

MAMMA COM INC  
Form 20-F/A  
May 12, 2006

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SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

**FORM 20-F/A**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE  
SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE  
FISCAL YEAR ENDED DECEMBER 31, 2005

OR

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

**0-17164**

(Commission file number)

**MAMMA.COM INC.**

(Exact name of registrant as specified in its charter)

(FORMERLY INTASYS CORPORATION)

**PROVINCE OF ONTARIO (CANADA)**

(Jurisdiction of incorporation or organization)

**388 St. Jacques Street West, 9th Floor  
Montreal, Quebec  
Canada, H2Y 1S1**

(Address of principal executive offices)

**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

None

**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

Common Shares, no par value  
(Title of Class)

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

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Indicate the number of outstanding shares of each of the issuer's classes of capital or Common Shares, as of March 15, 2006:

14,340,864 Common Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Act

Yes \_\_\_ No X

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No \_\_\_

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerate filer" in Rule 12b of the Exchange Act. (Check one):

Large Accelerated Filer \_\_\_ Accelerated Filer \_\_\_ Non-Accelerated Filer X

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 X Item 18 \_\_\_

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes \_\_\_ No X

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

NOT APPLICABLE.

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#### EXPLANATORY NOTE

This Form 20-F/A is being filed by Mamma.com Inc. (the "Company") as Amendment No. 1 to its Annual Report on Form 20-F filed on March 31, 2006 (the "Form 20-F"). The purpose of this Amendment No. 1 is (i) to amend and restate the information concerning bonuses in the Summary Compensation Table and narrative description in Item 6 to report bonuses earned, as opposed to bonuses paid, in the applicable fiscal years; (ii) to amend the information under the subheading "Statement of Corporate Governance Practices" in Item 6 to include certain additional disclosures regarding corporate governance practices relative to Ontario that will be contained in the Company's Management Information Circular pertaining to its Annual and Special Meeting of Shareholders for 2006; (iii) to amend information under the subheading "Compensation of the President and Chief Executive Officer" in Item 6 to clarify that the bonus paid to the Company's President and Chief Executive Officer in 2005,

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which was U.S. \$157,484 at applicable 2004 exchange rates, was based on the Company's 2004 results rather than its 2005 activities, and correctly indicate that the maximum bonus available to the President and Chief Executive Officer is 96% rather than 95% of salary; (iv) to amend the language in the Report of the Executive Compensation Committee in Item 6 to describe the issuance of options to Joel Lamantia and Patrick Hopf; and (v) to correct a typographical error by the Company's Edgar filing agent made while converting the Form 20-F to Edgar format that omitted to set forth in the Company's Consolidated Statements of Operations in Item 17 of the Form 20-F the Company's basic and diluted net earnings (loss) per share from continuing operations of (0.27) in 2005. This Form 20-F/A does not change the other disclosures set forth in the Form 20-F as originally filed and, except as expressly indicated herein, does not reflect events occurring after, or provide information subsequent to, the original filing date of the Form 20-F. Please read our Exchange Act Reports filed with or furnished to the Securities and Exchange Commission since the date of the Form 20-F, which update and supersede information contained in the Form 20-F and this Amendment No. 1.

### PART 1

#### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

##### *DIRECTORS AND SENIOR MANAGEMENT*

Following is a table, which discloses the names, functions, areas of expertise within the Company and present principal occupation(s) of the Company's directors and senior management.

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Name	Functions and areas of experience within the Company	Present Principal Occupation(s)	Date first elected Director or appointed Senior Officer of the Company
<b>Guy Fauré</b>	Director and Officer	President & CEO, Mamma.com Inc.	May 23, 2002
<b>Claude E. Forget</b>	Director	Consultant Formerly CEO, Intasys Billing Technologies	October 11, 1999
<b>David Goldman</b>	Director and Officer	Executive Chairman, Mamma.com Inc.	May 24, 2001
<b>Irwin Kramer</b>	Director	President, iCongo, Inc.	May 24, 2001
<b>Dr. David Schwartz</b>	Director	Associate Professor, Bar Ilan University School of Business Administration	May 23, 2002
<b>Daniel Bertrand</b>	Officer	Executive Vice-President and Chief Financial Officer Mamma.com Inc.	July 8, 1999
<b>Martin Bouchard</b>	Officer	Executive Vice-President, Chief Strategist and Technology Officer	December 22, 2005
<b>Patrick Hopf</b>	Officer	Vice-President-Business Development Mamma.com Inc.	January 12, 2004
<b>Joel Lamantia</b>	Officer	Vice-President-Operations Mamma.com Inc.	January 12, 2004
<b>Eric Bouchard</b>	Officer	Vice-President-Products	December 22, 2005

Each Director's term of office expires at the earliest of the next annual meeting of shareholders or his resignation as Director.

With the exception of Martin Bouchard and Eric Bouchard who are brothers, to the knowledge of the Company, there is no family relationship among any of the persons named in this Item 6 nor were any such persons selected as directors or members of senior management pursuant to any arrangement or understanding with major shareholders, customers, suppliers or others.

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#### **STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

The directors of the Company strongly believe that sound corporate governance is essential to produce maximum value to shareholders. The following is a summary of the governance practices of the Company:

On August 1, 2002 the Board of Directors approved and adopted a document entitled "Responsibilities of the Board of Directors and its Audit and Finance Committee and its Nominating, Human Resource and Governance Committee" which set forth the responsibilities for the Board and these two committees. This document was revised and approved by the Board of Directors on March 29, 2006. It was prepared in response to certain corporate governance concerns. This document includes the Company's insider trading policy and code of ethics. In accordance with the policies and guidelines outlined in this document, the Board of Directors constantly strives to promote a culture of ethical conduct in an effort to meet the highest industry standards. All decisions are carefully considered from this point of view and the Board does not act until all factors have been adequately considered. This approach is demanded of management and, to a relevant degree, all employees of the Company.

##### 1. Composition of the Board of Directors

More than fifty percent of the directors of the Company are "unrelated" directors. An unrelated director is independent of management and free of any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interest of the Company, as required by the standards of the NASDAQ Stock Market and the Ontario Securities Commission. The directors consider the following nominees to be unrelated to the Company: Claude E. Forget, Irwin Kramer, Dr. David Schwartz and W. Brian Edwards. Unrelated directors meet regularly through in camera sessions conducted after or during each meeting of the Board. The Chairman of the Board of Directors is David Goldman, who is not an unrelated director. The Board feels strongly that Mr. Goldman's abilities and role in the Company make him best suited to this position. The Board will continue to consider whether or not the position of Chairman should be occupied by an unrelated director and, if circumstances change, will take action to adjust the composition of the Board accordingly.

In an effort to ensure that the Board of Directors is performing adequately, the Nominating, Human Resource and Governance Committee regularly assesses the performance of the Board, committees of the Board and each director and, if necessary, makes appropriate recommendations. The Board is kept well apprised of all activities at the Company and, as resources allow, the Company will provide each director with opportunities to advance their skills as relevant to their role on the Board. New directors are carefully integrated and briefed on the ongoing business of the Company and any relevant history.

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##### 2. Committees of Directors

#### **Composition of the Audit and Finance Committee**

As at the date hereof, the members of the Audit and Finance Committee are Irwin Kramer, David Schwartz and Claude Forget. On March 29, 2006, the Board approved a new Charter. The Charter provides that the Audit and Finance Committee shall assist the Board in fulfilling its responsibilities relating to corporate accounting and reporting practices of the Company and in the quality and integrity of financial reports of the Company. The Audit and Finance Committee meets with the financial officers of the Company, including the Chief Financial Officer, who reports to the Chairman of the Audit Committee, and the independent auditors to review financial reporting matters, the system of internal accounting controls and the overall audit plan and examines the quarterly and year-end financial statements before their presentation to the Board. In addition the Audit Committee fixes the compensation and other terms of engagement of the Company's independent auditors. In 2005, the Audit and Finance Committee met 8 times and the Company's independent auditors were present at 6 of them.

***Composition of the Nominating, Human Resource and Governance Committee***

The Company maintains a Nominating, Human Resource and Governance Committee, which is responsible for overseeing and making recommendations to the Board on various matters including the following:

- (i) the search for and compensation of all senior executives and management of the Company and its subsidiaries, including periodic review of same;
- (ii) the Company's management structure and succession plans;
- (iii) the incentive plans for employees of the Company and its subsidiaries;
- (iv) the Company's Stock Option Plan and the granting of stock options thereunder;
- (v) the recommendation of new candidates as potential directors of the Company and the assessment of the performance of current directors and committees; and
- (vi) the review and recommendation of procedures to be followed with respect to corporate governance guidelines.

From January 1, 2005 to August 17, 2005, the members of the Nominating, Human Resource and Governance Committee, were David Goldman, Claude Forget, Irwin Kramer and David Schwartz. David Goldman who is Executive Chairman of the Company, resigned from this Committee on August 17, 2005. During 2000 up to October 2, 2001, Claude Forget was Chief Executive Officer of Intasys Billing Technologies, a subsidiary of the Company, whose business was subsequently sold.

As part of its ongoing review of corporate governance matters, on March 29, 2006 the Company's Board of Directors approved a Charter constituting a Compensation Committee and a Nominating and Governance Committee to segregate the nominating and executive compensation functions into separate Charters as contemplated by the listing standards of the National Association of Securities Dealers. The Nominating, Human Resources and Governance Committee discharges the functions under each Charter. Copies of the Compensation Committee Charter and Nominating and Governance Committee Charter are attached as Exhibits 15.4 and 15.5 to this Annual Report on Form 20-F. Currently the Nominating, Human Resources and Governance Committee discharges the functions under each Charter.

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***Report on Executive Compensation***

As part of its ongoing dedication to creating shareholder value and promoting corporate success, the Compensation Committee establishes executive compensation in order to attract, retain and motivate key executives and to reward significant performance achievements.

Consistent with the Company's objectives, and in order to further align shareholder and executive interests, the Compensation Committee places emphasis on bonuses based on performance and granting of stock options in establishing executive compensation.

Consequently, the standard executive compensation package of the Company is composed of three major components: (i) base salary and benefits, (ii) short-term incentive compensation, (iii) retention compensation and (iv) long-term incentive compensation.

i) Salary and Benefits

Salary and benefits policies of the Company are determined by looking at similar businesses in the Internet sector and are targeted at the mid range in the industry, taking into account the economic trends, the Company's competitive position and performance and extraordinary contributions to the Company.

ii) Short-Term Incentive Compensation

The Company provides cash bonuses to those individuals of its senior management and its subsidiaries whose responsibilities and attainment of personal and Company objectives exceed established expectations, based on individual contributions, operating results, and financial performance. The amount of these payments are approved by the Compensation Committee and are based on specific goals in these areas. Compensation and target bonuses for each individual are set at the beginning of each year. At the end of the year the Compensation Committee determines the bonus for each executive based on the attainment of the performance measures and individual contributions.

For the year ending December 31, 2005, none of the operating and financial performance objectives were met, but officers were awarded bonuses for their individual contribution recognizing the extraordinary efforts they made during the year to respond to and overcome damage to the Company's business resulting from the SEC investigation and consolidated class action lawsuit.

In the case of Named Executive Officers, targeted incentive bonuses vary in proportion to base salary, depending primarily on the level of responsibility of the individual. Generally when operating results and financial performance objectives are exceeded bonuses are higher; when the objectives are not met the incentive bonuses are lower or nil depending on the circumstances and the individual's contribution to the Company.

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In making compensation decisions with respect to each of these components, the Compensation Committee considers external market data for executives. Towers Perrin was retained by the Chair of the Compensation Committee in the most recent fiscal year to assist with preparing information and providing advice on officer and Board of Director compensation arrangements. Materials prepared by Towers Perrin have been presented by the Chair to the Compensation Committee for review and decisions. Towers Perrin's scope of services in the fiscal year included providing advice and market data related to Board of Director and officer compensation arrangements, assisting with the design of special compensation programs, and other general executive compensation assistance. Towers Perrin does not provide any other services to the Company.

The Compensation Committee uses the compensation data from Towers Perrin as one of several factors in determining the appropriate levels of base salary, short-term and long-term incentives that fairly compensate the Company's executive officers.

