

MAMMA COM INC  
Form 20-F/A  
May 14, 2007

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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, 2006

OR

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

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**  
Date of event requiring this shell company report \_\_\_\_\_

**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)

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**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 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 April 30, 2007:

14,589,197 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

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.

Yes  No

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  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

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

Item 17  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

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 29, 2007 (the Form 20-F). The purpose of this Amendment No. 1 is (i) to correct a typographical error by the Company's Edgar filing agent made in the table entitled Quarterly Financial Highlights in Item 5 while converting the Form 20-F to Edgar format; (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 2007; (iii) to correct typographical errors in the Summary Compensation Table to reflect the correct bonus amount reported in 2004 for Guy Fauré and to include values for other annual compensation reported for Patrick Hopf for the years 2004, 2005 and 2006, which were inadvertently omitted; (iv) to indicate that under an applicable exemption from the listing standards of The Nasdaq Stock Exchange®, the quorum for any meeting of the Company's shareholders is two or more shareholders present in person or represented by proxy holding at least 20% of the total number of votes attaching to all shares carrying the right to vote at the meeting; and (v) to update the Report on Executive Compensation to include results of a meeting of the Compensation Committee on March 29, 2007 wherein the Compensation Committee increased Martin Bouchard's annual salary effective February 1, 2007 to CA \$240,000. 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 March 29, 2007, the filing date of the Form 20-F, which update and supersede information contained in the Form 20-F and this Amendment No. 1.

**Part I**

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of the consolidated financial condition and results of operations of Mamma.com Inc. for the three years ended December 31, 2006, 2005 and 2004 should be read in conjunction with its consolidated financial statements and the related notes. All statements in the following discussion, which are not reports of historical information or descriptions of current accounting policy, are forward-looking statements. Please consider our forward-looking statements in light of the risks referred to in this Management's Discussion and Analysis of Financial Condition and Results of Operations cautionary note. The Company's consolidated financial statements are reported in US dollars and have been prepared in accordance with generally accepted accounting principles as applied in Canada (Canadian GAAP). 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 generally accepted accounting principles as applied in the United States (U.S. GAAP) as they specifically relate to the Company as described in note 27 to its consolidated financial statements. This Management's Discussion and Analysis of Financial Condition and Results of Operations is dated March 29, 2007.

**Business overview**

Mamma.com Inc. is a provider of search technology for both the Web and desktop search space. The Company owns multiple Web properties such as, [www.mamma.com](http://www.mamma.com), [www.mammahealth.com](http://www.mammahealth.com), [www.mammajobs.com](http://www.mammajobs.com) and [www.copernic.com](http://www.copernic.com). In addition, through its Mamma Media Solutions® brand, the Company 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 Engine® is a metasearch engine for the Internet; it makes it easier and faster for people to find information by gathering results from many information sources on the Internet.

MammaHealth.com's Deep Web Health Search uses advanced metasearch technology to search deep into health sites and extract information that people would not get on a standard search engine. MammaHealth does not search the entire Web; it focuses exclusively on relevant health information by crawling only authoritative, hand-picked health sources.

MammaJobs.com aggregates job listings from a myriad of sources and uses a relevancy algorithm to provide our users with the most relevant job listing for their geographic location. Listings can be sorted by most relevant to most current based on date and time of posting.

Copernic Desktop Search® is a powerful yet easy-to-use search engine right to the user's PC. It allows instant searching of files, emails, and email attachments stored anywhere on a PC hard drive. This technology is also licensed to companies such as ISPs and portals. Copernic Desktop Search® has garnered several prestigious awards and recognition including top honors from PC Magazine and CNET, among others.

The Company generates several types of revenues: search advertising, graphic advertising, software licensing, customized development and maintenance support revenues from customers mainly located in the United States, Canada and Europe.

**The revenue models of the Company are based on:**

Pay-Per-Click search listing placement – advertisers bid or pay a fixed price for position on search listing advertisements on [www.mamma.com](http://www.mamma.com) and within the Mamma Media Solutions® Publisher Network.

Graphic Ad Units – priced on a CPM (Cost-Per-Thousand) basis and are distributed through the Mamma Media Solution® Publisher Network.

Mamma Media Solutions® Publisher Network has over 495 active publishers (combined search and graphic ad publishers).

Copernic Agent® and Copernic Desktop Search® users generate Web searches and clicks from pay-per-click advertising listings.

Copernic Desktop Search® licensing to ISPs, portals and E-commerce sites generate license, maintenance and customization revenues.

Copernic Agent Personal/Pro®, Copernic Summarizer® and Copernic Tracker® software are sold from our e-commerce store.

**Search advertising**

Approximately 75% of our revenues come from our search based business. The revenue model in this sector is simply a pay-per-click fee that is charged to the advertiser when a user clicks on a sponsored link. The business model consists of advertisers buying keywords. When these keywords are searched by a user, the advertiser's Web site will be listed in a premium position in the search results, identified as a sponsored result. The Company aggregates advertisers from other search-based businesses and from its own direct sales efforts (through direct sales and automated online marketing initiatives). The

Company then distributes these search advertisements onto its search publisher network which consists of its own search properties (Mamma.com The Mother of All Search Engine<sup>®</sup> and Copernic Agent<sup>®</sup>) and third party search properties of approximately 376 partners. Advertising revenues generated through third party search properties have associated payout costs; these payout costs represent a percentage of the revenues generated from the distribution of search advertisements onto third party search property. Higher margins are obtained through our own properties as there are no payout costs associated with these revenues.

#### **Graphic advertising**

Approximately 9% of our revenues were generated from our ad network business. The revenue model in this sector is CPM based (cost per one thousand impressions published). The business model is based on advertisers buying impressions for ad campaigns (these are creative based campaigns: different size banners, pop-ups, rich media advertising) and targeting them through our network of publishers. Campaigns can be targeted in several ways: geo-targeting (by region), or by site category (ex: travel, entertainment, finance, etc.). The publisher network consists of about 119 active small to medium sized Web sites that subscribe to our service through an online or direct representation contract and give us access to their advertising inventory. Mamma.com Inc. recruits publishers through a direct sales force and through online initiatives. Publishers receive payouts of a percentage of revenues generated from campaigns published on their Web sites.

#### **Software licensing**

Approximately 10% of our revenues came from software licensing. This type of revenue is provided entirely by Copernic, which we acquired on December 22, 2005. The business model is based on selling licenses of Copernic Desktop Search<sup>®</sup> software to ISPs and portals as well as Copernic Agent Personal/Pro<sup>®</sup>, Copernic Summarizer<sup>®</sup> and Copernic Tracker<sup>®</sup> software through our e-commerce store.

#### **Customized development and maintenance support**

Approximately 6% of our revenues came from customized development and maintenance support. This type of revenue is also provided entirely by Copernic. The business model is based on billing our technical team's software customization services and maintenance support.

