MDC CORP INC
Form 6-K
September 04, 2003

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of **August** **2003**

Commission File No. **001-13718**

MDC CORPORATION INC.

(Translation of registrant s name into English)

45 Hazelton Avenue, Toronto,Ontario, Canada, M5R 2R3

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40F.

Form 20-F ________ Form 40-F **X**

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ________

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ________

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ________ No **X**

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- ________

DOCUMENT INDEX

Document 1

Second Quarter Report

Six months ended June 30, 2003

Financial Highlights

Consolidated Financial Summary

(in thousands of Canadian dollars, except per share amounts) (unaudited)

Three months ended June 30,	**2003**	2002	% Change
Sales	**186,960**	220,972	15
Operating income	**8,237**	13,898	41
Cash flow from operations	**2,864**	5,752	50
Net income for the period	**12,246**	128,344	90
Earnings per share			

Basic	**0.70**	7.56	91
Diluted	**0.53**	5.43	90
Cash flow per share			
Basic	**0.14**	0.32	56
Diluted	**0.13**	0.25	48
Weighted average number of shares outstanding			
Basic	**16,915,341**	16,915,341	0
Diluted	**23,469,828**	23,658,938	1

Six months ended June 30,	**2003**	2002	% Change
Sales	**396,718**	492,277	19
Operating income	**21,272**	43,803	51
Cash flow from operations	**10,697**	17,207	38
Net income for the period	**13,580**	140,479	90
Earnings per share			
Basic	**0.75**	8.26	91
Diluted	**0.56**	5.62	90
Cash flow per share			
Basic	**0.58**	0.97	40
Diluted	**0.45**	0.70	36
Weighted average number of shares outstanding			
Basic	**16,915,341**	16,915,341	0
Diluted	**24,575,935**	25,055,517	2

Management's Discussion & Analysis

The following discussion focuses on the operating performance of MDC Corporation Inc. (the "Company") for the three- and six-month periods ended June 30, 2003 and 2002, and the financial condition as at June 30, 2003. This analysis should be read in conjunction with the consolidated interim financial statements presented in this interim report and the annual audited consolidated financial statements and Management's Discussion and Analysis presented in the Annual Report to Shareholders for the year ended December 31, 2002. All amounts are in Canadian dollars unless otherwise stated.

Overview

The second quarter financial results were impacted by the significant progress that has been made in the implementation of the Company s strategy to dispose of non-core assets, reduce indebtedness, and focus resources and capital on the Company s core operations. During the quarter, MDC completed an initial public offering of Custom Direct, the U.S.-based direct-to-consumer cheque operation, through Custom Direct Income Fund (the Fund). Gross proceeds, including funds received from the exercise of the underwriters over-allotment option, totaled $178.5 million (US$128.0 million). Of these proceeds, US$89.5 million was used to redeem all of the outstanding 10.5% Senior Subordinated Notes due 2006. At June 30, 2003, the Company held a 19% ownership interest in the Fund, which has subsequently been sold, and a direct 20% interest in the business, which the Company continues to hold.

Three Months Ended June 30, 2003 Compared with the Three Months Ended June 30, 2002

Sales

Consolidated sales for the three months ended June 30, 2003 were $187.0 million (US$134.8 million), 15% or $34.0 million (7% or US$9.4 million) lower than the second quarter 2002 sales of $221.0 million (US$144.2 million).

Total sales at Maxxcom were $142.8 million (US$103.0 million) for the quarter, representing a decrease of $3.5 million or 2% (an increase of US$8.0 million or 8%) from the $146.3 million (US$95.0 million) earned in the same quarter last year. The impact of an improving Canadian dollar on U.S. dollar denominated revenue more than offset the improvement in revenues resulting from an increase in demand for database management and direct marketing services in the United States.

Revenues of the Secure Transactions Division, at $42.2 million (US$30.5 million) for the second quarter of 2003, declined $27.4 million or 39% (US$15.4 million or 34%) compared with the 2002 second quarter. Sales from divested operations account for $22.0 million (US$13.5 million) of the decrease. Each of the operations within the Secure Transactions Division experienced lower demand in the quarter.

