in compliance with covenants over the next twelve months. If, however, events were to occur which result in MDC losing all or a substantial portion of its lines of credit under the Credit Facility, MDC would be required to seek other sources of liquidity. In addition, if MDC were unable to replace this source of liquidity, or if MDC were unable to extend the term or replace the Credit Facility prior to September 22, 2007, then MDC s ability to fund its working capital needs and any contingent obligations with respect to put options would be materially adversely affected.

MDC has identified, and corrected, improper practices relating to its historical option grant practices, and the results of MDC s internal review may give rise to uncertainties and liabilities.

As disclosed in the Company s Report on Form 8-K filed on December 22, 2006, a Special Committee of disinterested and independent directors, with the assistance of independent legal counsel, completed an internal review of the Company s historical option grant practice. In connection with this review, the Company has corrected all historical option grants for which the exercise price did not correspond to the market price on the date of the approval of the grant so that the exercise price is now the same as the market price on the date of the approval. These adjustments were made pursuant to the self-correcting provisions in the Company s option plan. As previously disclosed, the

Company does not intend nor expect to restate any financial statements for prior periods, and management does not expect any material impact on the Company s financial statements as a result of the Special Committee s review and conclusions.

The Company has incurred significant expenses for outside legal counsel services as part of its review. While the Special Committee believes it has made appropriate judgments in correcting improper stock option grants and implementing its recommendations, it is possible that one or more regulatory agencies may determine to conduct their own formal investigation of the Company s historical option grant process.

Accordingly, there is a risk that the Company may have to take other actions not currently contemplated.

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

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

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

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

MDC s strategy has been to acquire ownership stakes in diverse marketing communications businesses to minimize the effects that might arise from the loss of any one client or executive. The loss of one or more clients could materially affect the results of the individual operating companies and the Company as a whole. Management succession at our operating units is very important to the ongoing results of the Company because, as in any service business, the success of a particular agency is dependent upon the leadership of key executives and management personnel. If key executives were to leave our operating units, the relationships that MDC has with its clients could be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

MDC has recently eliminated material weaknesses in its internal control over financial reporting.

MDC is required to review and assess its disclosure controls and procedures and its internal controls over financial reporting, pursuant to the Sarbanes-Oxley Act of 2002. As disclosed more fully in Item 9A of this annual report on Form 10-K for the year ended December 31, 2006, management s assessment has identified that all previously disclosed material weaknesses in disclosure controls and procedures and internal controls over financial reporting have been remediated. However, MDC cannot ensure that additional material weaknesses or deficiencies in its internal control over financial reporting will not be identified in the future. Deficiencies may adversely affect MDC s ability to record, process, summarize and report financial data.

Item 1B. Unresolved Staff Comments

As of March 15, 2007, there is one unresolved comment of the Staff of the Division of Corporate Finance of the Securities and Exchange Commission relating to the Company s accounting policy for revenue recognition under the Proportional Performance model. (See Note 2 regarding Revenue Recognition in the notes to the Company s consolidated financial statements herein). The Company believes that application of this accounting policy is appropriate and in accordance with U.S. generally accepted accounting principles.

Item 2. Properties

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

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

Item 3. Legal Proceedings

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

PART II

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

Market Information and Holders of Class A Subordinate Voting Shares

The principal United States market on which the Company s Class A subordinate voting shares are traded is the NASDAQ National Market (NASDAQ) (symbol: MDCA), and the principal market in Canada is The Toronto Stock Exchange (symbol: MDZ.A). As of March 1, 2007, the approximate number of holders of our Class A subordinate voting shares, including those whose shares are held in nominee name, was 2,800. Quarterly high and low sales prices per share of the Company s Class A subordinate voting shares, as reported by the NASDAQ composite and The Toronto Stock Exchange, respectively, for each quarter in the years ended December 31, 2006 and 2005 are as follows:

	High	Low
Nasdaq National Market		
($ per share)		
Quarter Ended		
March 31, 2005	11.89	9.30
June 30, 2005	10.37	7.45
September 30, 2005	10.05	6.80
December 31, 2005	7.60	5.35
March 31, 2006	9.50	6.06
June 30, 2006	9.60	7.75
September 30, 2006	9.00	6.80
December 31, 2006	8.06	6.79
The Toronto Stock Exchange		
(C $ per share)		
Quarter Ended		
March 31, 2005	13.91	10.25
June 30, 2005	12.75	9.00
September 30, 2005	10.85	8.20
December 31, 2005	8.75	6.27
March 31, 2006	10.04	7.32
June 30, 2006	10.63	8.68
September 30, 2006	10.00	7.55
December 31, 2006	9.01	7.65

As of March 1, 2007, the last reported sale price of the Class A subordinate voting shares was $7.51 on NASDAQ and C$8.87 on the Toronto Stock Exchange.

Dividend Policy

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

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information regarding securities issued under our equity compensation plans as of December 31, 2006.

	Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights (a)	Weighted Average Exercise Price of Outstanding Options and Rights (b)	Number of Securities Remaining Available For Future Issuance (excluding Column (a)) (c)
Equity Compensation Plans:			
Approved by stockholders:			
Share options	1,733,081	$ 8.57	1,061,000
Stock appreciation rights	237,059 (1)	$ 7.91	1,398,158
Not approved by stockholders:			
None			

(1)

Based on December 31, 2006 closing Class A subordinate voting share price on the Toronto Stock Exchange of C$8.50 ($7.40).

On May 26, 2005, the Company s shareholders approved the 2005 Stock Incentive Plan, which provides for the issuance of two million Class A subordinate voting shares.

See also Note 14 of the Notes to the Consolidated Financial Statements included in this Annual Report.

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

None

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

Issuer Purchases of Equity Securities:

Shares- Class A subordinate voting shares

For the twelve months ended December 31, 2006, the Company made no purchases of its Class A subordinate voting shares or its Class B shares. In 2004, the Company publicly announced a stock repurchase plan, which repurchase plan expired in June, 2005. Pursuant to its Credit Facility, the Company is currently restricted from repurchasing its shares.

Transfer Agent and Registrar for Common Stock

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

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

Item 6. Selected Financial Data

The following selected financial data should be read in connection with Item 7 Management s Discussion and Analysis of Financial Condition and Results of Oper