In setting the compensation package for executives, the Compensation Committee balances consideration of base salary with short-term incentive compensation so that a significant proportion of executive officers' compensation is linked to objectives aligned with the interests of the Company's shareholders.

iii) Retention Compensation

In view of the current circumstances confronting the Company including the pending status of the SEC investigation, the securities class action lawsuit, and defection of several of the Company's Ad network sales employees to form a competing business, a retention compensation program was initiated. In April 2005, the Compensation Committee recommended and the Board resolved that Guy Fauré, Daniel Bertrand, Patrick Hopf and Joel Lamantia will receive a lump sum payment (the Award) equivalent to 70% of their base annual salaries at the end of the retention period. The end of the retention period will be the date of the 2006 Annual General Meeting (but not later than June 30, 2006). Awards are forfeited if the executive leaves voluntarily before the end of the retention period, or is terminated for cause.

iv) Long-Term Incentive Compensation

The long-term incentive component consists of the stock option plan of the Company which provides for the issuance of options to executive officers and other employees, directors or consultants to purchase common shares of the Company. The stock option plan of the Company is described below under the heading *Stock Option Plan*.

The Compensation Committee determine the executives, employees and directors eligible for the granting of options pursuant to the stock option plan. It also determines the size of each grant and the date on which each grant is to become effective. The exercise price of options granted may not be less than the market price of the Company's common shares as traded on the NASDAQ in U.S. dollars determined as of the date the options are granted. The number of options granted annually to recipients is determined on a discretionary basis.

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The Compensation Committee may, in its discretion, determine when the options granted under the stock option plan may be exercised or vested, provided that the term of such options can not exceed ten (10) years.

Unless otherwise stipulated by the terms of a stock option grant, which terms are approved by the Compensation Committee, options granted pursuant to the stock option plan will lapse thirty (30) days after the holders ceases to be employed by the Company. In the event of death, any vested option of a holder lapses three (3) months after his or her death. In the event that the holder's employment terminates due to disability, the holder may exercise the vested options for one (1) year after the date of termination of employment. If the holder is terminated for cause, vested options terminate immediately.

In 2005, grants of options to named Executive Officers were made in favour of Mr. Goldman, Mr. Fauré, Mr. Bertrand, Mr. Hopf and Mr. Lamantia. During the first quarter of 2005, Messrs Goldman, Fauré, and Bertrand also voluntarily surrendered their entitlement to options granted on November 2, 2004 and these options were cancelled.

### *Compensation of the President and Chief Executive Officer*

Prior to January 12, 2004, the Chairman and Chief Executive Officer of the Company was David Goldman who is now the Company's Executive Chairman. On January 12, 2004, Guy Fauré was appointed President and Chief Executive Officer of the Company. On August 12th, 2004, the Company amended the employment arrangement of the President and Chief Executive Officer. As a result, should there be a change of control in the Company, Guy Fauré will be entitled to a lump sum payment equal to 200% of his annual base salary if he:

- (i) is terminated;
- (ii) does not accept a relocation outside of the greater Montreal area;
- (iii) does not accept an offer of employment with reduced levels of responsibility; or
- (iv) does not accept an offer of compensation (including performance/incentive plan targets and long-term compensation) which is less than his current level.

The President and Chief Executive Officer's compensation is considered and determined by the Compensation Committee. The President and Chief Executive Officer does not participate in the Committee's decisions relating to his Compensation.

The aggregate compensation of the President and Chief Executive Officer consists of three components: base salary, annual cash bonus and equity incentives. The Committee strives to balance the compensation among these three components to stay competitive in the market and align the compensation with shareholder interests.

In 2005, Mr. Fauré's base salary was \$199,520 US and he received a bonus of \$157,484 US based upon 2004 results and related criteria. In 2006 Mr. Fauré was paid a bonus of \$49,573 US based upon individual contribution and extraordinary efforts during 2005 in overcoming the negative effect on the Company's business resulting from an SEC investigation, class action lawsuit and the defection of several of the Company's Ad network sales force to a competing business. In 2005, he also received taxable benefits of \$3,980 US. In establishing Mr. Fauré's salary, the Compensation Committee assesses his overall contribution as well as the publicly disclosed compensation of chief executive officers of companies in the Internet sector, taking into account the factors described above under Salary and Benefits.

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### *Conclusion*

The Company's executive compensation policy links executive compensation to corporate results and individual contribution, as well as stock performance and long-term results. The Compensation Committee regularly reviews the various executive compensation components to ensure that they maintain their competitiveness in the industry and continue to focus on the Company's objectives, values and business strategies.

Depending on specific circumstances, the Compensation Committee may also recommend employment terms and conditions that deviate from the above-described policies. The members of the Compensation Committee are:

Claude Forget  
 Irwin Kramer  
 David Schwartz

### Statement of Executive Compensation

The following summary table, presented in accordance with applicable securities legislation, sets forth all compensation provided by the Company and its affiliates for the fiscal years ended December 31, 2003, 2004 and 2005 to:

- (i) the Chief Executive Officer;
- (ii) the Chief Financial Officer;
- (iii) each of the Company's three most highly compensated executive officers, other than the Chief Executive Officer and the Chief Financial Officer, who were serving as executive officers at the end of December 31, 2005 and whose total salary and bonus exceeded CA\$150,000, and
- (iv) such other individuals for whom the foregoing disclosure would have been made but for the fact that such individual was not an officer of the Company at the end of December 31, 2005, (collectively, the Named Executive Officers).

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### Summary Compensation Table

Compensation is payable in Canadian dollars and converted by using the yearly average U.S. exchange rate.

Name and Principal Occupation	Year	Annual Compensation		
		Salary U.S.\$	Bonus <sup>(1)</sup> U.S.\$	Other Annual Compensation U.S. \$ (Taxable Benefits Related to Exercised Options and Other)
<b>Guy Fauré</b> President & CEO	2005	199,520	49,573	3,980
	2004	167,083	157,484	496,295
	2003	146,840	136,811	42,825
<b>David Goldman<sup>(2)</sup></b> Executive Chairman	2005	Nil	Nil	Nil
	2004	Nil	Nil	718,352
	2003	Nil	Nil	67,125
<b>Daniel Bertrand</b> Executive Vice-President and Chief Financial Officer	2005	136,040	57,835	3,990
	2004	119,841	77,168	172,128
	2003	100,281	49,768	49,600
<b>Patrick Hopf</b> VP of Business Development	2005	107,016	16,524	1,660
	2004	94,689	53,503	99,261

- (1) Represents bonuses earned during the relevant fiscal year. Summary compensation tables in past management information circulars have reported bonuses actually paid in the relevant fiscal year. Going forward management has determined that bonuses will be reported by period earned although actually paid in the next fiscal year.



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- (2) David Goldman receives compensation indirectly through a consulting agreement between the Company and Dave Goldman Advisors Ltd. See Management Contracts .

Annual compensation is paid in Canadian dollars and converted at the applicable exchange rates. Exchange rate conversions were 0.71629 in 2003, 0.77014 in 2004 and 0.82622 in 2005.

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Name and Principal Occupation	Year	Long Term Compensation			All Other Compensation
		Awards	Payouts	U.S. \$	
		Securities Under Options #	Shares or Units Subject to Resale Restrictions (\$)	LTIP Payouts \$	
<b>Guy Fauré</b> President & CEO	2005	176,500	Nil	Nil	Nil
	2004	75,000 <sup>(3)</sup>	Nil	Nil	Nil
	2003	69,000	Nil	Nil	Nil
<b>David Goldman</b> Executive Chairman	2005	75,000	Nil	Nil	173,859 <sup>(1)</sup>
	2004	75,000 <sup>(3)</sup>	Nil	Nil	159,573 <sup>(1)</sup>
	2003	54,000	Nil	Nil	130,222 <sup>(1)</sup>
<b>Daniel Bertrand</b> Executive Vice-President and Chief Financial Officer	2005	87,500	Nil	Nil	Nil
	2004	50,000 <sup>(3)</sup>	Nil	Nil	Nil
	2003	39,000	Nil	Nil	Nil
<b>Patrick Hopf<sup>(2)</sup></b> VP of Business Development	2005	46,800	Nil	Nil	Nil
	2004	Nil	Nil	Nil	Nil

- (1) The Company and Dave Goldman Advisors Ltd., a company controlled by Mr. Goldman, entered into a consulting agreement pursuant to which David Goldman provides his services to the Company. In addition, as part of the compensation paid to David Goldman, the Company agreed to grant him options under the Company's stock option plan.
- (2) Appointed officer of the Company in January 2004.
- (3) In February 2005, David Goldman, Guy Fauré and Daniel Bertrand voluntarily surrendered their entitlement to options granted on November 2, 2004 (expiring November 2, 2009) and the options were cancelled.

**Employment Agreements and Change of Control Provisions**

The Company has entered into employment arrangements and agreements with the following Named Executive Officers who remain in the employment of the Company. All sums mentioned herein are in U.S. Dollars.

On July 8, 1999, Daniel Bertrand, Executive Vice-President and Chief Financial Officer of the Company entered into an employment agreement with the Company. Pursuant to the terms and conditions of his employment agreement, for the year 2006 Mr. Bertrand is paid an annual salary

of CA\$174,000. Mr. Bertrand is also entitled to a bonus ranging from a minimum of 20% of his base salary for meeting minimum financial and individual performance levels, to a maximum of 60% for far exceeding expected performance levels. Mr. Bertrand is also entitled to receive stock options under the Company's stock option plan.

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On August 12, 2004, the Company amended the employment arrangement of the Executive Vice-President and Chief Financial Officer. As a result, if there is a change of control of the Company, Mr. Bertrand will receive a lump sum payment equal to the greater of the past 18 months salary payments, or CA\$225,000 if he:

- (i) is terminated;
- (ii) does not accept a relocation outside of the greater Montreal area;
- (iii) does not accept an offer of employment at reduced levels of responsibility; or
- (iv) does not accept an offer of compensation (including performance/incentive plan targets and long-term compensation) which is less than his current level.

On September 10, 2001, Guy Fauré, entered into an employment agreement with Mamma.com Enterprises Inc. Pursuant to the terms and conditions of this employment agreement, for the year 2006 Mr. Fauré is entitled to an annual salary of CA\$255,000 and an annual bonus ranging from a minimum of 35% of base salary for meeting minimum financial and individual performance levels, to a maximum of 96% for far exceeding expected performance levels. Mr. Fauré is also entitled to receive stock options under the Company's stock option plan.

On August 12, 2004, the Company amended the employment arrangement of the President and Chief Executive Officer. As a result, if there is a change of control of the Company, Guy Fauré will be entitled to a lump sum payment equal to two times his annual base salary if he:

- (i) is terminated;
- (ii) does not accept a relocation outside of the greater Montreal area;
- (iii) does not accept an offer of employment at reduced levels of responsibility; or
- (iv) does not accept an offer of compensation (including performance/incentive plan targets and long-term compensation) which is less than his current level.

David Goldman was Chairman and CEO of the Company until January 12, 2004 when he became the Executive Chairman of the Company. During the year ended 2003, Mr. Goldman was not paid any salary or benefits by the Company but rather was rewarded solely through the granting of stock options which are awarded at the discretion of the Nominating, Human Resource and Governance Committee. This position was not considered as a full time position and therefore the level of this award was based solely on the overall achievements and performance of the Company.

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The Company has a consulting agreement with David Goldman through Dave Goldman Advisors Ltd. for consulting services rendered. This Company was remunerated for services rendered on an hourly rate of CA\$250. These consulting arrangements may be terminated on sixty (60) days notice by either party.

On August 12, 2004, the Company amended the employment arrangement of the Executive Chairman. As a result, if there is change of control of the Company, Dave Goldman Advisors Inc. will receive a lump sum payment equal to the greater of the past 24 months consulting payments or CA\$300,000 if Mr. Goldman:

- (i) is terminated;
- (ii) does not accept a relocation outside of the greater Montreal area;

- (iii) does not accept an offer of employment with reduced levels of responsibility; or
- (iv) does not accept an offer of compensation (including performance/incentive plan targets and long-term compensation) which is less than his current level.

There are no service contracts in place between the directors of the Company and the Company or any of its subsidiaries, save and except for the agreements between the Company and Dave Goldman Advisors Ltd., pursuant to which David Goldman, the Executive Chairman of the Company, provides his services to the Company.