Revenues generated by the Company s Corporate and other operations decreased $3.1 million (US$1.9 million) from the $5.1 million (US$3.3 million) reported for the quarter ended June 30, 2002, primarily due to the disposition of A.E. McKenzie Co. Inc. late in the second quarter of 2002, partially offset by Custom Direct distributions recorded in the second quarter of this year.

Gross Profit

Gross profit for the second quarter was $90.2 million (US$64.9 million) versus $104.0 million (US$67.9 million) in the year-earlier second quarter, a decrease of $13.8 million or 13% (US$3.0 million or 4%) due primarily to the dispositions that have been completed. Gross profit achieved by the remaining operations, at $77.0 million (US$55.5 million) for the quarter, declined marginally (increased US$5.4 million) from the quarter ended June 30, 2002, with a 2.4% (2.2% in US$) improvement in gross margin percentage from 44.0% (44.1% in US$) in 2002 to 46.4% (46.3% in US$) in 2003.

At Maxxcom, gross profit improved 4% to $66.4 million (15% to US$47.8 million) from $64.0 million (US$41.6 million) in the prior-year second quarter, and gross margin improved from 43.8% to 46.5% (43.8% to 46.3% in US$), reflective of an increase in billings net of flow-through direct costs.

Gross profit from the Secure Transactions Division totaled $22.1 million (US$16.3 million) for the three-month period ended June 30, 2003 compared with $37.3 million (US$24.6 million) for the same period of 2002. 84% of the decrease is attributable to operations that have been sold. Mercury, the Canadian ticketing operation, achieved a slight increase in gross profits for the quarter, which was more than offset by decreases from both the stamp and card operations. Gross margin improved from 56.8% of sales in 2002 to 57.3% of sales in 2003.

Operating Expenses

Operating expenses on a consolidated basis amounted to $82.0 million (US$58.9 million) and were 9% or $8.1 million lower (less than 1% or US$0.2 million higher) than the $90.1 million (US$58.7 million) incurred during the second quarter of the previous year.

Maxxcom s operating expenses were relatively unchanged (increased US$4.1 million) compared with the second quarter of 2002. At $58.9 million (US$42.4 million), operating expenses as a percentage of sales were 41.2% in 2003 versus 40.1% (40.3 % in US$) in 2002 due to a lower level of flow-through direct costs.

Operating expenses of the Secure Transactions Division totaled $20.2 million (US$14.7 million) in the second quarter of this year, a decrease of $6.5 million (US$2.8 million) from the $26.7 million last year. The decrease is primarily related to the businesses that were divested over the past year. Operating expenses as a percentage of sales were 47.6% (47.5% in US$) in Q2 2003 compared with 38.2% in Q2 2002.

Operating Income before Other Income (Charges)

Operating income before other charges, at $8.2 million (US$6.0 million) for the three months ended June 30, 2003, decreased $5.7 million or 41% (US$3.2 million or 35%) from the $13.9 million (US$9.2 million) generated last year.

Excluding divested operations, operating income was $7.5 million (US$5.4 million) compared with $8.1 million (US$5.3 million) in 2002 and as a percentage of sales remained relatively flat compared to the second quarter of 2002 at 4.5%. The significant improvements at Maxxcom were offset by softness experienced in the Secure Transactions Division.

Maxxcom earned $7.5 million (US$5.4 million) in operating income before other charges for the quarter compared to $5.3 million (US$3.4 million) in 2002, an improvement of 42% or $2.2 million (56% or US$1.9 million), primarily the result of improved gross profit and flat operating expenses, partially offset by the impact of foreign exchange on U.S. dollar profits due to a strengthening of the Canadian dollar. Operating margins were 5.3% (5.2% in US$) of sales in this quarter versus 3.6% of sales in the second quarter of last year as Maxxcom has benefited from an increase in business activity while maintaining an efficient operating structure.

The Secure Transactions Division contributed operating income before other charges of $1.9 million (US$1.5 million), a decrease of $8.7 million (US$5.6 million) over the prior-year second quarter. Operating income as a percentage of sales decreased from 15.2% (15.4% in US$) last year to 4.4% (5.1% in US$) this year. Excluding the divested operations, the remaining operating units reported a combined operating loss of $0.3 million (US$0.2 million) for the quarter compared to operating income of $2.4 million (US$1.5 million) in 2002 due to lower demand and an increase in unutilized capacity.