#### **Trends of the industry have been released in recent publications such as:**

1. Investment bank Jefferies & Co. raised its estimates for the worldwide online advertising industry to more than \$60 billion by 2010 up from the \$54 billion it projected in 2006. The bank also revised its estimates of \$26 billion in total revenues for fiscal year 2006 to \$30 billion, up 34% year-over-year. Investment bank Jefferies & Co. added It's no secret that search is fuelling a lot of the growth in online advertising: Jefferies projects it will reach \$14 billion for fiscal year 2006, with a 25% compound annual growth rate through 2010. It says search will account for nearly half of all ad dollars spent online. (March 2007) source: <http://publications.mediapost.com/index.cfm?fuseaction=Articles.showArticleHomePage&artaid=56363>
2. eMarketer predicts that online ad spending will rise from \$16.4 billion, or 5.8% of total U.S. ad spending, in 2006 to \$36.5 billion, or 11.3% of total spending by 2011. While paid search will continue to claim the lion's share of online ad buys over the next several years, spending on rich media and video ad formats is expected to enjoy the fastest growth. eMarketer added Paid search will roughly double during that period to \$16.1 billion from \$8.2 billion. (February 2007) source: [http://publications.mediapost.com/index.cfm?fuseaction=Articles.showArticle&art\\_aid=56141](http://publications.mediapost.com/index.cfm?fuseaction=Articles.showArticle&art_aid=56141)

3. Outsell, Inc. has just released its second annual report on ad spending, forecasting U.S. advertising to grow 5.8 percent in 2007. This comprehensive national study of advertisers, who control about \$6.5 billion of spending, shows that companies plan to increase their online spending by 18 percent this year, faster than for any other major media type. Advertisers also plan to raise their spending for advertising on search engines by 39 percent, the fastest of any online media method. (January 2007) source: [http://www.outsellinc.com/press/press\\_releases/ad\\_spending\\_online\\_search\\_engine\\_print](http://www.outsellinc.com/press/press_releases/ad_spending_online_search_engine_print)
4. Piper Jaffray: We expect global online advertising revenue to reach \$81.1 billion by 2011, representing a 21% CAGR (2006-2011). We expect U.S. online advertising revenue to reach \$42 billion by 2011, representing 11.4% of total advertising budgets, up from approximately 6.6% of total advertising budgets in 2006. In the United States, we expect search revenues to reach \$21.5 billion by 2011, slightly ahead of non-search revenues of \$20.5 billion, while we expect both segments to grow at a CAGR of around 17% (2006-2011). (February 2007) source: [http://searchviews.com/archives/2007/02/piper\\_jaffray\\_study.php](http://searchviews.com/archives/2007/02/piper_jaffray_study.php)

#### **Recent events**

##### **Resignation of Guy Fauré**

In January of 2007, the Company announced that Mr. Guy Fauré would be resigning from his positions as the Company's President, Chief Executive Officer and member of the Company's Board of Directors effective as of January 31, 2007. Mr. Fauré, who had been serving the Company since September 10, 2001, was replaced by Mr. Martin Bouchard as President and Chief Executive Officer.

##### **Settlement of class action lawsuit**

On November 9, 2006, the Company announced that it had entered into an agreement to settle the class action lawsuit currently pending in the U.S. District Court for the Southern District of New York (the Court). The settlement, which must be approved by the Court, would resolve all claims asserted against the Company and the individual officer defendants by class plaintiffs that do not opt out of the settlement. Under the terms of the settlement agreement, plaintiffs would receive U.S. \$3.15 million, \$2.5 million of which would be paid by the Company's insurance carrier and \$650,000 from the Company.

On March 1, 2007, an order by the Court in the consolidated securities class action was filed preliminarily approving the proposed settlement of the class action. Among other things, the order directed that on or before Friday, March 9, the Company and its insurance carrier pay and/or cause to be paid \$3,150,000 (the Cash Settlement Amount) into escrow for the benefit of Plaintiffs and the Class (as defined in the settlement agreement). Under the settlement agreement, the Company is responsible for paying \$650,000, which we paid on March 7, 2007, and we understand our insurance carrier is responsible for paying the balance of the Cash Settlement Amount.

In accordance with the order notice of the proposed settlement was mailed by the Court appointed escrow agent to class members by March 14, 2007.

Putative class members have the right to opt out of the settlement by mailing a request in a prescribed form to the escrow agent on or before June 14, 2007. Comments and objections concerning the settlement, its allocation among class members, or plaintiffs' attorney fee must likewise be filed and served by June 14, 2007.

A hearing has been scheduled for July 9, 2007 at 2:00 pm, at which objections to the settlement may be heard in connection with the court's consideration of whether the settlement is fair and all procedural requisites have been met. Following that hearing, the Court will make a final determination as to whether to approve the settlement. Upon such final approval, the amount paid into escrow, along with any interest earned, would be distributed as provided under the settlement to pay class members, plaintiffs' attorney fee, and the costs of claims administration.

**Write-down of assets**

In Q3 2006, based on its assessment of the fair value of the Company's assets related to graphic advertising, the Company concluded that its assets related to graphic advertising had suffered a loss in value and that the carrying value of property and equipment and intangible assets was significantly higher than the fair value for each of these assets due to a significant decrease of graphic advertising revenue. Therefore, write-downs of \$413,238 were recorded to bring them to nil which corresponds to their fair value.

**Write-down of investment**

In Q3 2006, based on its assessment of the fair value of the Company's investment in LTRIM, the Company concluded that its investment has suffered a loss in value other than a temporary decline due to delays in commercialization of LTRIM's technology and therefore recorded a write-down of \$570,000 to bring it to \$150,000.

**Wind-up of Copernic**

On May 31, 2006, the wholly-owned subsidiary, Copernic Technologies Inc. ( Copernic ) which was acquired on December 22, 2005, was wound up into the Company. We believe the wind-up will allow the Company to use carry forward tax losses when needed.

**Reimbursement related to Copernic business acquisition**

Copernic had to file amended tax returns for the year ended June 30, 2005 in order to reduce its research and development tax credits. The Copernic sellers have agreed to reimburse the Company for the entire amount of the adjustment. In June and July 2006 a total of \$379,382 was collected in connection with this adjustment. The total amount reduced the goodwill of the Copernic transaction.

**Granting, exercising and cancellation of stock options**

During the period beginning January 1, 2006 and ending March 29, 2007, the following options were granted, exercised and cancelled:

On January 25, 2006, the Company granted to employees 9,661 stock options at an exercise price of \$3.08 expiring in five years.

On March 17, 2006, the Company granted 25,000 stock options to a new director, at an exercise price of \$2.13 expiring in five years.

On March 27, 2006, the Company granted 25,000 stock options to an employee at an exercise price of \$2.11 expiring in five years.

On January 23, 2007, the Company granted 70,500 and 21,803 stock options at an exercise price of \$5.15 expiring in five years were granted to officers and employees of the Company, respectively.

On February 26, 2007, the Company granted 10,000 stock options at an exercise price of \$4.99 expiring in five years were granted to an employee of the Company.

As at March 16, 2007, 113,765 stock options were exercised with exercise prices ranging between \$1.53 and \$2.57 and 15,288 options were cancelled.



## Critical Accounting Policies and Estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. In doing so, management has to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. In many cases, management reasonably has used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. Management bases its estimates on past experience and other assumptions that it believes are reasonable under the circumstances, and it evaluates these estimates on an ongoing basis. Management refers to accounting estimates of this type as critical accounting policies and estimates, which are discussed further below. Management has reviewed its critical accounting policies and estimates with its Board of Directors.

### Use of estimates

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 Copernic acquisition, 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. Each of these critical accounting policies is described in more detail below.

#### *Allowance for doubtful accounts*

We make judgments as to our ability to collect outstanding receivables and provide allowances for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. The allowance provided for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and our future results of operations could be adversely impacted.