Following the completion of the Copernic acquisition, Martin Bouchard and Eric Bouchard became officers of the Company. Martin Bouchard, who is the Company's Executive Vice-President, Chief Strategist and Technology Officer, is paid for the year 2006 an annual salary of CA\$200,000 and is also entitled to a target bonus of 50% of base salary for meeting targeted financial performance ranging from a minimum of 25% of base salary at minimal acceptable financial performance and operating results levels, to a maximum of 75% for far exceeding targeted performance levels. Similarly, Eric Bouchard, who is the Company's Vice-President-Products, is paid for the year 2006 an annual salary of CA\$170,000 and is also entitled to a target bonus of 40% of base salary ranging from a minimum of 20% of base salary for meeting minimum acceptable performance levels to a maximum of 60% for far exceeding targeted performance levels. Consistent with its executive compensation practices, the Compensation Committee will also take into account the individual contributions of Martin Bouchard and Eric Bouchard to the Company's business in determining the total bonus paid to either of them

**Stock Option Plan**

In 1999, the Company adopted a new stock option plan (the Plan), replacing all previous stock option plans of the Company, to provide eligible officers, directors, employees and consultants of the Company and its subsidiaries compensation opportunities that will encourage share ownership and enhance the Company's ability to attract, retain and motivate such persons and reward significant performance achievements. Options under the Plan may not be granted with a term exceeding 10 years. The exercise price of the options may not be less than the market price of the Company's common shares determined as of the date the options were granted. Unless the Board determines otherwise, options granted under the Plan are exercisable within 30 days after an optionee ceases to be employed or retained by the Company (other than for reason of cause in which event they terminate immediately, death in which event they are exercisable within 3 months and disability in which event they are exercisable within one year).

The Plan, which was approved by shareholders on June 30, 1999, and subsequently amended as approved by shareholders on June 20, 2000 and May 23, 2002, provides that the aggregate number of common shares reserved for issuance under the Plan shall not exceed 1,000,000 common shares. The granting of options is subject to the further conditions that: (i) the number of outstanding common shares of the Company reserved for options to optionees or issued to optionees within any one year period shall not exceed 15% of the outstanding common shares of the Company, and (ii) at no time may any optionee hold more than 5% of the outstanding common shares of the Company under option.

The current 1 million share maximum was approved at the 2002 AGM and Special Annual Meeting when there were 4,058,858 shares issued. As there are now 14,340,800 shares issued, the Company's Compensation Committee has recommended and the Board has approved for submission to the Company's stockholders at the 2006 Annual General Meeting an amendment to the Stock Option Plan to increase the aggregate maximum number of shares reserved for issuance under the Plan to 1,400,000, an amount less than 10% of the Company's issued and outstanding shares of Common Stock.

The following table discloses individual grants of options to the Named Executive Officers to purchase or acquire common shares of the Company pursuant to the Plan for the financial year ended December 31, 2005.

**Option Grants During the Most Recently Completed Financial Year**

Names	Securities Under	% of Total Options	Average Exercise or Base	Average Market Value of	Expiration Date
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	Options Granted (#)	Granted in Financial Year	Price (U.S. \$/Security)	Securities Underlying Options on the Date of Grant (U.S.\$/Security)	
<b>David Goldman</b>	75,000	14.3	2.28	2.28	November 8, 2010
<b>Guy Fauré</b>	26,500 150,000	5.0 28.6	6.28 2.28	6.28 2.28	February 15, 2012 November 8, 2010
<b>Daniel Bertrand</b>	12,500 75,000	2.4 14.3	6.28 2.28	6.28 2.28	February 15, 2012 November 8, 2010
<b>Patrick Hopf</b>	6,800 40,000	1.3 7.6	6.28 2.28	6.28 2.28	February 15, 2012 November 8, 2010
<b>Joel Lamantia</b>	4,700 15,000	0.9 2.9	6.28 2.28	6.28 2.28	February 15, 2012 November 8, 2010

In February 2005, David Goldman, Guy Fauré and Daniel Bertrand voluntarily surrendered their entitlement to options granted on November 2, 2004 (expiring November 2, 2009) and the options were cancelled. The following table discloses the exercise of options to purchase or acquire common shares of the Company by the Named Executive Officers during the financial year ended December 31, 2005.

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*Aggregate Options Exercised During the Most Recently Completed Financial Year and Financial Year-end Option Values*

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (U.S. \$)	Unexercised Options at FY-End (#)Exercisable/Unexercisable	Value of Unexercised in-the-Money Options at FY-End (U.S. \$) Exercisable/Unexercisable
<b>David Goldman</b>	Nil	Nil	27,000 / 92,000	3,555 / 13,500
<b>Guy Fauré</b>	Nil	Nil	38,667 / 199,333	3,555 / 27,000
<b>Daniel Bertrand</b>	Nil	Nil	18,667 / 97,833	2,370 / 13,500
<b>Patrick Hopf</b>	Nil	Nil	9,084 / 50,050	4,286 / 7,200
<b>Joel Lamantia</b>	Nil	Nil	4,750 / 21,950	1,185 / 2,700

**Option and SAR Repricing**

No options were repriced during the year ended December 31, 2005

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*Securities Under Option to Directors and Named Executive Officers as at December 31, 2005*

Names	Securities Under Options Granted (#)	Exercise or Base Price (US\$/Security)	Market Value of Securities Underlying Options on the Date of Grant (US\$/Security)	Expiration Date
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<b>Names</b>	<b>Securities Under Options Granted (#)</b>	<b>Exercise or Base Price (US\$/Security)</b>	<b>Market Value of Securities Underlying Options on the Date of Grant (US\$/Security)</b>	<b>Expiration Date</b>
<b>Daniel Bertrand</b>	10,000	2.57	2.57	4/30/2013
<b>Daniel Bertrand</b>	5,000	1.99	1.99	1/16/2013
<b>Daniel Bertrand</b>	12,500	6.28	6.28	2/15/2012
<b>Daniel Bertrand</b>	75,000	2.28	2.28	11/8/2010
<b>Daniel Bertrand</b>	14,000	3.58	3.58	11/5/2010
<b>Guy Fauré</b>	25,000	2.57	2.57	4/30/2013
<b>Guy Fauré</b>	7,500	1.99	1.99	1/16/2013
<b>Guy Fauré</b>	26,500	6.28	6.28	2/15/2012
<b>Guy Fauré</b>	150,000	2.28	2.28	11/8/2010
<b>Guy Fauré</b>	29,000	3.58	3.58	11/5/2010
<b>Claude E. Forget</b>	25,000	2.28	2.28	11/18/2010
<b>David Goldman</b>	7,500	2.57	2.57	4/30/2013
<b>David Goldman</b>	7,500	1.99	1.99	1/16/2013
<b>David Goldman</b>	75,000	2.28	2.28	11/8/2010
<b>David Goldman</b>	29,000	3.58	3.58	11/5/2010
<b>Irwin Kramer</b>	25,000	2.28	2.28	11/8/2010
<b>David Schwartz</b>	25,000	2.28	2.28	11/8/2010
<b>Joel Lamantia</b>	2,500	1.99	1.99	1/16/2013
<b>Joel Lamantia</b>	4,700	6.28	6.28	2/15/2012
<b>Joel Lamantia</b>	15,000	2.28	2.28	11/8/2010
<b>Joel Lamantia</b>	4,500	3.58	3.58	11/5/2010
<b>Patrick Hopf</b>	2,500	1.99	1.99	1/16/2013
<b>Patrick Hopf</b>	6,800	6.28	6.28	2/15/2012
<b>Patrick Hopf</b>	40,000	2.28	2.28	11/8/2010
<b>Patrick Hopf</b>	6,500	3.58	3.58	11/5/2010

Names	Securities Under Options Granted (#)	Exercise or Base Price (US\$/Security)	Market Value of Securities Underlying Options on the Date of Grant (US\$/Security)	Expiration Date
Patrick Hopf	3,334	1.53	1.53	2/25/2009

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**Share Ownership**

The information with respect to shares beneficially owned, controlled or directed by directors of the Company or Named Executive Officers is in each instance based upon information furnished by the person concerned. The Company's articles of incorporation provide for Common Shares as the only authorized class of shares, all of which have the same rights. Options to acquire shares held by directors or Named Executive Officers, are listed in the above table entitled *Securities Under Option to Directors and Named Executive Officers* and not included in the information below. To the knowledge of the Company, the following directors and Named Executive Officers hold the following shares of the Company as at February 28, 2006.

Director/Named Executive Officer	Number of Company Shares Held	% of Total Number of Shares Outstanding
Guy Fauré, President & CEO, Director Mamma.com Inc.	3,500	0.02%
Claude E. Forget, Director	30,000	0.21%
David Goldman, Executive Chairman, Director Mamma.com Inc.	75,000	0.52%
Irwin Kramer, Director	2,000	0.01%
Dr. David Schwartz, Director	7,000	0.05%
Martin Bouchard, Executive Vice-President, Chief Strategist and Technology Officer	669,706	4.67%
Daniel Bertrand, Executive Vice-President and Chief Financial Officer Mamma.com Inc.	Nil	Nil
Patrick Hopf, Vice-President-Business Development Mamma.com Inc.	Nil	Nil
Eric Bouchard, Vice-President-Products	334,853	2.33%

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**Employees**

The following table provides a breakdown of persons employed by main category of activity for each of the past five financial years.

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**Number of Employees by Category of Activity**


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<b>Year</b>	<b>Mamma.com Inc.</b>	<b>Copernic Technologies Inc.</b>	<b>Discontinued Operations (IBT and Digital Arrow)</b>
2005	39	36	0
2004	53	--	12
2003	37	--	65
2002	43	--	79
2001	40	--	84

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***Pension and Retirement Benefits***

The Company does not set aside nor accrue any amounts to provide pension, retirement or similar benefits. Copernic has a Structured Group Registered Retirement Savings Plan which manages the employees' contribution to a maximum of 2% of their base salaries. Copernic matches the employees' contribution through a Deferred Profit Sharing Plan.

***Compensation of Directors***

During the fiscal year ended December 31, 2005, directors were each paid \$6,250 quarterly. Effective April 1, 2005 the Chair of the Board received \$12,500/annum and the Chair of the Audit Committee received a payment of \$10,000/annum and the Chair of the Compensation and the Nominating, and Governance Committees received a payment of \$5,000/annum. The directors received a combined fee of \$1,000 for attending board and committee meetings on the same day and members of the Audit, Compensation and Nominating and Governance committees receive a \$1,000 payment if a committee meeting is held on a day other than the day of a Board meeting and, if a board or committee meetings is held via teleconference, directors received a payment of \$500.

Robert Raich was a director of the Company until March 11, 2005 and is a partner of Spiegel Sohmer, a general partnership of attorneys. In 2005, Spiegel Sohmer billed the Company for the amount of \$233,134 for legal services and other expenses.

***Directors and Officers Insurance***

The Company has purchased liability insurance covering each director and officer of the Company. The present insurance policy provides coverage for the directors, officers and the Company for liability up to \$10,000,000 and expires on March 28, 2007. In addition to this coverage, a supplemental \$5,000,000 policy was subscribed for directors and officers on March 28, 2006 effective for twelve months.

***Indebtedness of Directors and Officers***

During the most recently completed financial year, none of the directors and executive officers of the Company and none of the management nominees for election as a director nor any associate of the foregoing is, or was at any time since the beginning of the most recently completed financial year, indebted to the Company or any of its subsidiaries.

**ITEM 17. FINANCIAL STATEMENTS**

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These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ( Canadian GAAP ). There are certain measurement differences between Canadian GAAP and U.S. GAAP. Differences which relate to the Company are summarized in note 26 to our consolidated financial statements.

**RSM Richter S.E.N.C.R.L./LLP**  
**Comptables agréés**  
**Chartered Accountants**

2, Place Alexis Nihon  
Montréal (Quebec) H3Z 3C2  
Téléphone: / Telephone : (514) 934-3400  
Télécopieur / Facsimile : (514) 934-3408  
www.rsmrichter.com

### *Independent Registered Public Accounting Firms Reports*

To the Shareholders and Board of Directors of Mamma.com Inc.

We have audited the accompanying consolidated balance sheets of Mamma.com Inc. as at December 31, 2005 and 2004 and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Montreal, Canada

March 15, 2006, except for note 27 which is dated March 28, 2006

RSM Richter S.E.N.C.R.L. est un cabinet indépendant membre de RSM Richter LLP is an independent member firm of RSM  
RSM International, association de cabinets indépendants d'expertise consulting firms.  
comptable  
et de services conseils.