The operating loss attributed to Corporate and other operations was reduced to $1.2 million (US$0.9 million) for the second quarter of 2003 from $2.0 million (US$1.3 million) in the same quarter last year primarily due to distributions from Custom Direct.

Net Gain on Asset Dispositions and Other Charges

The net gain on asset dispositions and other charges recorded for the second quarter of 2003 was $21.8 million (US$15.3 million) and $147.5 million (US$94.2 million) for the second quarter of 2002. In the second quarter of 2003, a gain of $44.5 million (US$31.7 million) that primarily related to the disposition of 80% of Custom Direct through an income fund was partially offset by provisions against non-core assets and goodwill charges of $11.0 million (US$7.6 million) and $11.7 million (US$8.2 million), respectively. In 2002, a $152.5 million (US$97.4 million) gain from the divestiture of the remaining 50.01% ownership interest in Davis + Henderson and the repurchase of US$112.5 million of outstanding 10.5% Senior Subordinated Notes at 89% of the original principal amount was partially offset by $5.0 million (US$3.2 million) of provisions related to non-core assets.

Unrealized Foreign Exchange Gain

The unrealized foreign exchange gain of $7.0 million (US$4.5 million) in the second quarter of 2002 related to the U.S. dollar denominated 10.5% Senior Subordinated Notes (Notes). Effective July 1, 2002, management designated the Notes as a hedge against the foreign exchange exposure of the U.S. Secure Transactions operations. The hedge was applied on a prospective basis from the effective date until the redemption of the Notes on June 30, 2003. Any foreign exchange translation adjustment of the Notes reduced offsetting foreign exchange translation adjustment of the U.S. operations reflected in the cumulative translation account within shareholders equity.

Amortization

Amortization expense was $4.8 million (US$3.5 million) representing a decrease of $0.3 million (an increase of US$0.1 million) from the quarter ended June 30, 2002, primarily as a result of the reduction in the capital assets of the Secure Transactions Division. Amortization at Maxxcom remained relatively unchanged compared to the second quarter of last year at $2.8 million (US$2.0 million).

Interest, Net

Interest expense on a consolidated basis totaled $5.8 million (US$4.1 million) for the quarter, down $0.1 million (up US$0.2 million) compared with the same period of 2002. The decrease is due primarily to lower levels of indebtedness outstanding during the period and a favorable impact of the weakening of the U.S. dollar on U.S. dollar denominated interest payments, offset by slightly increased interest costs at Maxxcom.

Income before Income Taxes and Minority Interest

The income before income taxes and minority interest was $19.5 million (US$13.6 million) in the quarter ended June 30, 2003 compared with $157.3 million (US$100.6 million) last year. Excluding the impact of dispositions and other charges, unrealized foreign exchange, the results of divested operations and interest associated with indebtedness that has been repaid, and including distributions from portfolio investments, operating income before income taxes and minority interest for the quarter was $0.9 million (US$0.6 million) compared with $1.7 million (US$1.1 million) in 2002.

Income Tax Expense

Income tax expense was $8.8 million (US$6.2 million) in the second quarter of the year compared with $28.8 million (US$18.4 million) last year. Income taxes were 45.4% (45.1% in US$) of income before income taxes and minority interest in the 2003 second quarter versus 18.3% in 2002. The 2002 tax rate was significantly impacted by divestitures that were completed during the first six months of last year.

Minority Interest

A recovery of $1.6 million (US$1.1 million) for minority interest was recorded in the second quarter of this year compared with an expense of $0.2 million (US$0.2 million) in 2002 and represents the minority interest share of the net income (losses) of Maxxcom and Metaca.

Net Income for the Period

Net income for the second quarter of 2003 was $12.2 million (US$8.6 million) compared with $128.3 million (US$82.0 million) in 2002. A $1.1 million (US$0.8 million) increase in net income attributable to Maxxcom for the quarter was offset by the impact of asset dispositions, foreign exchange, and lower income from the remaining operations of the Company.