We also record a provision for revenue adjustments in the same period as the related revenues are recorded. These estimates are based on historical analysis of credit memo data and other factors. If the historical data we use to calculate these estimates does not properly reflect future uncollectible revenues, then a change in the allowances would be made in the period in which such a determination is made and revenues in that period could be impacted.

For this item, actual results could differ from those estimates.

#### *Recovery of future income taxes*

We use significant judgment in determining our consolidated recovery of future income taxes. Uncertainties may arise with respect to the tax treatment of certain transactions. Although we believe our estimates are reasonable, we cannot be certain that the final tax outcome of these matters will not be different than that which is reflected in our financial statements. Such differences could have a material effect on our future income taxes in the period in which such determination is made.

For this item, actual results could differ from those estimates.

#### *Goodwill and annual goodwill impairment test*

Goodwill is evaluated for impairment annually in the fourth quarter of the year, 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. Management assesses goodwill for impairment using estimates including discount rate, future growth rates, amounts and timing of estimated future cash flows, general economic, industry conditions and competition. Future adverse changes in these factors could result in losses or inability to recover the carrying value of the goodwill, thereby possibly requiring an impairment charge in the future.

For this item, actual results could differ from those estimates.

*Useful lives and impairment of long-lived assets*

The Company assesses the carrying value of its long-lived assets which include property and equipment and intangible assets, for future recoverability when events or changed circumstances indicate that the carrying value may not be recoverable. Useful lives of long-lived assets are regularly reviewed for their appropriateness. 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. Management assesses long-lived assets for impairment using estimates including discount rate, future growth rates, general economic, industry conditions and competition. Future adverse changes in these factors could result in losses or inability to recover the carrying value of the long-lived assets, thereby possibly requiring an impairment charge in the future.

For this item, actual results could differ from those estimates.

*Stock-based compensation costs*

In determining the fair value of stock options and warrants issued to employees and service providers, using the Black-Scholes option pricing model, the Company must make estimates of the period in which the holders of the options and warrants will exercise the options and warrants and the volatility of the Company's stock over that same period. Different estimates would result in different amounts of compensation being recorded in the financial statements.

*Valuation of investments*

The Company holds interests in various companies. Management records an investment impairment charge when it believes an investment has experienced a decline in value that is judged to be other than temporary. Management 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.

For this item, actual results could differ from those estimates.

*Determination of the fair value of the intangible assets on Copernic acquisition*

The acquisition of Copernic made on December 22, 2005 resulted in the recognition of intangible assets totalling \$7,900,000 and goodwill of \$15,408,721. In 2006, as described in note 11, two items reduced the goodwill to \$14,571,534. The determination of the fair value of the acquired intangible assets and goodwill requires management to estimate the discount rate to be used in the calculations, the amounts and timing of estimated future net cash flows, royalty rate, tax rate, weighted average cost of capital, residual growth rate, general economic and industry conditions. If different estimates had been used, the purchase price allocation might have been materially different and could cause the amortization expense for the current and future years to be significantly different.

*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*

The amounts allocated to the shares and warrants totalled \$13,158,329 and \$3,441,652, respectively for the private placement closed as at June 30, 2004. 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 value of the warrants has been determined using the Black-Scholes pricing model using Management's best estimates of the volatility and the expected life of the warrants.

**Revenue recognition**

Search advertising, graphic advertising, software licensing, customized development and maintenance support revenues are recognized when services are rendered, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable, collection is considered probable, and fees are not subject to forfeiture, refund or other concessions.

With respect to search advertising and graphic advertising revenues, insertion orders or signed contracts are generally used as evidence of an arrangement. Revenues are recognized in accordance with EIC-123, *Reporting Revenue Gross as a Principal Versus Net as an Agent*.

Software licensing agreements are recognized upon delivery of software if persuasive evidence of an arrangement exists, collection is probable, the fee is fixed or determinable and vendor-specific evidence of an arrangement exists to allocate the total fee to the different elements of an arrangement. Vendor-specific objective evidence is typically based on the price charged when an element is sold separately, or, in the case of an element not yet sold separately, the price established by management, if it is probable that the price, once established, will not change before market introduction.

Revenues from maintenance support for licenses previously sold and implemented are recognized ratably over the term of the contract.

Revenues from customized development, not considered as part of the implementation of software licenses, are recognized as the services are provided.

Amounts received in advance of the delivery of products or performance of services are classified as deferred revenue.

Estimates of collection likelihood are based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. If it is determined that collection of a fee is not probable, management defers the fee and recognizes revenues at the time collection becomes probable, which is generally upon receipt of cash.

**Recent accounting changes**

**a) 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.

**b) For changes affecting 2005**

**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.

**c) Future accounting changes**

In April 2005, the CICA issued three new accounting standards: Section 1530 ( Comprehensive Income ), Section 3855 ( Financial Instruments Recognition and Measurement ) and Section 3865 ( Hedges ). These standards became effective for interim periods beginning on or after October 1, 2006. We do not anticipate that these changes will have a significant impact on the Company's results.

**Comprehensive income**

This new standard describes how comprehensive income (and its components) should be presented. Comprehensive income corresponds to the variation in an enterprise's net assets resulting from transactions, events and circumstances from non-shareholder sources. The main components include unrealized currency translation adjustments arising from self-sustaining foreign operations and fair value adjustments of the effective portion of hedging instruments.

**Financial Instruments Recognition and Measurement**

This new standard establishes the timing and method of accounting for financial instruments in the balance sheet. In some cases, fair value may be used; in other cases, a method based on the historical cost may apply. This standard also describes how gains and losses on financial instruments should be presented.

**Hedges**

Hedge accounting is discretionary. This standard makes it possible for entities to apply accounting treatments other than those set out in Section 3855 ( Financial Instruments Recognition and Measurement ) to eligible transactions that the entities choose to designate (for accounting purposes) as components of a hedging relationship. This new standard adds to Accounting Guideline no. 13 (AcG-13), Hedging Relationships, and Section 1650 ( Foreign Currency Translation ) by specifying how hedge accounting may be applied and the related disclosure requirements.

**Results of Operations**

**Revenues**

**2006 as compared to 2005**

In 2006, the Company generated revenues of \$9,596,402 compared to \$9,443,975 for the previous year, an increase of 2%.

**Mamma Media Solutions**

During the financial year ended December 31, 2006, search revenues increased by \$1,178,412 or 24% to \$6,114,450 from \$4,936,038 during the previous year. The increase is explained mostly by an expanded distribution network and new clients.

In 2006, graphic advertising revenues totalled \$827,104 compared to \$4,456,399 for the same period last year, a decrease of \$3,629,295 or 81%. The variance is explained by the decline in pop-up campaigns, a decrease in demand for all other graphic ad units and significant delays in re-orientating our sales team's focus on quality top-tier agencies as opposed to low-tier broker business.

#### Copernic

In 2006, revenues generated by Copernic amounted \$2,654,848 compared to \$51,538 for the same period last year. Revenues of 2006 are composed of \$1,083,418 of search revenues, \$957,488 of software licensing and \$613,942 of customized development and maintenance. Revenues of 2005 represented mainly search revenues generated after the acquisition date of December 22, 2005.

#### 2005 as compared to 2004

Revenues for the year 2005 were \$9,443,975, a decrease of 36% from revenues \$14,636,318 for the year 2004.

#### Mamma Media Solutions

Search advertising revenues decreased by 49% from \$9,659,024 in 2004 to \$4,936,038. This decrease was mainly explained by a significant reduction in business with a major customer, which impacted our search revenues unfavourably by more than \$3.8 million and to industry pressure to deliver better conversion rates and to improve traffic quality by cutting non-converting clicks.