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## **Mamma.com Inc**



Consolidated Balance Sheets  
As at December 31, 2005 and 2004

(Expressed in U.S. dollars)	2005	2004
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,501,201	20,609,089
Restricted cash (note 5)	-	148,000
Temporary investments (note 7)	4,013,312	6,874,155
Accounts receivable (note 8)	2,623,940	2,502,535
Income taxes receivable	606,226	120,590
Prepaid expenses	295,288	129,390
Future income taxes (note 20)	33,505	-
Current assets of discontinued operations (note 5)	9,694	274,770
	12,083,166	30,658,529
<b>Future income taxes</b> (note 20)	13,483	-
<b>Income tax credit</b>	54,912	-
<b>Assets of discontinued operations</b> (note 5)	-	1,882,857
<b>Investments</b> (note 9)	720,000	720,000
<b>Property, plant and equipment</b> (note 10)	598,758	304,624
<b>Intangible assets</b> (note 11)	8,601,848	753,778
<b>Goodwill</b> (note 11)	16,255,031	846,310
	38,327,198	35,166,098
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 12)	2,690,943	2,244,958
Deferred revenue	249,953	233,459
Income tax payable	8,062	-
Liabilities of discontinued operations (note 5)	189,223	652,109
	3,138,181	3,130,526
<b>Future income taxes</b> (note 20)	2,672,036	-
<b>Contingencies and commitments</b> (note 24)		
<b>Shareholders Equity</b>		
<b>Capital stock</b> (note 13)		
Authorized		
Unlimited common shares, no par value		
Issued and outstanding		
14,340,864 common shares (2004-12,263,029)	95,298,234	90,496,088
<b>Additional paid-in capital</b> (note 14)	5,985,077	5,255,249
<b>Deferred stock-based compensation</b> (note 14)	(735,175)	(1,333,443)

Cumulative translation adjustment	370,369	360,884
Accumulated deficit	(68,401,524)	(62,743,206)
	32,516,981	32,035,572
	38,327,198	35,166,098

See accompanying notes.

Approved by the Board of Directors

/s/ David Goldman

David Goldman, Executive Chairman of the Board

/s/ Irwin Kramer

Irwin Kramer, Director and Chair of the Audit Committee

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## Mamma.com Inc

Consolidated Statements of Operations  
For the years ended December 31

(Expressed in U.S. dollars)	2005	2004	2003
	\$	\$	\$
<b>Revenues</b> (note 16)	9,464,560	14,636,318	8,938,863
<b>Cost of revenues</b> (note 17)	4,204,030	6,539,213	3,991,265
<b>Gross Margin</b>	5,260,530	8,097,105	4,947,598
<b>Expenses</b>			
Marketing, sales and services	2,023,925	2,188,488	1,600,643
General and administration	5,692,092	3,567,247	2,255,099
Product development and technical support (note 21)	1,286,345	891,541	599,383
Amortization of property, plant and equipment	106,788	133,123	140,090
Amortization of intangible assets	242,031	191,218	178,509
Realized gain on disposal of investment (note 9)	-	-	(32,499)
Write-down of investment (note 9)	-	365,286	-
Interest and other income	(768,738)	(233,506)	(15,869)
Loss on foreign exchange	47,080	68,275	210,888
	8,629,523	7,171,672	4,936,244

<b>Earnings (loss) from continuing operations before income taxes</b>	(3,368,993)	925,433	11,354
Provision for (recovery of) income taxes (note 20)	(26,010)	554,680	(77,636)
<b>Earnings (loss) from continuing operations</b>	(3,342,983)	370,753	88,990
<b>Results of discontinued operations, net of income taxes (note 5)</b>	(2,315,335)	733,654	(300,053)
<b>Net earnings (loss) for the year</b>	(5,658,318)	1,104,407	(211,063)
<b>Basic and diluted earnings (loss) per share from continuing operations</b>	(0.27)	0.03	0.01
<b>Basic and diluted earnings (loss) per share from discontinued operations</b>	(0.19)	0.07	(0.04)
<b>Basic and diluted net earnings (loss) per share</b>	(0.46)	0.10	(0.03)

See accompanying notes.

## Mamma.com Inc

### Consolidated Statements of Shareholders' Equity For the years ended December 31, 2005, 2004 and 2003

(Expressed in U.S. dollars)	Number of common shares	Common shares \$	Additional paid-in capital \$	Deferred stock-based compensation \$	Cumulative translation adjustment \$	Accumulated deficit \$
<b>Balance, December 31, 2002</b>	6,094,842	69,873,994	750,111	(10,667)	(275,693)	(63,636,550)
Effect of changes on shares and warrants						
issued for financial services	-	6,333	-	10,667	-	-
Warrants issued for financial services	-	-	84,566	-	-	-
Options granted	-	-	388,391	(376,171)	-	-
Amortization of deferred stock-based compensation	-	-	-	113,365	-	-
Options exercised	129,678	185,887	(12,220)	-	-	-
Warrants exercised	284,090	455,965	(44,034)	-	-	-
Translation adjustment for the year	-	-	-	-	717,257	-
Net loss for the year	-	-	-	-	-	(211,063)

<b>Balance, December 31, 2003</b>	6,508,610	70,522,179	1,166,814	(262,806)	441,564	(63,847,613)
Warrants issued for financial services	-	-	260,301	-	-	-
Options granted	-	-	1,378,787	(1,378,787)	-	-
Amortization of deferred stock-based compensation	-	-	-	301,944	-	-
Options exercised	255,561	483,593	(82,127)	-	-	-
Warrants exercised	3,892,878	6,430,500	(671,687)	-	-	-
Forfeited options	-	-	(18,967)	6,206	-	-
Shares issued for acquisition of Digital Arrow	90,000	740,782	-	-	-	-
Shares and warrants issued on private placement	1,515,980	13,158,329	3,441,652	-	-	-
Share issue cost	-	(839,295)	(219,524)	-	-	-
Translation adjustment for the year	-	-	-	-	(80,680)	-
Net earnings for the year	-	-	-	-	-	1,104,407
<b>Balance, December 31, 2004</b>	12,263,029	90,496,088	5,255,249	(1,333,443)	360,884	(62,743,206)
Redemption of common shares (note 13)	(304,665)	(2,248,302)	1,195,147	-	-	-
Options granted	-	-	994,908	(994,908)	-	-
Options exercised	2,500	10,408	(3,984)	-	-	-
Amortization of deferred stock-based compensation	-	-	-	136,933	-	-
Options forfeited	-	-	(1,456,243)	1,456,243	-	-
Shares issued for acquisition of Copernic (note 6)	2,380,000	7,040,040	-	-	-	-
Translation adjustment for the year	-	-	-	-	9,485	-
Net loss for the year	-	-	-	-	-	(5,658,318)
<b>Balance, December 31, 2005</b>	14,340,864	95,298,234	5,985,077	(735,175)	370,369	(68,401,524)

See accompanying notes.

## Mamma.com Inc

### Consolidated Statements of Cash Flows For the years ended December 31

(Expressed in U.S. dollars)

2005

2004

2003

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	\$	\$	\$
<b>Cash flows from (used for)</b>			
<b>Operating activities</b>			
Earnings (loss) from continuing operations	(3,342,983)	370,753	88,990
Adjustments for			
Amortization of property, plant and equipment	106,788	133,123	140,090
Amortization of intangible assets	242,031	191,218	178,509
Realized gain on disposal of property, plant and equipment	-	-	(455)
Realized gain on disposal of investment (note 9)	-	-	(32,499)
Employee stock-based compensation	136,933	281,367	94,654
Former Board member compensation paid by issuance of capital stock	-	-	12,220
Write-down of investment (note 9)	-	365,286	-
Financial fees paid by issuance of capital stock and warrants	-	260,301	101,566
Future income taxes	(13,964)	400,855	(77,636)
Income tax credits	-	81,505	(77,925)
Unrealized loss on foreign exchange	-	14,622	-
<b>Net change in non-cash working capital items (note 19)</b>	<b>1,420,013</b>	<b>(302,567)</b>	<b>(969,323)</b>
Cash from (used for) operating activities from continuing operations	(1,451,182)	1,796,463	(541,809)
Cash from (used for) operating activities from discontinued operations	(630,288)	(790,370)	479,852
	<b>(2,081,470)</b>	<b>1,006,093</b>	<b>(61,957)</b>
<b>Investing activities</b>			
Business acquisitions (note 6)	(15,851,922)	-	-
Purchase of intangible assets	(54,943)	(9,434)	(3,026)
Purchase of property, plant and equipment	(85,687)	(70,284)	(47,432)
Net decrease (increase) in temporary investments	2,860,843	(6,850,979)	(6,217)
Proceeds on disposal of investments	-	-	32,499
Proceeds on disposal of property, plant and equipment	-	-	1,199
Cash used for investing activities from continuing operations	(13,131,709)	(6,930,697)	(22,977)
Cash from (used for) investing activities from discontinued operations	-	434,975	(72,190)
	<b>(13,131,709)</b>	<b>(6,495,722)</b>	<b>(95,167)</b>
<b>Financing activities</b>			
Issuance of capital stock	6,424	22,760,261	585,598
Share issue costs	-	(1,058,819)	-
Redemption of common shares	(1,053,155)	-	-
	<b>(1,046,731)</b>	<b>21,701,442</b>	<b>585,598</b>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	<b>4,022</b>	<b>79,375</b>	<b>250,063</b>
<b>Net change in cash and cash equivalents and restricted cash during the</b>			

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year	(16,255,888)	16,291,188	678,537
<b>Cash and cash equivalents Beginning of year</b>	<b>20,757,089</b>	<b>4,465,901</b>	<b>3,787,364</b>
<b>Cash and cash equivalents and restricted cash End of year</b>	<b>4,501,201</b>	<b>20,757,089</b>	<b>4,465,901</b>
Cash and cash equivalents comprise:			
Cash	4,501,201	1,565,600	2,265,000
Short-term investments	-	19,043,489	2,200,901
Restricted cash	4,501,201	20,609,089	4,465,901
	-	148,000	-
	4,501,201	20,757,089	4,465,901
<b>Supplemental cash flow information</b>			
Cash paid for interest	16,097	673	328
Cash paid for income taxes	17,189	288,147	-

See accompanying notes.

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### 1 Nature of business

Mamma.com Inc. is a provider of search technology for both the Web and desktop space, delivered through its properties, www.mamma.com and www.copernic.com, respectively. The Company, through its Mamma Media Solutions brand, is also a provider of online marketing solutions to advertisers, providing keyword and graphic ad placement on its publisher network.

Mamma.com The Mother of All Search Engines® is a metasearch engine for the Internet; it makes it easier and faster for people to find information by gathering results from the Internet.

Through its Copernic Desktop Search product, Copernic Technologies Inc. ( Copernic ) develops cutting edge search solutions bringing the power of a sophisticated, yet easy-to-use search engine right to the user s PC. It allows for instant searching of files, emails, and email attachments stored anywhere on a PC hard drive.

### 2 Significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ( Canadian GAAP ). There are certain measurement differences between Canadian GAAP and United States generally accepted accounting principles ( U.S. GAAP ). Differences which relate to the Company are summarized in note 26.

#### a) Basis of presentation

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated on consolidation.

#### b) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles 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. Significant estimates in these financial statements include the allowance for doubtful accounts, recovery of future income taxes, goodwill and annual goodwill impairment test, useful lives and impairment of long-lived assets, stock-based compensation costs, valuation of investments, determination of the fair value of the intangible assets on recent acquisitions, determination of the fair value of the warrants issued on the private placement and the resulting impact on the

allocation of the proceeds between the shares and warrants. Actual results could differ from those estimates.

**c) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, bank balances available, and highly liquid investments with an initial term of three months or less that are stated at cost, which approximates market value.

**d) Temporary investments**

Temporary investments are valued at the lower of cost and market value.

**e) Income tax credits**

Income tax credits are accounted for using the cost reduction method. Under this method, tax credits relating to eligible expenditures are deducted from the cost of the related assets or included in the consolidated statements of operations as a reduction of the related expenses. Tax credits are recorded in the year in which the expenditures are incurred provided there is reasonable assurance of realization.

**f) Investments**

The Company has investments in equity instruments of privately-held companies. These investments are generally accounted for under the cost method, as the Company does not have the ability to exercise significant influence over operations. The Company records an investment impairment charge when it believes an investment has experienced a decline in value that is judged to be other than temporary. The Company monitors its investments for impairment by considering current factors including economic environment, market conditions and operational performance and other specific factors relating to the business underlying the investment, and records reductions in carrying values when necessary. The fair value for privately held securities is estimated using the best available information as of the valuation date, including the quoted market prices of comparable public companies, recent financing rounds of the investee and other investee specific information.