Six Months Ended June 30, 2003 Compared with the Six Months Ended June 30, 2002

Sales

Consolidated sales for the first six months of 2003 were $396.7 million (US$275.5 million), representing a decrease of $95.6 million or 19% (US$38.6 million or 12%) from the same period of the previous year. Excluding revenues of operations disposed by the Secure Transactions Division, sales decreased by $3.1 million or 1% (increased US$17.5 million or 8%) from the $338.0 million (US$215.6 million) achieved in the first half of 2002 to $334.9 million (US$233.1 million) year-to-date in 2003.

On a year-to-date basis, Maxxcom reported revenues of $286.3 million (US$199.2 million), slightly lower than the $286.7 million (higher than the US$182.9 million) reported for the same period last year. Adverse effects from exchange rates and a decline in sales from Canadian agencies were partially offset by increased demand in the United States for database management and direct marketing services.

Sales of the Secure Transactions Division for the period totaled $107.3 million (US$74.1 million) compared with $193.9 million (US$123.7 million) in 2002. In the remaining stamp, card and ticketing operations, revenues declined $2.4 million or 5% (increased US$0.9 million or 3%) from last year. Corporate and other revenues decreased by $8.6 million (US$5.3 million) from the first six months of 2002 due to dispositions completed of non-core operations net of Q2 2003 distributions from Custom Direct.

Gross Profit

To date this year, gross profit was $190.4 million (US$132.1 million), a decrease of $45.9 million or 19% (US$18.7 million or 12%) from the same period of 2002. Gross profit related to the operations that remain declined by $0.3 million (increased by US$8.5 million) from $151.4 million (US$96.6 million) in the prior year. However, the gross margin percentage, at 45.1%, improved marginally from 44.8% last year.

Maxxcom s gross profit was $128.7 million (US$89.6 million), representing an increase of $1.6 million or 1% (US$8.5 million or 10%) from the prior year. A shift in the mix of services required by clients helped to mitigate the negative impact of a weakening U.S. dollar on the revenue mix that was derived 70% from the U.S., 24% from Canada and 6% from the U.K. in 2003, as compared to 66%, 28% and 6%, respectively, in 2002. Gross margin improved from 44.3% to 45.0%.

Gross profit attributable to the Secure Transactions Division for the first two quarters of the year was $59.3 million (US$41.3 million). The decrease of $44.0 million (US$24.6 million) compared to 2002 was primarily due to dispositions. Of the remaining operations within the Secure Transactions Division, the gross profit of Ashton-Potter, the stamp business, decreased $2.1 million (US$1.3 million) from last year, as production levels were minimal until work began on the Multiprint III United States Postal Service contract awarded in the second quarter of 2003, offset partially by an improvement of $0.4 million (US$1.1 million) related to the card and ticketing operations.

Operating Expenses

Consolidated operating expenses, at $169.1 million (US$117.4 million), were reduced by 12% or $23.4 million (4% or US$5.4 million) compared with the first half of last year, primarily a result of dispositions. The operating costs of Maxxcom, the Secure Transactions Division and Corporate and other operations contributed to the reduction, by $0.2 million, $20.0 million, and $3.2 million, respectively. (In US$, the decreases of the Secure Transactions Division and Corporate and other operations, at US$10.0 million and US$2.0 million, respectively, were partially offset by an increase at Maxxcom of US$6.6 million.)

Operating expenses incurred by Maxxcom in the first six months of this year totaled $116.0 million (US$80.7 million) and were slightly lower than the $116.2 million (US$74.1 million) incurred for the same period last year. Similarly, operating expenses expressed as a percentage of sales continued to decrease at 40.5% in 2003 versus 40.6% in 2002 as a result of continued efforts to effectively and efficiently control costs.

For the two quarters ended June 30, 2003, operating expenses of the Secure Transactions Division decreased by $20.0 million (US$10.0 million) to $47.3 million (US$32.9 million) from $67.3 million (US$42.9 million) for the first half of 2002, primarily as a result of dispositions.