Graphic advertising revenues decreased by 11% from \$4,965,198 to \$4,456,399 due to the loss of a significant number of sales people from our Ad Network team during the last quarter of 2005.

#### Copernic

Revenues for Copernic in 2005 were \$51,538 since the acquisition date of December 22, 2005.

#### *Expenses*

##### **Cost of revenues**

Cost of revenues represents partners' payouts and bandwidth costs to deliver our services.

#### 2006 as compared to 2005

For fiscal year ended December 31, 2006, cost of revenues represented \$2,704,101 or 34% over search and graphic advertising revenues compared to \$4,183,445 or 44% over search and graphic advertising revenues for the same period in 2005 due to our product explained below.

#### Mamma Media Solutions

In 2006, search payouts totalled \$1,999,368 compared to \$1,637,878 for the same period last year, both represented 33% over search revenues. For the fiscal year 2006, graphic payouts stood at \$286,919 or 35% over graphic revenue compared to \$2,264,700 or 51% over related revenue for the same period in 2005. The decrease in percentage over revenue in 2006 is explained by the reversal of old accruals amounting to \$144,671. If we exclude this adjustment, the payouts for 2006 would have stood at \$431,590 representing 52% over graphic revenues compared to 51% for the same period last year.

The bandwidth costs were \$281,322 for the twelve month period ended December 31, 2006, compared to \$279,965 for the same period last year.

#### Copernic

For the fiscal year 2006, costs of revenues amounted to \$136,492 represented mainly by bandwidth costs, compared to \$902 of search payout in 2005 in which we included only 7 days of Copernic's operations.

#### **2005 as compared to 2004**

For the year ended December 31, 2005, these costs represented \$4,183,445 or 44% over search and graphic revenues compared to \$6,539,213 or 45% over similar revenues in 2004.

In 2005, the search payouts stood at \$1,638,780 or 33% over search revenues compared to \$3,940,350 or 41% in 2004 over related revenue. The decrease of costs as a percentage of revenues was mainly due to a higher proportion of revenues generated from our metasearch engine for which no payouts are incurred. Graphic payouts totalled \$2,264,700 or 51% over graphic revenue in 2005 compared to \$2,384,262 or 48%. The percentage of graphic payout in 2005 increased reflecting the competitive landscape for which business partners require higher payout in order to maintain their relationships by providing user traffic or content.

In 2005, bandwidth costs amounted \$279,965 compared \$214,601. The variance is explained by an increase in the bandwidth rates.

#### **Marketing, sales and services**

Marketing, sales and services consist primarily of salaries, commissions and related personnel expenses of our sales force, advertising and promotional expenses as well as the provision for doubtful account.

#### **2006 as compared to 2005**

For the fiscal year ended December 31, 2006, marketing, sales and services decreased to \$1,850,176 from \$2,023,925 in 2005, representing a decrease of \$173,749 or 9%.

#### Mamma Media Solutions

In 2006, marketing, sales and services expenses decreased to \$1,414,074 as compared to \$2,022,142 in 2005. The decrease of \$608,068 is explained by the decrease of \$264,000 in salaries and related employment costs, decrease of charges paid for algorithmic content of \$162,000, decrease of publicity and bad debt expense of respectively \$69,000 and \$62,000.

#### Copernic

For the fiscal year ended December 31, 2006, marketing, sales and services expenses stood at \$436,102 and represents salaries and related costs of \$226,000, recruiting fees of \$97,000 and professional services of \$65,000. For the period of 7 days in 2005, marketing sales and services expenses amounted at \$1,783 and represented salaries.

#### **2005 as compared to 2004**

For the year ended December 31, 2005, marketing, sales and services expenses stood at \$2,023,925, whereas for 2004 these expenses stood at \$2,188,488. The decrease of \$164,563 in 2005 is mainly explained by a decrease in salaries due to the loss of several sales employees and a network manager and a decrease in marketing campaign costs.

### **General and administrative**

General and administrative expenses include the salaries and associated costs of employment of executive management and finance personnel, including stock-based compensation. These costs also include facility charges, investor relations, as well as legal, tax and accounting, consulting and professional service fees associated with operating our business and corporate compliance requirements.

#### **2006 as compared to 2005**

For the fiscal year ended December 31, 2006, general and administrative expenses decreased by \$1,695,765 to \$3,996,327 from \$5,692,092 in 2005. The decrease is mainly explained by the reduction of \$2,278,000 of professional fees, which included a reimbursement of \$460,000 by our insurance company in relation with the SEC investigation. This reduction was mainly offset by two items: an increase of \$306,000 in stock-based compensation explained by a combination of a reversal of expenses after the cancellation of options in 2005 and new options granted, an increase of \$245,000 of salaries and related costs mainly related to Copernic.

#### **2005 as compared to 2004**

In 2005, general and administrative expenses increased to \$5,692,092 as compared to \$3,567,247 in the previous year.

In 2005, the increase of \$2,124,845 is explained by the following items: increase of \$1,914,000 in professional fees in relation to the securities class action lawsuits and SEC investigation, increase of \$481,000 in directors and officers insurance, \$119,000 for investor relations and public reporting and \$118,000 in salaries due to higher headcount offset by \$284,000 of non-cash expenses related to issued warrant to investment banker recorded in Q2 2004, a reduction \$236,000 of stock-based compensation expense due primarily the reversal of expense for the cancelled stock option granted in 2004 and a reduction of \$106,000 of professional fees.

### **Product development and technical support**

Product development and technical support costs include the salaries and associated costs of employment of our team and maintenance of our metasearch engine and other IT systems. These charges also include the costs of technical support and license maintenance. Research and development (R&D) tax credits and future benefit of non-refundable tax credits are also recorded against product development and technical support expenses.

#### **2006 as compared to 2005**

For the fiscal year 2006, product development and technical support expenses increased by \$1,252,522 to \$2,538,867 from \$1,286,345 in 2005.

#### **Mamma Media Solutions**

In 2006, product development and technical support expenses amounted to \$1,049,714 compared to \$1,258,162. The decrease of \$208,448 is explained by reduction of salary expenses of \$207,000 due to the reorganization of the R&D department.

#### **Copernic**

In 2006, product development and technical support stood at \$1,489,153 compared to \$28,183 for the 7 day period in 2005 and represents mainly salaries and related costs.

**2005 as compared to 2004**

Product development and technical support expenses totalled \$1,286,345 in 2005, as compared to \$891,541 in the previous year.

The increase of \$394,804 is mainly explained by an increase of approximately \$351,000 in salaries and related employment costs due to an increase in headcount; stock-based compensation costs following the grant of employee stock options in the first quarter of 2005 and a retention bonus.

**Amortization of property and equipment**

**2006 as compared to 2005**

Amortization of property and equipment stood at \$178,192 for the year ended December 31, 2006 compared to \$106,788 in 2005.

Acquisition of property and equipment, excluding those acquired through business acquisitions, totalled \$76,104 in 2006, \$85,687 in 2005 and \$70,284 in 2004.

**Mamma Media Solutions**

Amortization of property and equipment totalled \$88,466 in 2006 compared to \$104,330 in 2005. The slight decrease of \$ 15,864 in 2006 reflects the normal decrease of the assets net book value.