**g) Property, plant and equipment**

Property, plant and equipment are recorded at cost, less applicable tax credits and accumulated amortization. Amortization is calculated using the following methods and annual rates or period:

Computer equipment	Declining balance	30%
Furniture and fixtures	Declining balance	20%
Leasehold improvements	Straight-line	Duration of lease

**h) Intangible assets**

Intangible assets with finite useful lives are recorded at cost less accumulated amortization. The Company provides for the amortization of intangible assets over their estimated useful lives using the straight-line method at the following annual rates:

Trade names	14%	to	25%
Technology	20%	to	25%
Customer relationships	10%	to	33%
Software and patents	25%		

**i) Goodwill**

Goodwill represents the excess of purchase price of businesses acquired over the fair value of the underlying net identifiable assets acquired. Goodwill related to business combinations is not amortized.

Goodwill is evaluated for impairment annually, or when events or changed circumstances indicate impairment may have occurred. In connection with the goodwill impairment test, if the carrying value of the Company's reporting unit to which goodwill relates exceeds its estimated fair value, the goodwill related to that reporting unit is tested for

impairment. If the carrying value of such goodwill is determined to be in excess of its fair value, an impairment loss is recognized in the amount of the excess of the carrying value over the fair value.

**j) Impairment of long-lived assets**

The Company assesses the carrying value of its long-lived assets, which include property, plant and equipment and intangible assets, for future recoverability when events or changed circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized if the carrying value of a long-lived asset exceeds the sum of its estimated undiscounted future cash flows expected from its use. The amount of impairment loss, if any, is determined as the excess of the carrying value of the assets over their fair value.

**k) Revenue recognition**

The Company recognizes revenue from search advertising, graphic advertising services, sale of software and support services when the following criteria are satisfied:

- i) persuasive evidence of an arrangement exists;
- ii) service is performed;
- iii) the fee is fixed or determinable;
- iv) collectibility is reasonably assured.

Search service revenue is generated as users click on an advertiser's sponsored link, giving rise to direct revenue or a revenue share if the paid placement was provided by a third party provider (partner). Advertisers buy key words, and when these key words are searched by a user, the advertiser's website will be listed in a premium position in the search results. Advertisers are charged on a pay-per-click basis. Revenue from such clicks is recognized as the clicks occur, provided the above criteria are met.

Graphic advertising revenue is generated from advertising delivered on a Web page, at an agreed rate per thousand impressions delivered, or based on user clicks on displayed advertising graphic advertisement. Advertising includes different size banners, pop-ups and rich media which are targeted through the Company's network of publishers (members). The publisher network consists of small to medium size websites that subscribe to the Company's service through an on-line contract. Revenue from advertising arrangements is recognized as the impressions are delivered or as clicks on displayed graphic advertisement occur, provided the above criteria are met and that no significant Company obligations or commitments relating to a minimum number of impressions remain.

The majority of arrangements for all types of revenue have terms of less than one year and may be terminated at any time by the advertiser. In accordance with Emerging Issues Committee 123 Reporting Revenue Gross as a Principal versus Net as an Agent, search and graphic advertising derived from arrangements that involve services supplied by partners and members respectively is reported gross of the payment to them. This revenue is reported gross due to the fact that the Company is the primary obligor to the advertisers who are customers of the advertising service.

Support revenue is recognized on a straight-line basis over the term of the agreements.

Deferred revenue is recorded when payments are received in advance of the Company's performance in the underlying agreement on the accompanying consolidated balance sheets.

**l) Research and development costs**

Research costs are expensed as incurred. Development costs are also expensed as incurred unless such costs meet the criteria under generally accepted accounting principles for deferral and amortization. To qualify for deferral, the costs must relate to a technically feasible, identifiable product which the Company intends to produce and market, there must be a clearly defined market for the product, and the Company must have the resources, or access to the resources, necessary to complete the development. The Company has not deferred any such development costs during the years ended December 31, 2005 and 2004.



**m) Income taxes**

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based upon available information, it is more likely than not that some or all of the future income tax assets will not be realized.

**n) Foreign currency translation**

The functional and reporting currency of the Company is the U.S. dollar. The functional currency of the Company's subsidiaries is the local currency. Accordingly, the financial statements of the Company's subsidiaries, except for Copernic, have been translated into the reporting currency as follows: monetary assets and liabilities have been translated at the exchange rate in effect at the balance sheet date, non-monetary assets and liabilities have been translated at the historical exchange rate. Revenue and expenses have been translated at the average exchange rate for each year. All gains or losses resulting from the application of this translation method are included in net earnings (loss) for the year.

Copernic follows the current rate method of accounting for translation of foreign currency amounts into Canadian dollars. Under this method, all assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the exchange rate in effect at the time of the transaction. Exchange gains or losses resulting from translation are included in the cumulative translation adjustment. Changes in the cumulative translation adjustment during the year result solely from the application of this translation method.

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**o) Foreign currency transactions**

Transactions concluded in currencies other than the functional currency have been translated as follows: monetary assets and liabilities have been translated at the exchange rate in effect at the balance sheet date and revenue and expenses have been translated at the average exchange rate for each period; non-monetary assets and liabilities have been translated at the rates prevailing at the dates of the respective transactions. Exchange gains and losses arising from such transactions are included in net earnings (loss) for the year.

**p) Earnings (loss) per share**

Basic earnings (loss) per share are calculated using the weighted average number of shares outstanding during each of the years (note 15).

Diluted earnings (loss) per share are calculated based on the weighted average number of common shares outstanding in each of the years, plus the effects of dilutive common share equivalents, such as options and warrants outstanding. This method requires that the dilutive effect of outstanding options and warrants be calculated using the treasury stock method, as if all dilutive options and warrants had been exercised at the later of the beginning of the reporting period or date of issuance, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the year.

**q) Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**3 Change in accounting policies**

**a) For changes affecting 2003**

*Stock-based compensation and other stock-based payments*

During the fourth quarter of 2003, the Company adopted, retroactive to January 1, 2003, the fair value method of accounting for stock options granted to employees. Under this method, the fair value of options granted to employees is charged to expense over the future vesting period. In accordance with the transitional provisions of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", the Company has elected to apply this new method prospectively to options granted to employees on or after January 1, 2003. Consequently, prior period financial statements have not been restated; however, the Company continues to provide pro forma disclosures as if the fair value method of accounting had been applied retroactively.

*Impairment of long-lived assets*

CICA Handbook section 3063, *Impairment of Long-Lived Assets*, provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. It replaces the write-down provisions in Section 3061, *Property, Plant and Equipment*. The provisions of the Section require an impairment loss for a long-lived asset to be held and used to be recognized when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. The impairment loss is measured as the amount by which its carrying amount exceeds its fair value. The adoption of this section did not have a significant impact on the

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financial statements.

*Disposal of long-lived assets and discontinued operations*

CICA Handbook section 3475, *Disposal of Long-Lived Assets and Discontinued Operations*, provides guidance on recognizing, measuring, presenting and disclosing long-lived assets to be disposed of and replaces the disposal provisions in Section 3475, *Discontinued Operations* and Section 3061, *Property, Plant and Equipment*. The Section provides criteria for classifying assets as held for sale to be measured at the lower of carrying value and fair value less costs to sell, provides criteria for classifying a disposal as a discontinued operation and specifies presentation and disclosure for discontinued operations and other disposals of long-lived assets. The adoption of this section did not have a significant impact on the financial statements.

**b) For changes affecting 2004**

*Asset retirement obligations*

CICA Handbook section 3110, *Asset Retirement Obligations*, focuses on the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The adoption of this section did not have a significant impact on the financial statements.

**c) For changes affecting 2005 and future years**

*Consolidation of variable interest entities*

CICA Accounting Guideline 15, *Consolidation of Variable Interest Entities*, provides clarification on the consolidation of those entities defined as variable interest entities, when equity investors are not considered to have a controlling financial interest or they have not invested enough equity to allow the entity to finance its activities without additional subordinated financial support from other parties. Variable interest entities are commonly referred to as special purpose entities. The guideline comes into effect for interim periods beginning on or after November 1, 2004. The adoption of this section did not have a significant impact on the financial statements.

*Financial instruments*

On April 1, 2005, the CICA issued three new Handbook sections: Section 1530 *Comprehensive Income*, Section 3855 *Financial Instruments Recognition and Measurement*, and Section 3865 *Hedges*. These new sections apply to fiscal years beginning on or after October 1, 2006 with earlier adoption permitted as of the beginning of a fiscal year ending on or after December 31, 2004.

Section 3855 *Financial Instruments Recognition and Measurement* requires all financial instruments to be classified as either Held to Maturity, Loans and Receivables, Held for Trading, or Available for Sale. The Held to Maturity classification is restricted to fixed maturity instruments that the Company intends and is able to hold to maturity. Loans and Receivables and Held to Maturity investments are accounted for at amortized cost. Securities that are acquired for selling in the near term are classified as Held for Trading and are accounted for at fair value with realized and unrealized gains and losses reported in net income. The remaining financial instruments are classified

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as Available for Sale and are measured at fair value with unrealized gains and losses, not affecting income, but reported in a new category in Shareholders' equity called Other Comprehensive Income.

Section 3865 *Hedges* which replaces Accounting Guideline 13 *Hedging Relationships* requires that all derivatives, including hedges, be measured at fair value. Changes in the fair value of a derivative which hedges the Company's exposure that the fair value of an asset or liability will change due to a particular risk are recognized in net income together with those of the respective offsetting hedged item. However, changes in the fair value of a derivative which hedges the Company's exposure to changing cash flows are accumulated in Other Comprehensive Income until the transaction being hedged affects net income.

Section 1530 Other Comprehensive Income, a new category in the Shareholders' equity section, includes in addition to the items mentioned above, unrealized foreign currency translation gains and losses, net of hedging activities.

The Company will adopt these recommendations for its fiscal year 2007.

#### **4 Functional currency**

During the first quarter of fiscal 2004, the Company determined that the functional currency of its wholly owned subsidiary, Mamma.com Enterprises Inc., had clearly changed from the Canadian dollar to the U.S. dollar as at the beginning of the quarter. As a result of this change, which has been applied prospectively from January 1, 2004, transactions entered into by Mamma.com Enterprises Inc. which are denominated in currencies other than the U.S. dollar are translated into U.S. dollars using the temporal method. Under this method, monetary assets and liabilities are translated into U.S. dollars at the exchange rate in effect on the balance sheet date.

Non-monetary assets and liabilities are translated into U.S. dollars at historical exchange rates. Revenues and expenses are translated into U.S. dollars at the exchange rates prevailing at the dates of the respective transactions. Gains and losses resulting from translation of monetary assets and liabilities into U.S. dollars are reflected in the consolidated statements of operations.

Prior to this change, the functional currency of Mamma.com Enterprises Inc. was the Canadian dollar. Accordingly, the financial statements of Mamma.com Enterprises Inc. were translated from Canadian dollars into U.S. dollars using the current rate method. Gains and losses resulting from translation of these financial statements were included in the cumulative translation adjustment in shareholders' equity. The translated amounts for non-monetary items as at January 1, 2004 are the historical basis for those items in subsequent periods.

#### **5 Discontinued operations**

##### **Digital Arrow LLC and High Performance Broadcasting, Inc.**

In September 2005, following the poor performance of Digital Arrow LLC and High Performance Broadcasting, Inc. ( Digital Arrow ) located in Florida, management decided to discontinue its subsidiary's operations. The Company has therefore not renewed the lease in Florida and recorded closing costs.

Consequently, the results of the operations of Digital Arrow were recorded as discontinued operations and the results of the Company for the years ended December 31, 2005 and 2004 were reclassified to account for the closure

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of the subsidiary's operations. The Company had acquired Digital Arrow on June 10, 2004, a privately held marketing company that was engaged in the distribution of on-line, opt-in e-mail marketing solutions via the Internet. In that acquisition, the Company's wholly owned subsidiary, Mamma.com USA, Inc., entered into a Securities Purchase Agreement with Digital Arrow and their equity holders, pursuant to which Mamma.com USA, Inc. acquired all equity interests in Digital Arrow. The consideration for the acquisition, including costs directly related to the acquisition, consisted of \$1,264,210 in cash, net of cash acquired, and 90,000 of the Company's common shares. The fair value of the Company shares issued to owners of Digital Arrow was determined to be \$8.23 per share. This value has been determined using the average closing price of the Company's common stock for five days before and five days after March 3, 2004, the date the significant terms and conditions of the transaction were agreed to and publicly announced. The operations of the business have been included in these financial statements since June 1, 2004.