Operating Income before Other Income (Charges)

For the first half of 2003, operating income before other charges of $21.3 million (US$14.7 million) decreased $22.5 million or 51% (US$13.2 million or 47%) from the $43.8 million (US$27.9 million) achieved last year.

The operating income before other charges of Maxxcom was $12.7 million (US$8.8 million), an improvement of $1.8 million (US$1.9 million) for the first two quarters year over year, reflective of the increase in gross profit and stable operating costs. Operating margins were 4.4% of sales this year versus 3.8% of sales last year.

Operating income before other charges reported by the Secure Transactions Division was $11.8 million (US$8.1 million), a decrease of $24.2 million (US$14.9 million) from the prior year. Excluding the operating profits of disposed operations, operating income was $0.9 million (US$0.6 million) compared with $2.2 million (US$1.4 million) as a decline in demand at each operation resulted in increased unutilized capacity. On the same basis, operating income as a percentage of sales decreased from 5.1% last year to 2.1% this year.

Corporate and other operations recorded an operating loss of $3.2 million (US$2.2 million) for the first half of 2003, up slightly from a loss of $3.1 million (US$2.0 million) in 2002.

Net Gain on Asset Dispositions and Other Charges

The net gain on asset dispositions and other charges for the first six months of 2003 was $21.8 million (US$15.3 million), primarily related to the second quarter disposition of the U.S. cheque operations, net of a provision against specific assets and goodwill charges relating to remaining non-core operations. The disposition of the Canadian cheque operations, net of provisions against non-core assets, resulted in a net gain of $157.1 million (US$100.2 million) for the comparable year-earlier period.

Unrealized Foreign Exchange Gain

In the first half of 2002, an unrealized foreign exchange gain of $6.7 million (US$4.3 million) was recorded with respect to the U.S. dollar denominated 10.5% Senior Subordinated Notes (Notes). Since July 1, 2002, the Notes have been designated as a hedge against the foreign exchange exposure of the U.S. Secure Transactions operations, and any foreign exchange translation adjustment of the Notes has reduced offsetting foreign exchange translation adjustment of the U.S. operations which has been reflected in the cumulative translation account within shareholders equity.

Amortization

Consolidated amortization expense was $10.2 million (US$7.1 million) for the six-month period ended June 30, 2003, $3.5 million (US$1.6 million) lower than in 2002, primarily due to the lower level of assets associated with the Secure Transactions Division as a result of the divestitures that have been completed.

Interest, Net

The interest expense incurred for the first half of 2003 was $11.4 million (US$7.9 million), down $4.7 million or 29% (US$2.4 million or 23%) compared to the $16.1 million (US$10.3 million) recorded for the same period of 2002, due primarily to the significantly reduced level of long-term indebtedness outstanding during the period related to the Secure Transactions and Corporate and other operations. Interest expense at Maxxcom remained unchanged at $4.2 million (increase of US$0.2 million to US$2.9 million) for the first half of 2003 and 2002.

Income before Income Taxes and Minority Interest

Income before income taxes and minority interest was $21.4 million (US$15.0 million) for the six months ended June 30, 2003, versus $177.8 million (US$113.4 million) in 2002. On a more comparable basis, including distributions from portfolio investments and excluding the impact of dispositions and other charges, foreign exchange, and interest associated with indebtedness that has been repaid, the income before income taxes and minority interest for the first two quarters of 2003 and 2002 was $1.0 million (US$0.7 million) and $1.6 million (US$1.0 million), respectively.

Income Tax Expense

Income tax expense was $9.5 million (US$6.6 million) in the first half of this year compared with $33.4 million (US$21.3 million) last year. Income taxes were 44.2% (44.0% in US$) of income before income taxes and minority interest in 2003 versus 18.8% in the previous year.

Minority Interest

Minority interest expense represents the minority interest share of the net income (losses) of Maxxcom and Metaca and in 2002 also included the minority interest share of the net earnings of Davis + Henderson, Limited Partnership. An expense of $3.9 million (US$2.5 million) was recorded for the first six months of 2002, however, for the same period of 2003 there was a recovery of $1.6 million (US$1.1 million).