**Copernic**

In 2006, amortization property and equipment amounted to \$89,726 compared to \$2,458 in 2005. The expense of 2005 represents only 7 days of operations as compared to a full year in 2006.

**2005 as compared to 2004**

In 2005, amortization of property and equipment totalled \$106,788 compared to \$133,123 in 2004. The slight decrease in 2005 reflects the normal decrease of the assets net book value.

**Amortization of intangible assets**

**2006 as compared to 2005**

Amortization of intangible assets totalled \$2,067,009 for the year ended December 31, 2006 compared to \$242,031 in 2005.

**Mamma Media Solutions**

In 2006 amortization of intangible assets stood at \$161,809 as compared to \$200,226 in 2005. The decrease is explained by the write off in 2006 of the remaining balance of intangible assets of focusIN.

**Copernic**

For the fiscal year ended December 31, 2006 amortization of intangible assets stood at \$1,905,200 compared to \$41,805 in 2005. It represents mainly amortization of trade-name, technology and customer relationships. The increase results from including amortization of intangible assets of Copernic acquired on December 22, 2005 for a full 12 months during the 2006 fiscal year.

**2005 as compared to 2004**

Amortization of intangible assets totalled \$242,031 in 2005 compared to \$191,218 in 2004. The increase of \$50,813 relates to the acquisition of the intangible assets of Copernic acquired on December 22, 2005.





**Write-downs, settlement and other costs**

In 2006 the Company recorded class action settlement and closure costs of \$700,000, write-downs of property and equipment and intangible assets related to graphic advertising for a total of \$413,238 and a write-down of LTRIM investment of \$570,000.

In 2004, based on its assessment of the fair value of the Company's investment in LTRIM, the Company concluded that its investment had suffered a loss in value other than a temporary decline and therefore recorded a write-down of \$365,286.

**Interest and other income**

Interest and other income stood at \$415,950 in 2006 compared to \$768,738 in 2005 and \$233,506 in 2004. The decrease in 2006 reflects the lower liquidities following the acquisition of Copernic at the end of December 2005.

The increase in 2005 compared to 2004, reflected the interest earned on cash and cash equivalents and temporary investments on a full year in 2005 compared to half a year in 2004 due to significant amounts of cash and cash equivalents following the private placement close on June 2004.

**Loss on foreign exchange**

Loss on foreign exchange totalled at \$82,203 for the year ended December 31, 2006 compared to \$47,080 in 2005 and \$68,275 in 2004.

**Income taxes (recovery) provision**

For the fiscal year 2006, the recovery for current and future income taxes stood at \$729,053 in 2006 as compared to a recovery of income taxes of \$26,010 in 2005 and a provision of income taxes of \$554,680 in 2004.

In 2006, the recovery of income taxes is explained by a recovery of previous year's income tax for \$4,876 and the reversal of \$724,177 of future income tax liability due to the current amortization of Copernic's intangible assets.

In 2005, the recovery of income taxes is explained by the reassessment of previous year's income tax returns for \$12,046 and the reversal of future income taxes related to the acquisition of Copernic's intangible assets of \$13,964.

In 2004, the provision for income taxes is due to the utilization of non-capital losses for which future income taxes have been previously recorded.

**Earnings (loss) from continuing operations and earnings (loss) per share from continuing operations**

The Company reported loss from continuing operations of \$4,358,708 (\$0.31 per share) in 2006 compared to a loss of \$3,342,983 (\$0.27 per share) in 2005 and earnings of \$370,753 (\$0.03 per share) in 2004.

**Results of discontinued operations**

In 2006, results from discontinued operations contributed to earnings of \$89,328 (\$0.01 per share) compared to a loss of \$2,315,335 (\$0.19 per share) in 2005 and earnings of \$733,654 (\$0.07 per share) in 2004.

In 2006, the contribution of Digital Arrow was due to a reversal of a reserve for salary expenses after a settlement with two former employees and the reversal of the provision for remaining restructuring costs.

In 2005, the loss from discontinued operations of Digital Arrow amounting to \$2,315,335 included a write-down of \$1,625,898 for property and equipment, intangible assets and goodwill.

In 2004, the results of discontinued operations totalling \$733,654 include a gain on disposal of the assets of IBT of \$1,588,923, net costs for an amount of \$544,927 of IBT and net loss of Digital Arrow of \$310,342.

#### **Earnings (loss) for the year**

In accordance with Canadian GAAP, loss totalled \$4,269,380 (\$0.30 per share) in 2006 compared to a loss of \$5,658,318 (\$0.46 per share) in 2005 and compared to earnings of \$1,104,407 (\$0.10 per share) in 2004. For 2006, 2005 and 2004, there is no difference between net earnings (loss) under US GAAP as compared to Canadian GAAP.

#### **Liquidity and capital resources**

As at December 31, 2006, the Company had liquidities of \$7,971,459 which were composed of \$2,379,617 in cash and cash equivalents and \$5,591,842 in temporary investments compared to \$8,514,513 in 2005 which consisted of \$4,501,201 in cash and cash equivalents and \$4,013,312 in temporary investments. For the year ended December 31, 2006, working capital was \$8,533,546 compared to \$8,944,985 for the previous year.

#### **Operating activities**

Operating activities used cash of \$911,582 compared \$2,081,470 in 2005 and generating cash of \$1,006,093 in 2004.

In 2006, the cash used is explained by the loss from continuing operations of \$4,358,708 offset by the amortization of property and equipment and intangible assets of \$2,245,201, write-downs of \$983,238 and stock-based compensation of \$456,281. The cash used for discontinued operations in 2006 stood at \$83,948.

In 2005, the cash used is mainly due to the loss from continuing operations of \$3,342,983 offset by the net change in non-cash working capital of \$1,420,013 mainly due to a decrease in accounts receivable of \$1,266,077 and an increase in accounts payable of \$227,841. The cash used from discontinued operation amounted to \$630,288 in 2005.

In 2004, adjustments for non-cash items such as future income taxes of \$400,855, amortization of intangible assets and amortization of property and equipment of \$191,218 and \$133,123 respectively, write-down of investment of \$365,286, stock-based compensation costs of \$281,367 and financial fees paid by issuance of capital stock and warrants of \$260,301 mainly explain the positive cash flows. The net change in non-cash working capital items partially offset the above-mentioned items mainly due to an increase in our accounts receivable, a direct result of the growth of our sales. However, discontinued operations partially offset positive cash flows from continuing operations by \$790,370. The cash used for operating activities from discontinued operations is primarily related to the net change in non-cash working capital items mainly due to a decrease in accounts payable and accrued liabilities and income taxes payable.

#### Investing Activities

In 2006, investing activities used cash of \$1,326,652 mainly explained by the purchase of temporary investments of \$1,578,530 offset by a reimbursement related to Copernic business acquisition of \$379,382.

In 2005, investing activities used cash of \$13,131,709 of which \$15,851,922 was used for the acquisition of Copernic, \$140,630 used for purchases of property and equipment and intangible assets and the decrease in temporary investments provided cash of \$2,860,843.

The use of cash in 2004 of \$6,495,722 mainly reflected the net increase in short-term investments of \$6,850,979 composed of commercial paper with maturity dates in excess of 120 days, purchases of property and equipment and intangible assets of \$79,718 and cash provided from discontinued operations of \$434,975 reflected the cash consideration for the sale of the assets of IBT of \$1,699,185 partially compensated by the acquisition of Digital Arrow for a cash consideration of \$1,264,210.