This acquisition has been accounted for using the purchase method. The fair value of the net assets acquired was \$1,535,744 and goodwill of \$556,196, for a total purchase price of \$2,091,940. From this purchase price, \$740,782 was paid by issuance of the Company's common shares, \$86,948 was cash acquired at the transaction for a cash paid net of cash acquired of \$1,264,210.

#### **IBT**

On September 9, 2003, the Company announced that it had received and accepted, subject to completion of due diligence, an offer for the sale of its wireless billing subsidiary, IBT. The results of operations and cash flows for IBT have been reported separately as discontinued operations in the consolidated statements of operations and cash flows, and the remaining assets and liabilities of IBT have been segregated on the consolidated balance sheets. Comparative figures for the year ended December 31, 2004 and 2003 have been reclassified in order to comply with this presentation.

On February 12, 2004, the Company concluded the sale of IBT's assets which include contracts, customer lists, intellectual property, fixed assets and tangible and intangible assets relating to the business.

The proceeds of disposal was \$1,699,185 with a gain on disposal of \$1,588,923 which has been included in the Results of discontinued operations line in the consolidated statements of operations. The Company was entitled to additional consideration of up to a maximum of \$250,000 should certain events occur or conditions be met. As of December 31, 2004, an amount of \$100,000 of such contingent consideration had been earned by the Company and recorded in results of discontinued operations. The Company recorded, for 2004, net costs for an amount of \$544,927 which represented the net of revenue of \$621,296 and expenses of \$1,166,223 including closing costs. An amount of \$148,000 has been kept in escrow and has been released in 2005. In 2005, no events occurred or conditions were met for the remaining contingent consideration of \$150,000.

The gain on disposal is detailed as follows:

	\$
Proceeds	1,699,185
Assets disposed and related fees	
Equipment	210,916
Other assets, net	(22,843)
Legal and other fees	133,579
Cumulative translation adjustment related to the sales of IBT	(211,390)
	110,262
Gain on disposal	1,588,923

**Summary of assets and liabilities of discontinued operations**

	As at December 31,	
	2005	2004
	\$	\$
Current assets		
Accounts receivable	9,694	268,246
Other current assets	-	6,524
	9,694	274,770
Assets		
Property, plant and equipment	-	70,195
Intangible assets	-	1,256,466
Goodwill	-	556,196
	-	1,882,857
Liabilities		
Accounts payable and accrued liabilities	189,223	543,584
Deferred revenue	-	23,525
Income taxes payable	-	85,000
	189,223	652,109

**Summary of discontinued operations**

	2005	2004	2003
	\$	\$	\$
Revenues	474,409	1,793,977	6,493,986
Earnings (loss) before income taxes	(2,315,335)	733,654	(32,220)
Net earnings (loss)	(2,315,335)	733,654	(300,053)

For the years 2005 and 2004, earnings (loss) before income taxes are the same as net earnings (loss). In 2004, this was due to benefits arising to prior years tax losses not previously recognized. In 2003, the Company recorded a provision for income taxes due to a tax assessment disallowing research and development tax credits claimed in prior years.

## 6 Business acquisitions

### Copernic Technologies Inc.

On December 22, 2005, the Company acquired 100% of the issued and outstanding securities of Copernic including an amount to cover Copernic's outstanding stock appreciation right obligations.

Copernic develops cutting-edge search and information management solutions that enable home and business PC users to maximize their information assets and become more efficient and proactive in their daily activities. Copernic is dedicated to providing its customers with cost-effective Web and desktop search technology that enables better decision-making and increased productivity.

The consideration for the acquisition, including costs directly related to the acquisition, consisted of \$15,851,922 in cash including \$3,297,007 paid to settle Copernic's stock appreciation right and severance obligations net of cash acquired. The Company also issued 2,380,000 common shares as part of the consideration paid. The fair value of the Company shares issued to owners of Copernic has been determined to be \$2.958 per share. This value has been determined using the average closing price of the Company's common stock for two days before and after August 17, 2005, the date the significant terms and conditions of the transaction were agreed to and publicly announced.

This acquisition has been accounted for using the purchase method and the results of operations have been included in the statement of operations from the date of acquisition. The purchase price allocation was finalized upon receipt of a valuation report.

This acquisition has been accounted for using the purchase method. The fair value of the net assets acquired is summarized below:

	Copernic 2005 \$
Cash	851,130
Accounts receivable	1,383,228
Prepaid	65,994
Income tax receivable	496,219
Future income taxes (current)	33,403
Future income taxes (long-term)	13,442
Income tax credit	54,746
Property, plant and equipment	314,284
Software	65,220

Patents	69,527
Trade names	2,500,000
Customer relationships	2,000,000
Technology	3,400,000
<hr/>	
Total assets acquired	11,247,193
Accounts payable and accrued liabilities	226,822
Future income taxes	2,686,000
<hr/>	
Total liabilities assumed	2,912,822
Net identifiable assets acquired	8,334,371
Goodwill	15,408,721
<hr/>	
Purchase price	23,743,092
Less:	
Common shares issued	7,040,040
Cash acquired	851,130
<hr/>	
Consideration paid net of cash acquired	15,851,922
<hr/>	

Goodwill is not deductible for income tax purposes.

### 7 Temporary Investments

Temporary investments consist of commercial paper bearing a weighted average interest rate 4.09% per annum (2004 2.29%) and maturing on various dates up to April 2006. The market value of the commercial paper as at December 31, 2005 and 2004 approximates its book value.

### 8 Accounts receivable

Accounts receivable comprise the following:

	2005	2004
	\$	\$
Trade accounts receivable	2,689,648	2,578,745
Allowance for doubtful accounts	(276,402)	(205,223)
<hr/>		
Other	2,413,246	2,373,522
	210,694	129,013
<hr/>		
	2,623,940	2,502,535
<hr/>		

**9 Investments**

Investments comprise the following:

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
LTRIM Technologies Inc. (4,891,686 Class A common shares and 359,281 Class A preference shares) (i)	720,000	720,000
Tri-Link Technologies Inc. (4,054,874 Preference shares) (ii)	-	-
TECE, Inc. (5,000,000 Common shares) (ii)	-	-
	<b>720,000</b>	<b>720,000</b>

The fair value of LTRIM Technologies Inc. has been established at \$720,000 by independent appraisal and nil for Tri-Link Technologies Inc. and TECE, Inc. as of December 31, 2005.

- i) In 2004, due to a permanent impairment in value, the Company wrote off \$365,286 of its investment in LTRIM Technologies Inc.
- ii) In 2001 and 2002, due to a permanent impairment in value, the Company wrote off its investments in Tri-Link Technologies Inc. ( Tri-Link ) and TECE, Inc. In 2005, The Company received \$41,878 from Tri-Link, this amount has been recorded in other income.
- iii) On August 28, 2003, the Company sold its entire investment in uPath.com Inc. for CA\$45,000 (US\$32,499). As this investment had been written off in its entirety in 2002 due to a permanent impairment in value, the gain on disposal of the investment amounted to \$32,499 in 2003.

**10 Property, plant and equipment**

	<b>2005</b>		
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>
	<b>\$</b>	<b>amortization</b>	<b>\$</b>
		<b>\$</b>	
Computer equipment	1,221,578	821,160	400,418
Furniture and fixtures	171,485	62,921	108,564
Leasehold improvements	177,642	87,866	89,776
	<b>1,570,705</b>	<b>971,947</b>	<b>598,758</b>
			<b>2004</b>
Computer equipment	1,022,586	754,127	268,459
Furniture and fixtures	87,104	53,825	33,279
Leasehold improvements	87,181	84,295	2,886

1,196,871

892,247

304,624

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**11 Goodwill and other intangible assets**

**Intangible assets**

**2005**

	Cost \$	Accumulated amortization \$	Net \$
Trade names	2,912,869	276,148	2,636,721
Technology	3,705,217	211,961	3,493,256
Customer relationships	2,424,985	149,210	2,275,775
Software	181,760	56,920	124,840
Patents	71,439	183	71,256
	9,296,270	694,422	8,601,848

**2004**

Trade names	412,869	185,745	227,124
Technology	305,217	132,289	172,928
Customer relationships	424,985	92,100	332,885
Software	63,098	42,257	20,841
	1,206,169	452,391	753,778

**Goodwill**

The changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2004 are as follows:

	Copernic	focusIN	Total
	\$	\$	\$
Balance December 31, 2003 and 2004	-	846,310	846,310
Business acquisitions (note 6)	15,408,721	-	15,408,721



Balance	December 31, 2005	15,408,721	846,310	16,255,031
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### 12 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities comprise the following:

	2005	2004
	\$	\$
Trade accounts payable	1,860,183	1,513,127
Other		
Accrued employee costs	415,942	285,666
Directors and officers payable	384,102	433,401
Payable to a company owned by a current director (a) (b)	30,716	12,764
	<hr/>	<hr/>
	2,690,943	2,244,958
	<hr/>	<hr/>

- (a) The amount payable to a company owned by a current director relates to consulting agreement between the Company and the company owned by a current director.
- (b) Services provided by a director acting as an Executive Chairman for 2005 were \$202,658 (2004 \$182,687; 2003 \$171,465). The transactions are in the normal course of operations and are measured at the exchange amount which is the amount of the consideration established and agreed to by the related parties.

### 13 Capital stock

On September 7, 2004, the Company filed a Notice of Intention with the Ontario Securities Commission to make a Normal Course Issuer Bid (the Notice). In the Notice, the Company stated its intention to purchase on the open market at prevailing market prices, through the facilities of the NASDAQ stock market, up to a maximum of 600,000 of its common shares, being approximately 5% of the outstanding common shares, and common shares comprising the public float, as at December 31, 2004. At the expiration period, on September 7, 2005, the Company did not file a new notice.

During the year ended December 31, 2004, the Company did not purchase any of its outstanding common shares. During the year ended December 31, 2005, the Company redeemed 304,665 of its common shares at a weighted average purchase price of \$3.46, for a total amount of \$1,053,155. The \$1,195,147 excess of stated capital value over the redemption amount has been credited to additional paid-in capital.

#### Stock options

The Company's stock option plan is administered by the Compensation Committee, which is a subcommittee of the Board of Directors. The Compensation Committee designates eligible participants to be included under the plan, and designates the number of options and the share price pursuant to the new options, subject to applicable securities laws and stock exchange regulations. The options, when granted, will have an exercise price of no less than the market price of shares at the date of grant and a life not exceeding 10 years. The options vest in equal increments over a period of three or four years, commencing one year from the grant date. The number of options granted in any fiscal year shall not exceed 15% of the issued and outstanding common shares at the date of the grant.

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In 2003, 227,500 stock options at exercise prices between \$1.99 and \$3.58 expiring between seven and ten years were granted to officers and employees of the Company.

In 2004, 10,000 stock options were cancelled and granted with new conditions. The fair value of these new granted options were estimated as the date of grant using the Black-Scholes option pricing model.

On November 2, 2004, the Company granted to Officers and Members of the Board of the Company, 295,000 stock options at an exercise price of \$7.08 expiring in five years.

On February 2, 2005, the Officers and Members of the Board of Directors of the Company to whom the above-mentioned stock options had been granted, waived and renounced any and all rights that each had or may have had on the options. Consequently, the options were cancelled as of that date. The stock-based compensation costs of \$138,395 recorded as of December 31, 2004 pertaining to these options was reversed in the first quarter of 2005.

On February 16, 2005, 55,800 and 39,196 stock options at an exercise price of \$6.28 expiring in five years were granted to officers and employees of the Company, respectively.

On November 8, 2005, the Company granted to Officers and Members of Board of the Company, 430,000 stock options at an exercise price of \$2.28 expiring in five years.

Information with respect to stock option activity for, 2003, 2004 and 2005 is as follows:

		Number of options	Weighted average exercise price \$
Outstanding	December 31, 2002	377,180	1.76
Granted		227,500	2.71
Forfeited		(28,357)	1.74
Exercised		(129,678)	1.34
Outstanding	December 31, 2003	446,645	2.37
Granted		305,000	6.91
Forfeited		(16,000)	1.99
Expired		(18,750)	8.00
Exercised		(255,561)	1.57
Outstanding	December 31, 2004	461,334	5.60
Granted		524,996	3.00
Forfeited		(322,747)	6.94
Exercised		(2,500)	2.57
Outstanding	December 31, 2005	661,083	2.90

Details of stock options outstanding as at December 31, 2005 are as follows:

Range of exercise prices \$	Number of options	Outstanding options		Exercisable options	
		Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
1.50 - 1.99	30,834	6.51	1.90	30,834	1.90
2.38 - 3.58	555,500	5.05	2.50	69,834	3.17
6.28	74,749	6.13	6.28	-	-
	661,083	5.24	2.90	100,668	2.78

As at December 31, 2004 and 2003 there were 33,667 and 222,478 options exercisable at weighted average prices of \$3.15 and \$1.99, respectively.