Net Income for the Period

Year-to-date net income was $13.6 million (US$9.5 million) at June 30, 2003 compared to $140.5 million (US$89.6 million) in 2002. Adjusting for the impact of dispositions and other charges, foreign exchange, the results of divested operations and interest associated with indebtedness that has been repaid, net income was $0.1 million (US$0.1 million) for 2003 versus $0.8 million (US$0.5 million) in 2002.

Liquidity and Capital Resources

Working Capital

Working capital at June 30, 2003 was $54.0 million (US$40.1 million) compared to negative $4.6 million (negative US$3.1 million) at the end of the first quarter of 2003 and negative $5.5 million (negative US$3.5 million) at December 31, 2002. The improvement was due to the Custom Direct transaction and an increase in working capital at Maxxcom. Compared to March 31, 2003, on a consolidated basis, securities held for sale increased by $27.9 million (US$20.7 million) while accounts receivable decreased by $6.5 million (increased by US$1.8 million) and inventory and prepaid expenses decreased by $2.5 million (US$1.2 million) and $5.7 million (US$3.5 million), respectively. Accounts payable and accrued liabilities decreased by $6.4 million (increased by US$2.6 million), deferred acquisition consideration decreased by $21.8 million (US$14.1 million), and deferred revenue by $5.3 million (US$2.5 million).

As a result of the Custom Direct transaction, the Company is currently reviewing its US$25 million senior credit facility. Maxxcom has an additional facility of $60 million (US$44.5 million). At June 30, 2003, the Company, including Maxxcom, had utilized approximately $44 million (US$32.7 million) under these credit facilities in the form of drawings and letters of credit. Cash and undrawn available bank credit facilities to support the Company s future cash requirements, as at June 30, 2003, was approximately $76 million (US$56.4 million).

Long-term Indebtedness

Long-term indebtedness (including the current portion of long-term indebtedness) at the end of the second quarter was $123.2 million (US$91.5 million), a reduction of $128.6 million (US$68.1 million) compared with the $251.8 million (US$159.6 million) outstanding at December 31, 2002. During the quarter, $120.3 million (US$87.6 million) of long-term indebtedness was repaid, primarily the redemption of the U.S. dollar denominated 10.5% Senior Subordinated Notes. Maxxcom incurred new indebtedness of approximately $14.1 million (US$10.3 million), used to fund deferred acquisition consideration paid and certain capital expenditures.

Deferred Acquisition Consideration

Acquisitions of businesses by the Company typically include commitments to contingent deferred purchase obligations and often rights to require the Company to acquire the remaining ownership interests held by subsidiary shareholders. Deferred purchase price 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. At June 30, 2003, approximately $12.5 million (US$9.3 million) of deferred purchase price obligations related to prior year acquisitions is reflected on the Company s balance sheet. A portion of this obligation, approximately $3.0 million (US$2.2 million) may be settled through the issuance of the Company s Class A Subordinate voting shares. The cash portion of this obligation is expected to be funded during 2003 and 2004 through the use of operating funds and bank borrowings.

Due to the Company s acquisition hiatus, and based on various assumptions as to future operating results of the existing relevant entities, it is estimated that approximately $1.0 million (US$0.7 million) of further additional deferred purchase obligations would be earned during 2003 or thereafter.

Put Rights of Subsidiaries   Minority Shareholders

Owners of interests in certain of Maxxcom s subsidiaries have the right in certain circumstances to require Maxxcom to acquire the remaining ownership interests held by them. The owners   ability to exercise these rights is subject to the satisfaction of certain conditions, such as the provision of a period of notice in advance of exercising such right or the installation of successor management in the subsidiary, and in some cases is related to the employment status of the holder of the right. 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 Maxxcom to fund the related amounts during the period 2003 to 2009. 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 Maxxcom in the event such rights are exercised is dependent on various valuation formulas and on future events such as the average earnings of the relevant subsidiary through that date of exercise, the growth rate of the earnings of the relevant subsidiary during that period and, in most cases, the currency exchange rate at the date of payment.

Management estimates, assuming that the subsidiaries perform over the relevant future periods at their 2002 earnings levels, that these rights, if all exercised, could require Maxxcom, in future periods, to pay an aggregate of approximately $66.0 million (US$49 million) to the owners of such rights to acquire the remaining ownership interests in the relevant subsidiaries. Of this amount, Maxxcom is entitled, at its option, to fund approximately $10.0 million (US$7.4 million) by the issuance of share capital.