#### Financing Activities

In 2006, no cash was provided by, nor used in the financing activities of the Company. In 2005, financing activities used cash of \$1,046,731 mainly explained by the redemption of common shares of the Company. In 2004, financing activities generated \$21,701,442 due to issuance of common shares and warrants through a private placement and exercised options.

The Company considers that cash and cash equivalents will be sufficient to meet normal operating requirements until the end of 2007. In the long term, the Company may require additional liquidity to fund growth, which could include additional equity offerings or debt financing.

#### Concentration of credit risk with customers

As at December 31, 2006, three customers represented 54% of our accounts receivable compared to 39% from two customers for the previous year resulting in a significant concentration of credit risk. Management monitors the evolution of these customers closely in order to rapidly identify any potential problems. These customers, which represented more than 10% of the Company's net accounts receivable, have paid receivables as per their commercial agreements. The Company also monitors the other accounts receivable and there is no indication of credit risk deterioration. Nevertheless we cannot assure that we can retain the business of these customers or that their business will not decline generally in the future.

#### Q4 2006 Results

##### Revenues

Revenues for the three-month period ended December 31, 2006 ( Q4 ) totalled \$3,566,421 compared to \$1,638,431 for the same period in 2005, an increase of \$1,927,990 or 118%. This increase is mainly explained by a significant increase in business in search advertising, software licensing and customized development and maintenance support.

##### Mamma Media Solutions

In Q4 2006, search revenues totalled \$2,243,983 compared to \$1,039,068 for the same period last year, an increase of \$1,204,915 or 116%. The increase is explained by an expanded distribution network and new clients.

In Q4 2006, graphic advertising revenues totalled \$131,633 compared to \$547,826 for the same period last year, a decrease of \$416,193 or 76%. The variance is explained by the decline in pop-up campaigns, a decrease in demand for all other graphic ad units and significant delays in re-orientating our sales team's focus on quality top-tier agencies as opposed to low-tier broker business.

Copernic

In Q4 2006, Copernic generated revenues totalling \$1,190,805 compared to \$51,537 for the same period last year. Revenues in Q4 2006 are comprised of \$259,789 of search advertising revenues (\$34,335 in 2005), \$701,181 of software licensing (\$6,670 in 2005) and \$229,835 in customized development and maintenance (\$10,532 in 2005). Copernic was acquired on December 22, 2005, therefore, in Q4 2005, there were only a few days of operations included in our results.

**Cost of revenues**

Cost of revenues represents partners' payouts and bandwidth costs to deliver our services. For the quarter ended December 31, 2006, cost of revenues represented \$918,920 or 35% over search and graphic advertising revenues compared to \$718,690 or 44% over search and graphic advertising revenues for the same period in 2005.

Mamma Media Solutions

In Q4 2006, search payouts totalled \$754,628 compared to \$366,734 for the same period last year and respectively represented 34% and 35% over search revenues. In Q4 2006, graphic payouts stood at \$77,044 or 59% over graphic revenue compared to \$280,707 or 51% over related revenue for the same period in 2005. The increase in percentage over revenue in Q4 2006 is explained by a fixed payout of \$10,000. Excluding that payout the percentage over revenue for Q4 2006 would have been 51%.

The bandwidth costs were \$61,874 for the three-month period ended December 31, 2006, compared to \$70,347 for the same period last year.

Copernic

In Q4 2006, costs of revenues amounted to \$25,374 represented mainly by bandwidth costs, compared to \$902 of search payout in Q4 2005.

**Marketing, sales and services**

Marketing, sales and services consist primarily of salaries, commissions and related personnel expenses of our sales force, advertising and promotional expenses, as well as the provision for doubtful accounts.

In Q4 2006, marketing, sales and services increased to \$502,415 from \$321,541 in Q4 2005, representing an increase of \$180,874 or 56%.

Mamma Media Solutions

In Q4 2006, marketing, sales and services expenses decreased to \$296,868 as compared to \$319,757 in Q4 2005. The variance of \$22,889 for the quarter reflects a decrease of publicity expense of \$24,000 and a decrease of \$30,000 for the charges paid for algorithmic content from other search engines, offset by an increase of bad debt expense of \$26,000.

Copernic

In Q4 2006, marketing, sales and services expenses stood at \$205,547 and represents salaries and related costs of \$83,000, recruiting fees of \$97,000 and professional services of \$25,000. In Q4 2005 the marketing expense amounted \$1,784 and represented a few days of expenses.

**General and administration**

General and administrative expenses in Q4 2006 totalled \$1,029,243 as compared to \$1,145,862 for the same period last year, a decrease of \$116,619 or 10%.

The decrease is mainly due to the reduction of \$58,000 of professional fees and decrease of \$57,000 of investor relations and public reporting.

**Product development and technical support**

Product development and technical support expenses amounted to \$614,340 in Q4 2006 compared to \$345,407 for the same period last year.

**Mamma Media Solutions**

In Q4 2006, product development and technical support expenses totalled \$184,340 compared to \$317,224 for the same period last year. The decrease for Q4 is explained by the reduction of salary expenses.

**Copernic**

For the three months ended December 31, 2006, product development and technical support amounted \$430,000 and \$28,183 in Q4 2005 and represents mainly salaries and related costs for the entire quarter of 2006 compared to a few days for the same period in 2005.

**Amortization of property and equipment**

Amortization of property and equipment totalled \$48,968 in Q4 2006 compared to \$31,647 for the same period last year, an increase of \$17,321.

**Mamma Media Solutions**

Amortization of property and equipment stood at \$24,442 as compared to a similar expense amount of \$29,189 for the same period last year.

**Copernic**

Amortization of property and equipment for Q4 2006 amounted to \$24,526 compared to \$2,458 for the same period last year.

**Amortization of intangible assets**

Amortization of intangible assets increased to \$487,914 in Q4 2006 compared to \$94,317 for the same period last year.

**Mamma Media Solutions**

Amortization of intangible assets totalled \$9,868 for in Q4 2006 compared to \$52,511 for the same period in 2005. The decrease is explained by the write off in Q3 2006 of intangible assets of FocusIN.

**Copernic**

For the three month period ended December 31, 2006, amortization of intangible assets stood at \$478,046 compared to \$41,806 in 2005 and represents mainly amortization of trade-name, technology and customer relationships.

**Interest and other income**

Interest income decreased in Q4 2006 to \$102,978 from \$264,461 for the same period in 2005. The decrease for the three month period ended December 31, 2006, reflects the lower liquidities following the acquisition of Copernic at the end of December 2005.

**Loss (gain) on foreign exchange**

Gain on foreign exchange totalled \$51,392 for Q4 2006 compared to a loss of \$23,876 for the same period last year. The variation is explained by a significant change in the foreign exchange rate during Q4 2006.

**Current income taxes**

Current income taxes are nil in Q4 2006 compared to \$24,773 for the same period last year. The 2005 current income taxes reflects income tax assessments relating to prior years.

**Future income taxes**

Recovery of future income taxes totalled \$246,356 compared to \$13,964 in Q4 2005. The recovery of future income taxes recorded in 2006 relates to the Copernic amortization of intangible assets which does not have the same asset base for accounting and tax purposes.

**Earnings (loss) from continuing operations and earnings (loss) per share from continuing operations**

The Company reported earnings from continuing operations of \$365,347 (\$0.03 per share) in Q4 2006 compared to a loss of \$739,711 (\$0.06 per share) for the same period last year. The Q4 earnings are mainly explained by the increase of revenues and recovery of future income taxes.