The fair values of all options granted during 2005, 2004 and 2003 were estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005 \$	2004 \$	2003 \$
Expected option life (years)	4.21	4.00	4.04
Volatility	79%	88%	82%
Risk-free interest rate	3.78%	3.70%	4.00%
Dividend yield	nil	nil	nil

The weighted average grant-date fair values for stock options granted during 2005, 2004 and 2003 were \$1.90, \$4.61 and \$2.71 per option, respectively.

Stock-based compensation expense recognized in 2005, 2004 and 2003 in regards to the stock options was \$136,933, \$301,944 and \$113,365, respectively.

#### Pro forma stock-based compensation disclosures

As described in note 3, the Company adopted, retroactive to January 1, 2003, the fair value method of accounting for stock options granted to employees and has applied this new method on a prospective basis. Following is a summary of what the net earnings (loss) and related per share figures would have been for 2005, 2004 and 2003 if the Company had applied this change retroactively to all prior years.

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	2005 \$	2004 \$	2003 \$
Net earnings (loss) for the year	(5,658,318)	1,104,407	(211,063)
Additional compensation costs	17,496	17,496	14,203
Pro forma net earnings (loss)	(5,675,814)	1,086,911	(225,266)
Pro forma net earnings (loss) per share:			
Basic	(0.47)	0.10	(0.04)

Diluted	(0.47)	0.10	(0.04)
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#### 14 *Additional paid-in capital and deferred stock-based compensation*

On March 16, 2004, the Company retained Merriman Curhan Ford & Co. ( MCF ) as a financial advisor and as an investment banking advisor. The Company then signed two separate agreements. In consideration for financial services, the Company had committed to pay MCF a monthly fee of \$5,000 for a minimum obligation of \$30,000 and 10,000 warrants per month with a minimum issuance of 60,000 warrants, each warrant gives the rights to purchase one common share of the Company. Warrants are issuable at an exercise price equal to the average closing bid for the last five trading days at the end of the month of issue, for the duration of the agreement upon the same terms and conditions. The warrants have a life of five years from the issuance date. For the investment banking services, the Company had committed to pay a cash financing completion fee equal to 6% of the total amount of capital received by the Company from the sale of its equity securities and warrants to purchase common shares of the Company in an amount equal to 6% of the number of common shares purchased by investors in capital raising transactions. The warrants are immediately exercisable at the higher of the price per share at which the investor can acquire common shares or the closing price of the Company's common shares at the date of the capital raising transaction. For mergers and acquisitions, the Company had committed to pay a success fee upon closing equal to the sum of 4% of up to \$10,000,000 transaction value, 3% of \$10,000,000 to \$15,000,000 transaction value and 2% of greater than \$15,000,000 transaction value, provided that MCF either introduces and/or performs specific services for the transaction. The minimum success fee for a transaction is \$200,000. For a sale transaction, the Company had committed to pay a success fee with the same parameters of an acquisition except for the minimum fee which is \$500,000.

For the period ended December 31, 2004, 40,000 warrants were issued to MCF at an average price of \$12.31, the fair value of which was \$260,301 estimated as of grant date using the Black-Sholes pricing model, and charged to expense with a corresponding credit to additional paid-in capital. The following weighted average assumptions were used:

Expected option life	3.5 years
Volatility	86%
Risk-free interest rate	3.99%
Dividend yield	nil

On July 16, 2004, the agreement for financial services, dated March 16, 2004 was amended. The Company committed to pay MCF a monthly fee of \$5,000 for eight months from July 16, 2004. The agreement for investment banking services was amended on July 16, 2004, on September 8, 2004 and subsequently on October 12, 2005. The Company then is committed to pay a success fee upon closing equal to the sum of 3% of up to \$20,000,000 transaction value, 1.5% of the excess of \$20,000,000. If an acquisition transaction is less than 50% interest in the Company or the Target, a fee shall be payable in cash for 7% of the transaction value. If transaction is not

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consummated and the Company is entitled to receive break-up fee and other form of compensation, the Company then will pay to MCF 30% of Company's entire entitlement. In the event that the Board deems it necessary or appropriate for a fairness opinion to be rendered in connection with an acquisition transaction, MCF will receive a Fairness Opinion Fee of \$200,000 for rendering its opinion, payable upon delivery of the Fairness Opinion and will be credited against the M&A Completion Fee due to MCF.

On June 30, 2004, the Company sold under a securities purchase agreement an aggregate of 1,515,980 common shares and 606,392 warrants to certain accredited investors for an aggregate price of \$16,599,981. Net proceeds from the offering amounted to \$15,541,162, net of issue cost of \$1,058,819, \$996,000 of which was paid to MCF. For this specific transaction, MCF waived their entitlement to a warrant component of the financing completion fee. Each warrant entitles the accredited investors to purchase one additional common share at an exercise price equal to \$15.82 per share. The warrants will be exercisable beginning six months after the closing date, and will have a term of five years from the closing date.

The amounts allocated to the shares and warrants totalled \$13,158,329 and \$3,441,652, respectively. These amounts have been allocated based upon the relative fair values of the shares and warrants at the date they were issued. The estimated fair values of the warrants have been determined using the Black-Scholes pricing model and the following weighted average assumptions:

Expected option life	5 years
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Volatility	86%
Risk-free interest rate	4.19%
Dividend yield	nil

In 2003, the Company granted 105,000 warrants at an average price of \$2.50 to Maxim Group, LLC for financial advisory fees, the fair value of which was \$84,566 estimated as of the grant date using the Black-Scholes pricing model, and charged to expense during the year with a corresponding credit to additional paid-in capital. These warrants vested immediately and expire after three years.

On December 12, 2002, the Company completed a private placement of 1,893,939 units, each unit consisting of one common share and one A warrant, for total gross proceeds amounting to \$2,500,000, or \$1.32 per unit. Each A warrant vests immediately, expires on November 30, 2004, and permits the holder to purchase one additional common share of the Company at an exercise price of \$1.40 per share. The private placement agreement provides for a reload feature, whereby upon exercise of the entire A warrants, the holders are entitled to receive one new B warrant for each A warrant exercised. The B warrant vests immediately upon issuance, expires on November 30, 2006, and permits the holder to purchase an additional common share at an exercise price of \$1.50 per share. As at December 31, 2004, the totality of the A and B warrants had been exercised.

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Information with respect to warrant activity for 2003, 2004 and 2005 is as follows:

	Number of warrants	Weighted average exercise price \$
Outstanding December 31, 2002	2,037,409	1.42
Issued (i)	247,045	1.94
Forfeited	(1,425)	30.80
Exercised	(284,090)	1.45
<hr/>		
Outstanding December 31, 2003	1,998,939	1.46
Issued - B warrants	1,893,939	1.50
Issued - Other	646,392	15.60
Exercised	(3,892,878)	1.48
<hr/>		
Outstanding December 31, 2004 and 2005	646,392	15.60

(i) Does not include warrants to be issued in connection with the B warrant reload feature described above. For various price ranges, the weighted average characteristics of warrants outstanding and exercisable as at December 31, 2005 were as follows:

Range of exercise prices \$	Number of warrants	Weighted average remaining contractual life (years)	Weighted average exercise price \$
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11.34	13.89	40,000	3.41	12.31
15.82		606,392	3.50	15.82
		646,392	3.49	15.60

15 Earnings (loss) per share

	2005	2004	2003
	\$	\$	\$
Weighted average number of shares Basic	12,168,117	10,758,604	6,207,360
Additions to reflect the impacts of:			
Exercise of stock options	-	121,195	93,854
Exercise of warrants (i)	-	330,107	1,740,022
Weighted average number of shares Diluted	12,168,117	11,209,906	8,041,236

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(i) In 2003, includes B warrants issuable upon exercise of the A warrants described in note 14.

Options to purchase 309,895 common shares (2004 48,361; 2003 18,750), warrants to purchase 646,392 common shares (2004 327,712; 2003 16,000) have been excluded from the above calculations since they would have an anti-dilutive effect.

16 Revenues

	2005	2004	2003
	\$	\$	\$
Search advertising	4,935,617	9,659,024	5,787,980
Graphic advertising	4,456,399	4,965,198	3,150,883
Other	72,544	12,096	-
	9,464,560	14,636,318	8,938,863

17 Cost of revenues

2005	2004	2003
\$	\$	\$

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Partner payouts	1,637,878	3,940,350	2,471,927
Media Purchase	2,264,700	2,384,262	1,213,387
ISP Charges	279,965	214,601	305,951
Other	21,487	-	-
	<u>4,204,030</u>	<u>6,539,213</u>	<u>3,991,265</u>

**18 Consolidated statement of cash flows**

In 2005, the consideration for the acquisition of Copernic (Digital Arrow in 2004) includes 2,380,000 (90,000 for Digital Arrow) of the Company's common shares at a determined fair value of \$2.958 (\$8.23 for Digital Arrow) per share. Therefore, \$7,040,040 (\$740,782 for Digital Arrow) representing the value of the consideration paid by the issuance of capital stock are excluded from business acquisitions and issuance of capital stock.

In 2003, financial fees paid in lieu of cash amounted to \$17,000.

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**19 Net change in non-cash working capital items**

	2005	2004	2003
	\$	\$	\$
Cash flows from (used for):			
Accounts receivable	1,266,077	(215,782)	(1,033,078)
Income taxes receivable	12,100	(104,129)	(15,259)
Prepaid expenses and other assets	(99,707)	(39,651)	(3,083)
Accounts payable and accrued liabilities	227,841	(35,737)	81,709
Deferred revenue	13,702	92,732	388
	<u>1,420,013</u>	<u>(302,567)</u>	<u>(969,323)</u>

**20 Income taxes**

a) The provision for (recovery of) income taxes is detailed as follows:

	2005	2004	2003
	\$	\$	\$
Current	(12,046)	153,825	-
Future (recovered)	(13,964)	400,855	(77,636)
	<u>(26,010)</u>	<u>554,680</u>	<u>(77,636)</u>

b) A reconciliation of the combined Canadian Federal and provincial income tax rate with the Company's effective income tax rate is as follows:

	2005	2004	2003
	\$	\$	\$
Earnings (loss) from continuing operations before income taxes	(3,368,993)	925,433	11,354
Expected provision for (recovery of) income taxes at the statutory rate	(1,070,666)	287,069	3,749
Impact of foreign and provincial rates	(348)	10,965	-
Change in future income tax balance due to change in rate	(947,104)	-	-
Unrecognized benefit of current year tax losses and undeducted research and development expenses, and other temporary differences	2,067,696	500,116	465,295
Benefit of prior years' tax losses not previously recognized	(93,681)	(17,178)	-
Recognition of future benefit of prior years temporary differences, including tax losses and undeducted research and development expenses	-	-	(577,482)
Permanent difference, including amortization and impairment of goodwill and write- down of investment	18,093	(226,292)	30,802
Provision for (recovery of) income taxes	(26,010)	554,680	(77,636)

c) The major components of the net future income tax asset classified by the source of temporary differences are as follows:

	2005	2004
	\$	\$
<b>Assets</b>		
Property, plant and equipment	2,839,093	2,558,945
Non-capital losses (expiring 2006-2015)	8,635,786	6,443,236
Unrealized impairment losses on investments	764,853	740,295
Research and development expenses	362,077	-
Financing expenses	257,648	341,871



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Intangible assets	217,521	-
Goodwill	188,693	116,079
Other	39,971	-
	<u>13,305,642</u>	<u>10,200,426</u>
<b>Liabilities</b>		
Intangible assets	2,672,036	-
Net future income tax assets before valuation	10,633,606	10,200,426
Valuation allowance	(13,258,654)	(10,200,426)
	<u>(2,625,048)</u>	<u>-</u>
Presented as:		
Current asset	33,505	-
Long-term asset	13,483	-
Long-term liability	2,672,036	-
	<u>(2,625,048)</u>	<u>-</u>

As at December 31, 2005, the Company also has temporary differences in United Kingdom of \$60,974 (2004-nil), in United States of America for \$2,084,346 (2004-\$1,088,042) and in Australia for \$628,937 (2004- \$678,675) with no expiration date. No future tax assets were recognized in 2005 and in 2004 for these temporary differences.