The ultimate amount payable in the future relating to these transactions will vary because it is dependent on the future results of operations of the subject businesses and the timing of when these rights are exercised. The actual amounts Maxxcom pays will be different from these estimates, and these differences could be material.

If these rights were exercised in aggregate, Maxxcom would acquire incremental ownership interests in the relevant subsidiaries, entitling Maxxcom to additional annual operating income before other charges estimated to be, using the same earnings basis used to determine the aggregate purchase price noted above, approximately $10.0 million (US$7.4 million). The actual amounts Maxxcom acquires will be different from this estimate, and these differences could be material.

Of the estimated aggregate amount, approximately $3 million (US$2.2 million) relates to rights exercisable in 2003 associated with two subsidiaries. Shareholders of both subsidiaries have given one-year advance notice of their intent to exercise their rights to require Maxxcom to purchase one-third of their total respective interests in the related subsidiaries. Should these two shareholders ultimately exercise the right as indicated, Maxxcom will be required to fund these obligations in the fourth quarter of 2003. The actual amounts that Maxxcom will pay will be different from these estimates, and these differences may be material. Maxxcom 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 these equity interests will not be recorded in the Company s financial statements until ownership is transferred.

Cash Flow from Operations

Cash flow from operations, before changes in non-cash working capital, for the three and six months ended June 30, 2003 was $2.9 million (US$2.0 million) and $10.7 million (US$7.4 million), respectively. This represents a decrease from the cash flow generated of $2.9 million (US$1.7 million) from the same quarter of 2002 and of $6.5 million (US$3.5 million) from the first six months, reflective of the impact of lower revenues and operating income before other charges.

Cash flows from investing activities were $115.7 million (US$81.3 million) for the quarter compared to $238.5 million (US$152.1 million) in the second quarter of 2002. During the quarter, net proceeds received from the initial public offering of Custom Direct, net of the investing activities at Maxxcom, including the payment of $16.9 million (US$11.9 million) of Earnouts, amounted to $119.7 million (US$84.1 million). In the 2002 second quarter, net proceeds from the disposition of the Davis + Henderson, Limited Partnership and other non-core assets net of the investing activities of Maxxcom, was $240.2 million (US$153.2 million). The $2.3 million (US$1.7 million) increase in capital and other assets expenditures in the second quarter versus the same quarter of last year were primarily related to the development of customer service centres, additional investment in new premises and applications software by Maxxcom, the purchase of manufacturing equipment in Secure Transactions, partially offset by the repayment of $3.8 million (US$2.7 million) in employee loans.

During the quarter, cash flows used in financing activities amounted to $104.6 million (US$73.4 million), primarily the result of the repayment of the 10.5% Senior Subordinated Notes.

Outlook

To date in 2003, MDC has made significant progress towards the goal of transitioning to an organization focused on the marketing communications industry. On July 30, 2003, the minority shareholders of Maxxcom approved a plan of arrangement whereby MDC will issue one Class A Subordinate voting share for every 5.25 Maxxcom Inc. shares it does not already own. MDC will issue approximately 2.47 million Class A Subordinate voting shares. Upon completion, Maxxcom will become a wholly owned subsidiary of MDC.

Maxxcom has capitalized on increased activity in the marketplace with significant new business wins while maintaining an efficient operating cost structure. This approach is expected to produce improved results through the balance of the year and into 2004.

Management continues to focus on the profitability of the remaining businesses of the Secure Transactions Division while exploring opportunities to capture the value of these assets for our shareholders. Ashton-Potter, our stamp operation, is preparing for the increased production related to the long-term contract awarded by the United States Postal Service earlier this year. It is anticipated that the revenues and operating income of this operation will improve significantly during the fourth quarter of 2003 and into 2004. We believe that both the ticketing and the Canadian card operations of Metaca will show moderate growth over the balance of this year.