**Results of discontinued operations and earnings (loss) per share from discontinued operations**

Results from discontinued operations of Digital Arrow for the quarter ended December 31, 2006 contributed to earnings of \$54,828 (\$0.00 per share) compared to a loss of \$22,844 (\$0.00 per share) for the three month period ended December 31, 2005. In 2006, the contribution was due to the reversal of the provision for remaining restructuring costs.

**Net earnings (loss) and net earnings (loss) per share**

In Q4 2006, net earnings totalled \$420,175 (\$0.03 per share) compared to a loss of \$762,555 (\$0.06 per share) for the same period last year.

**Operating activities**

In Q4 2006, operating activities from continuing operations used cash totalling \$514,762 compared to cash inflow of \$521,654 for the same period in 2005. The decrease is mainly due to an increase in non-cash working capital items mainly related to the net impact of accounts receivable and accounts payable of approximately \$1,637,000 which a significant portion has been subsequently collected in 2007.

**Investing activities**

Investing activities from continuing operations in Q4 2006 used cash of \$2,592,407 and is mainly explained by the purchase of temporary investments of \$2,557,521.

Investing activities from continuing operations in Q4 2005 used cash totalling \$19,872,778 of which \$15,851,922 was used in the acquisition of Copernic and \$4,013,312 in the purchase of temporary investments.

**Financing activities**

In Q4 2006 and 2005, no cash was provided by, nor used in, any financing activities of the Company.

**Off-balance sheet arrangements**

As at December 31, 2006 and 2005, the Company has no off-balance sheet arrangements.

**Contractual obligations, contingent liabilities and commitments**

The following table summarizes our contractual obligations as at December 31, 2006, and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

| Years:     | Operating leases |
|------------|------------------|
| 2007       | \$ 444,000       |
| 2008       | 189,000          |
| 2009       | 112,000          |
| 2010       | 18,000           |
| Thereafter |                  |

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.

**Risks and uncertainties**

While Mamma.com's Management has confidence in the Company's long-term performance prospects, the following factors, among others, should be considered in evaluating its future results of operations.

*Our revenues depend to a high degree on our relationship with two customers, the loss of which would adversely affect our business and results of operations.*

For the year ended December 31, 2006, approximately 22% and 11% respectively of our revenues were derived from agreements with our two largest customers. Revenues from these customers represented 16 % and 11% of our revenues in 2005 and 2% and 11% of our revenues in 2004. Although we monitor our accounts receivable for credit risk deterioration and these customers have been paying their payables to Mamma.com in accordance with the terms of their agreements with the Company, there can be no assurance that they will continue to do so or that they will continue to do so at the volume of business they have done historically. Our loss of these customers' business would adversely affect our business and results of operations.



*Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.*

Our operating results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual expenses as a percentage of our revenues may be significantly different from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause our stock price to fall. Each of the risk factors listed in this Risk Factors section, and the following factors, may affect our operating results:

Our ability to continue to attract users to our Web sites.

Our ability to monetize (or generate revenue from) traffic on our Web sites and our network of advertisers Web sites.

Our ability to attract advertisers.

The amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our businesses, operations and infrastructure.

Our focus on long term goals over short term results.

The results of any investments in risky projects.

Payments that may be made in connection with the resolution of litigation matters.

General economic conditions and those economic conditions specific to the Internet and Internet advertising.

Our ability to keep our Web sites operational at a reasonable cost and without service interruptions.

Geopolitical events such as war, threat of war or terrorist actions.

Our ability to generate CDS revenues through licensing and revenue share.

Because our business is changing and evolving, our historical operating results may not be useful to you in predicting our future operating results. In addition, advertising spending has historically been cyclical in nature, reflecting overall economic conditions as well as budgeting and buying patterns. Also, user traffic tends to be seasonal.

*We are the subject of an SEC investigation which may depress the market price for our Common Shares, reduce the liquidity of the Common Shares trading market and negatively affect our results of operations.*

On March 18, 2004, the United States Securities and Exchange Commission ( SEC ) notified the Company that the SEC had begun an investigation 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. As a part of its investigation, the Company believes the SEC has considered matters related to trading in the Company s securities and whether Irving Kott 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. The Company also believes that the Commission s staff has considered matters relating to the Company s financial reporting and internal controls. The scope, focus and subject matter of the SEC

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investigation may change from time to time. Adverse developments in connection with the investigation could have a negative impact on our Company and on how it is perceived by investors and potential investors and negatively impact our results of operations. While we are not able to estimate, at this time, the amount of the additional expenses that we will incur in future connection with the investigation, we expect that further expenses in connection with the investigation could continue to negatively affect our results of operations. In

addition, the management effort and attention required to respond to the investigation and any such developments could have a negative impact on our business operations. An adverse determination by the SEC in its investigation could result in negative consequences for the Company, including initiation of enforcement proceedings, fines, penalties and possibly other sanctions that could harm the Company's business, reduce the market value of its Common Shares and negatively affect its results of operations.

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 whether 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 Company during such period.

*On November 9, 2006, the Company announced that it had entered into an agreement to settle the securities class action filed against it; however, if this settlement is not approved by the Court at the hearing scheduled July 9, 2007, an adverse result in this lawsuit could result in significantly higher than the settlement damages and adversely affect the Company's financial condition and results of operations.*

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 (the Court) 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, purported statements from unidentified individuals and newspaper reports. All of these lawsuits have been consolidated and the lead plaintiff has filed an amended complaint in the case. The Company denies the allegations against it, believes that the purported claims are without merit, and intends to continue to defend itself vigorously. Nevertheless, a finding of liability of the Company in any of these class action lawsuits could result in significant damages and materially adversely affect the Company's financial condition and results of operations. On November 9, 2006, the Company announced that it had entered into an agreement to settle the class action currently pending in the Court. The settlement, which has been preliminarily approved by the Court, would resolve all claims asserted against the Company and the individual officer defendants by class plaintiffs that do not opt out of the settlement. The Court has scheduled a hearing July 9, 2007 to hear objections in connection with the court's consideration of whether the settlement is fair and all procedural requisites have been met. For more information regarding the settlement procedures, refer to the section of this Management's Discussion and Analysis of Results of Operations captioned "Recent events - Settlement of class action lawsuit".

*We rely on our Web site partners for a significant portion of our net revenues, and otherwise benefit from our association with them. The loss of these Web site partners could prevent us from receiving the benefits we receive from our association with them, which could adversely affect our business.*

We provide advertising, Web search and other services to members of our partner Web sites. We expect the percentage of our revenues generated from this network to increase in the future. We consider this network to be critical in the future growth of our revenues. However, some of the

participants in this network may compete with us in one or more areas. Therefore, they may decide in the future to terminate their agreements with us. If our Web site partners decide to use a competitor's or their own Web search or advertising services, our revenues would decline.

*We face competition from other Internet companies, including Web search providers, Internet advertising companies and destination Web sites that may also bundle their services with Internet access.*

In addition to Microsoft, Yahoo, Google and Ask.com, we face competition from other Web search providers, including companies that are not yet known to us. We compete with Internet advertising companies, particularly in the areas of pay-for-performance and keyword-targeted Internet advertising. Also, we may compete with companies that sell products and services online because these companies, like us, are trying to attract users to their Web sites to search for information about products and services.