In addition, the Company has capital losses amounting to \$14,724,484 in 2005 (2004-\$14,107,504) without expiring date. No future tax assets were recognized in 2005 and in 2004 for these capital losses.

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d) As at December 31, 2005, the Company has non-capital loss carryforwards totalling approximately \$25,210,000 for Federal and provincial income tax purposes which may be used to reduce taxable income in future years.

These losses may be claimed no later than fiscal years ending December 31:

	\$
2006	4,438,000
2007	4,817,000
2008	3,509,000
2009	2,558,000
2010	3,417,000
2014	852,000
2015	5,619,000

**21 Product development and technical support expenses**

The following details the net product development and technical support expenses included in the consolidated statements of operations:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
	\$	\$	\$
Product development and technical support expenses	1,276,346	809,347	477,634
Research and development expenses	31,600	168,715	249,906
	<u>1,307,946</u>	<u>978,062</u>	<u>727,540</u>
Less: research and development tax credits	21,601	86,521	128,157
	<u>1,286,345</u>	<u>891,541</u>	<u>599,383</u>

**22 Segment information**

The Company had a single reporting segment until the acquisition of Copernic on December 22, 2005, resulting in the creation of a second reporting segment from that date forward. Since the Company reports Copernic's operations from the date of the acquisition transaction (duration of 8 days), revenues of this segment are included in Other specified in the table below.

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## Geographic segment

	<b>2005</b>	<b>2004</b>	<b>2003</b>
	\$	\$	\$
<b>Revenues:</b>			
Canada	207,048	225,773	238,655
United States	7,449,614	13,427,257	8,499,380
Europe	1,650,907	873,924	126,272
Other	156,991	109,364	74,556
	<u>9,464,560</u>	<u>14,636,318</u>	<u>8,938,863</u>
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	\$	\$	\$
<b>Long-lived assets and goodwill:</b>			
Canada	25,455,637	1,904,712	2,149,336
	<u>25,455,637</u>	<u>1,904,712</u>	<u>2,149,336</u>

**23 Major Customers**

The Company has two major customers, each account for more than 10% of the Company's sales. Sales for each of them represented approximately 14% (2004 - 2%; 2003 - 0%) and 11% (2004 - 11%; 2003 - 8%), respectively, of the Company's sales. The outstanding accounts receivable from these customers as at December 31, 2005 amount to approximately 8% (2004 - 4%) and 1% (2004 - 14%), respectively, of the total accounts receivable.

## 24 Contingencies and commitments

### Informal SEC inquiry to formal investigation

On March 18, 2004, the United States Securities and Exchange Commission ( SEC ) notified the Company that the SEC had begun an informal inquiry relating to trading activity in the Company's securities. During March of 2004, trading in the Company's common stock had been intense and the market price of the common stock had risen sharply.

The SEC has since issued a formal order of investigation in this matter. As a part of its investigation, the Company believes the SEC may consider matters related to trading in the Company's securities and whether an individual and persons acting jointly or in concert with him may have had a significant influence on the Company in the past as a result of undisclosed shareholdings. (See *Special Investigation of Independent Committee* below.) The Company also believes that the Commission's staff may consider matters relating to the Company's financial reporting and internal controls. The scope, focus and subject matter of the SEC investigation may change from time to time and the Company may be unaware of matters under consideration by the SEC. The Company intends to continue cooperating with the SEC in its investigation

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### Purported Securities Class Action Lawsuit

On February 22, 2005, the first of several purported securities class action lawsuits was filed in the United States District Court, Southern District of New York against the Company, and certain of the Company's current officers and directors. The plaintiffs allege, among other things, violations of the Securities Exchange Act of 1934 for purportedly failing to disclose and misrepresenting certain allegedly material facts relative to the market for and trading in the Company's stock, and seek unspecified damages. The purported class actions appear to be based on unsubstantiated rumours and newspaper reports. All of these lawsuits have been consolidated. The Company denies the allegations of wrongdoing against it, believes that the purported claims are without merit, intends to defend itself vigorously, and has moved for dismissal of the consolidated lawsuit.

The Company's director and officer liability insurance is expected to cover most of the costs incurred in defending the purported securities class action in excess of the \$250,000 retention paid. The insurer has paid most of the fees and expenses to date, except an amount of approximately \$26,000 which has not been paid; the insurer is asserting that some fees and expenses of the class action defense counsel were outside the scope of coverage. The Company does not believe the insurer will successfully maintain this position with respect to the minimal unpaid amount of fees and expenses.

### Special Investigation of Independent Committee

Following press reports in January 2005 and in response to recommendations made by the Company's former independent auditor, the Company's Board of Directors initiated an investigation under the supervision of a Special Independent Committee consisting of independent directors of the Audit Committee with independent legal counsel to investigate the allegations in the press reports. Those press reports claimed that Irving Kott and persons acting jointly or in concert with him may have had a controlling influence on the Company in the past as a result of undisclosed shareholdings. The Special Committee and its independent counsel have reviewed the relevant information available at the time of the investigation relating to the period from January 1, 1999 to December 31, 2004. While the Special Committee did note some evidence of contacts with and involvement by Mr. Kott and persons with whom he may have had an association, based on its review, the Special Committee has not found evidence establishing that Mr. Kott had a controlling influence on the Corporation during such period.

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### Commitments

The Company is committed under operating lease agreements. Future minimum payments under these leases as of December 31, 2005 are as follows:

\$

Years ending December 31,		
	2006	329,000
	2007	218,000
	2008	182,000
	2009	106,000
	2010	71,000
Thereafter		-

**Other commitments**

The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors, and officers and former directors, officers and employees of acquired companies, in certain circumstances. It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements may not be subject to maximum loss clauses. Historically, the Company has not incurred material costs as a result of obligations under these agreements and it has not accrued any liabilities related to such indemnification obligations in its financial statements.

**25 Financial instruments**

**Currency risk**

The Company operates internationally and is exposed to market risks principally from changes in foreign currency rates. The Company does not hold any financial instruments that mitigate this risk.

**Credit risk**

Financial instruments which potentially subject the Company to credit risk consist principally of cash, short-term investments, temporary investments and accounts receivable. The Company's cash, short-term investments and temporary investments are maintained at major financial institutions; therefore, the Company considers the risk of non-performance on these instruments to be remote.

The Company is exposed to credit risk on accounts receivable from its customers. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. As at December 31, 2005, approximately 39% of accounts receivable are due from two customers, as compared to 30% from four customers in the previous year.

**Fair value of financial instruments**

The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, bank overdraft, temporary investments, accounts receivable and accounts payable and accrued liabilities approximate their respective fair values due to the short maturities of those instruments. The fair value of the Company's investments is presented in note 9.

**Interest rate risk**

As at December 31, 2005, the Company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Variable interest rates
Temporary investments	From 4.06% to 4.12%
Accounts receivable	Non-interest bearing
Accounts payable and accrued liabilities	Non-interest bearing

**26 United States generally accepted accounting principles**

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As a registrant with the Securities and Exchange Commission in the United States, the Company is required to reconcile its financial results for significant measurement differences between Canadian GAAP and U.S. GAAP as they specifically relate to the Company.

For the years ended December 31, 2005, 2004 and 2003, the Company does not have any significant adjustments to record in order to reconcile its reported net earnings (loss) under Canadian GAAP and U.S. GAAP.

	2005	2004	2003
	\$	\$	\$
<b>Other comprehensive income (loss)</b>			
Foreign currency translation adjustment (a)	9,485	(80,680)	717,257
Net earnings (loss) in accordance with U.S. GAAP	(5,658,318)	1,104,407	(211,063)
Comprehensive income (loss)	(5,648,833)	1,023,727	506,194

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The effects of these adjustments on the consolidated balance sheets of the Company are as follows:

	2005	2004
	\$	\$
<b>Capital stock</b>		
Capital stock in accordance with Canadian GAAP	95,298,234	90,496,088
Reduction of stated capital (b)	16,769,570	16,769,570
Capital stock in accordance with U.S. GAAP	112,067,804	107,265,658
<b>Additional paid-in capital</b>		
Additional paid-in capital in accordance with Canadian GAAP	5,985,077	5,255,249
Stock-based compensation costs (c)		
Cumulative effect of prior years	1,037,690	1,037,690
Additional paid-in capital in accordance with U.S. GAAP	7,022,767	6,292,939
<b>Deferred stock-based compensation costs in accordance with Canadian and U.S. GAAP</b>	(735,175)	(1,333,443)
<b>Accumulated other comprehensive gain (loss) (a)</b>		
Cumulative translation adjustment in accordance with Canadian GAAP	370,369	360,884
<b>Accumulated deficit</b>		
In accordance with Canadian GAAP	(68,401,524)	(62,743,206)

Option and SAR Repricing

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Reduction of stated capital to deficit (b)	(16,769,570)	(16,769,570)
Stock-based compensation costs (c)		
Cumulative effect of prior years	(1,037,690)	(1,037,690)
<hr/>		
Accumulated deficit in accordance with U.S. GAAP	(86,208,784)	(80,550,466)
<hr/>		
<b>Total shareholders' equity in accordance with U.S. GAAP</b>	<b>32,516,981</b>	<b>32,035,572</b>
<hr/>		

**Consolidated statement of cash flows**

The consolidated statement of cash flows was prepared under Canadian GAAP. There are no measurement differences between Canadian GAAP and U.S. GAAP as they specifically apply to the Company.

**a) Comprehensive income (loss)**

U.S. GAAP requires disclosures of comprehensive income (loss) which comprises any charges or credits to shareholders' equity not related to investments or distributions to shareholders and not otherwise classified in the consolidated statements of operations for the year. Under Canadian GAAP, there is no requirement to report comprehensive income (loss).

**b) Reduction of stated capital**

Under U.S. GAAP, the reduction of stated capital in the amount of \$16,769,570 undertaken by the Company on June 28, 1995 would not be permitted.

**c) Stock-based compensation costs**

As described in note 3, the Company prospectively adopted the fair value method of accounting for stock options granted to employees. As a result of this change, there is no difference between the Company's net earnings (loss) for 2005, 2004 and 2003 under U.S. GAAP as compared to Canadian GAAP.

**d) Non-refundable tax credits**

Under U.S. GAAP, non-refundable tax credits must be presented as a reduction of the provision for income taxes. Under Canadian GAAP, these tax credits are presented as a reduction of the related research and development expenses. Under U.S. GAAP, there would be no change in earnings (loss) from continuing operations and net earnings (loss) for the year; however, earnings (loss) from continuing operations before income taxes and recovery of income taxes under U.S. GAAP would be as follows:

	2005	2004	2003
	\$	\$	\$
Earnings (loss) from continuing operations before income taxes	(3,368,993)	871,711	(66,571)
Provision for (recovery) of income taxes			
Current	(12,046)	153,825	-
Future	(13,964)	347,133	(155,561)

27 *Subsequent Events*

**Fees incurred in SEC investigation**

On March 28, 2006, the Company's insurance broker advised the Company's that its insurance carrier was willing to pay an amount up to \$460,000 in settlement of claims to date for the legal representation costs incurred in 2005 for directors and officers of the Company with respect to their appearance at the SEC investigation and for legal counsel for named individuals in the securities class action. The settled amount will be recorded in the first quarter of 2006.

**Purported Securities Class Action Lawsuits**

On March 28, 2006, the court in the consolidated case denied a motion the Company filed for dismissal of the consolidated complaint. The Company denies the allegations against it, believes that the purported claims are without merit, and intends to continue defend itself vigorously (see note 24).

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**ITEM 19. EXHIBITS**

The following exhibits are filed in support of the statements contained herein and are in addition to those exhibits previously filed as Exhibits to the Form 20-F with the Commission:

- 12.3\* Certification of Guy Fauré under Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 12.4\* Certification of Daniel Bertrand under Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- 13.2\* Certifications under Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 18 of Title 18 of the United States Code.

\* Filed as an Exhibit to this Form 20-F/A.

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**SIGNATURES**

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Amendment No.1 on its behalf.

MAMMA.COM INC.

May 12, 2006

By: /s/ David Goldman  
Name: David Goldman  
Title: Executive Chairman

By: /s/ Guy Fauré  
Name: Guy Fauré  
Title: President and Chief Executive Officer

SIGNATURES

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By: /s/ Daniel Bertrand

Daniel Bertrand  
Executive Vice President and Chief  
Financial Officer