In July 2003, MDC sold additional units of Custom Direct Income Fund by way of a fully underwritten private placement. The proceeds from the private placement, together with amounts received in connection with the IPO of the Fund, resulted in gross cash proceeds of approximately $208.1 million (US$149.3 million) (before commissions and expenses) from the sale of an 80% interest in Custom Direct, including the term loan portion of Custom Direct s credit facility. MDC will continue to own a 20% subordinated interest in the business (which it has agreed not to sell until after December 31, 2003) exchangeable into units of the Fund.

The privatization of Maxxcom and the sale of Custom Direct have resulted in financial flexibility and improved liquidity. Management believes that the Company is now well positioned to capitalize on the opportunities presenting themselves in the marketing services sector.

Risks and Uncertainties

There are risks and uncertainties associated with MDC Corporation Inc. s businesses and the economic environments in which those businesses operate. These risks and uncertainties are discussed in detail in the Company s Annual Report to Shareholders for the year ended December 31, 2002.

Consolidated Interim Financial Statements

Consolidated Interim Balance Sheets
(in thousands of Canadian dollars)

As at	June 30, 2003	December 31, 2002*
	(unaudited)	(audited)
Assets		
Current		
Cash and cash equivalents	**$ 60,485**	$ 59,615
Securities held for sale	**27,860**	
Accounts receivable	**102,316**	106,419
Inventory	**7,834**	11,050
Prepaid expenses and sundry	**6,823**	9,886
	205,318	186,970
Portfolio investments	**20,351**	162
Capital and other assets	**80,007**	125,993
Goodwill	**105,530**	292,861
	$ 411,206	$ 605,986
Liabilities and Shareholders Equity		
Current		
Accounts payable and accrued liabilities	**$ 114,130**	$ 168,550
Deferred acquisition consideration	**12,546**	37,809
Deferred revenue	**18,405**	17,517
Current portion of long-term indebtedness	**6,220**	6,450
	151,301	192,517
Long-term indebtedness	**117,014**	245,339
	268,315	437,856
Minority interest	**12,874**	15,499

Subsequent events (Note 6)		
Shareholders equity		
Share capital (Note 4)	**144,542**	144,542
Other paid in-capital	**39,480**	38,145
Cumulative translation adjustment	**(16,544)**	20,139
Retained earnings (deficit)	**(37,461)**	(50,195)
	130,017	152,631
	$ 411,206	$ 605,986

The accompanying notes are an integral part of these financial statements.
**Comparative figures have been reclassified to conform with the current period presentation.*

Consolidated Interim Statements of Retained Earnings (Deficit)

(in thousands of Canadian dollars) (unaudited)

	For the three months ended June 30, 2003	For the three months ended June 30, 2002	For the six months ended June 30, 2003	For the six months ended June 30, 2002
Retained earnings (deficit), beginning of period as previously reported	**$ (49,284)**	$ (85,711)	**$ (50,195)**	$ (97,463)
Impact of transitional goodwill impairment charge		(99,513)		(99,513)
Opening retained earnings (deficit), as restated	**(49,284)**	(185,224)	**(50,195)**	(196,976)
Net income for the period	**12,246**	128,344	**13,580**	140,479
	(37,038)	(56,880)	**(36,615)**	(56,497)
Allocation to other paid-in capital, net of income tax recovery	**(423)**	(383)	**(846)**	(766)
Retained earnings (deficit), end of period	**$ (37,461)**	$ (57,263)	**$ (37,461)**	$ (57,263)

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

Consolidated Interim Statements of Operations

(in thousands of Canadian dollars, except per share amounts) (unaudited)

	For the three months ended June 30, 2003	For the three months ended June 30, 2002	For the six months ended June 30, 2003	For the six months ended June 30, 2002
Sales	**$ 186,960**	$ 220,972	**$ 396,718**	$ 492,277
Cost of sales	**96,769**	116,959	**206,311**	255,958
Gross profit	**90,191**	104,013	**190,407**	236,319

Operating expenses	**81,954**	90,115	**169,135**	192,516
Operating income before other income (charges)	**8,237**	13,898	**21,272**	43,803
Other income (charges)				
Net gain on asset dispositions and other charges (Note 5)	**21,840**	147,507	**21,84**	