We also compete with destination Web sites that seek to increase their search-related traffic. These destination Web sites may include those operated by Internet access providers, such as cable and DSL service providers. Because our users need to access our services through Internet access providers, they have direct relationships with these providers. If an access provider or a computer or computing device manufacturer offers online services that compete with ours, the user may find it more convenient to use the services of the access provider or manufacturer. In addition, the access provider or manufacturer may make it hard to access our services by not listing them in the access provider's or manufacturer's own menu of offerings. Also, because the access provider gathers information from the user in connection with the establishment of a billing relationship, the access provider may be more effective than we are in tailoring services and advertisements to the specific tastes of the user.

There has been a trend toward industry consolidation among our competitors, and so smaller competitors today may become larger competitors in the future. If our competitors are more successful than we are at generating traffic and advertising, our revenues may decline.

*We face competition from traditional media companies, and we may not be included in the advertising budgets of large advertisers, which could harm our operating results.*

In addition to Internet companies, we face competition from companies that offer traditional media advertising opportunities. Most large advertisers have set advertising budgets, a very small portion of which is allocated to Internet advertising. We expect that large advertisers will continue to focus most of their advertising efforts on traditional media. If we fail to convince these companies to spend a portion of their advertising budgets with us, or if our existing advertisers reduce the amount they spend on our programs, our operating results would be harmed.

*Some of our revenues declined in 2006 and we anticipate downward pressure on our operating margin in the future.*

We believe our operating margin may decline as a result of increasing competition and increased expenditures for all aspects of our business as a percentage of our revenues, including product development and sales and marketing expenses. We also expect that our operating margin may decline as a result of increases in the proportion of our revenues generated from our partner Web sites. The margin on revenues we generate from our partner Web sites is generally significantly less than the margin on revenues we generate from advertising on our Web sites. Additionally, the margin we earn on revenues generated from our partner Web sites could decrease in the future if our partners require a greater portion of the advertising fees.

*If we do not continue to innovate and provide products and services that are useful to users, we may not remain competitive, and our revenues and operating results could suffer.*

Our success depends on providing products and services that people use for a high quality Internet experience. Our competitors are constantly developing innovations in Web search, online advertising and providing information to people. As a result, we must continue to invest significant resources in research and development in order to enhance our Web search technology and our existing products and services and introduce new high-quality products and services that people will use. If we are unable to predict user preferences or industry changes, or if we are unable to modify our products and services on a timely basis, we may lose users, advertisers and Web site partners. Our operating results would also suffer if our innovations were not responsive to the needs of our users, advertisers and Web site partners are not appropriately timed with market opportunity, effectively brought to market or well received in the market place. As search technology continues to develop, our competitors may be able to offer search results that are, or that are perceived to be, substantially similar or better than those generated by our search services. This may force us to compete on bases in addition to quality of search results and to expend significant resources in order to remain competitive.

*Our business depends on a strong brand, and if we are not able to maintain and enhance our brands, our ability to expand our base of users and advertisers will be impaired and our business and operating results will be harmed.*

We believe that the brand identity that we have developed has significantly contributed to the success of our business. We also believe that maintaining and enhancing the Company's brands are critical to expanding our base of users and advertisers. Maintaining and enhancing our brands may require us to make substantial investments and these investments may not be successful. If we fail to promote and maintain the Mamma® and Copernic® brands, or if we incur excessive expenses in this effort, our business, operating results and financial condition will be materially and adversely affected. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brands may become increasingly difficult and expensive. Maintaining and enhancing our brands will depend largely on our ability to continue to provide high quality products and services, which we may not do successfully.

We generated a significant portion of our revenues in 2006 from our advertisers. Our advertisers can generally terminate their contracts with us at any time. Advertisers will not continue to do business with us if their investment in advertising with us does not generate sales leads, and ultimately customers, or if we do not deliver their advertisements in an appropriate and effective manner.

*New technologies could block our ads, which would harm our business.*

Technologies may be developed that can block the display of our ads. Most of our revenues are derived from fees paid to us by advertisers in connection with the display of ads on Web pages. As a result, ad-blocking technology could, in the future, adversely affect our operating results.

*We generate all of our revenue from advertising and software licensing, and the reduction of spending by or loss of customers could seriously harm our business.*

If we are unable to remain competitive and provide value to our advertisers, they may stop placing ads with us, which could negatively affect our net revenues and business. Mamma has on-going efforts to maintain a high quality network of publishers in order to offer advertisers high quality users that will provide for a satisfactory ROI. Therefore, from time to time cease sending advertisements to what we determine are a low quality publishers. This can reduce our revenues in the short term in order to create advertiser retention in the long term. For the year 2006, we also generated revenues from licensing software. Our competitors are constantly improving their competing software, and if we fail to innovate and remain competitive our revenues from software licensing will decline.

*Our operating results may be subject to fluctuations.*

Our operating results may fluctuate as a result of many factors related to our business, including the competitive conditions in the industry, loss of significant customers, delays in the development of new services and usage of the Internet, as described in more detail below, and general factors such as size and timing of orders and general economic conditions.

*We face significant competition from Microsoft, Yahoo, Google and Ask.com.*

We face formidable competition in every aspect of our business, and particularly from other companies that seek to connect people with information on the Web and provide them with relevant advertising. Currently, we consider our primary competitors to be Microsoft, Yahoo, Google and Ask.com. We expect that Microsoft will increasingly use its financial and engineering resources to compete with us. Yahoo has become an increasingly significant competitor, having acquired Overture Services, which offers Internet advertising solutions that compete with our advertising programs.

Microsoft, Yahoo, Google and Ask.com have more employees and cash resources than we do. These companies also have longer histories operating search engines and more established relationships with customers. They can use their experience and resources against us in a variety of competitive ways, including by making acquisitions, investing more aggressively in research and development and competing more aggressively for advertisers and Web sites. Microsoft and Yahoo also may have a greater ability to attract and retain users than we do because they operate Internet portals with a broad range of products and services. If Microsoft, Yahoo, Google or Ask.com are successful in providing similar or better Web search results compared to ours or leverage their platforms to make their Web search services easier to access than ours, we could experience a significant decline in user traffic. Any such decline in user traffic could negatively affect our net revenues.

*Volatility of stock price and trading volume could adversely affect the market price and liquidity of the market for our Common Shares.*

Our Common Shares are subject to significant price and volume fluctuations, some of which result from various factors including (a) changes in our business, operations, and future prospects, (b) general market and economic conditions, and (c) other factors affecting the perceived value of our Common Shares. Significant price and volume fluctuations have particularly impacted the market prices of equity securities of many technology companies including without limitation those providing communications software or Internet-related products and services. Some of these fluctuations appear to be unrelated or disproportionate to the operating performance of such companies. The market price and trading volume of our Common Shares have been, and may likely continue to be, volatile, experiencing wide fluctuations. During the twelve-month period ended December 31, 2006, the closing per share price of our Common Shares has varied from \$0.97 to \$7.95. During that same period, the daily trading volume of our Common Shares has varied between 13,900 and 53,459,600 with an average daily trading of 1,430,483 Common Shares. Future market conditions may adversely affect the market price and trading volume of our Common Shares. Furthermore, should the market price of our Common Shares drop below the \$1.00 per share minimum bid price requirement, our Common Shares risk being delisted from The NASDAQ Stock Market®, which would have an adverse effect on our business and liquidity of our Common Shares. Brokerage firms may not provide a market for low-priced stock, may not recommend low-priced stock to their clients and may charge a greater percentage commission on low-priced stock than that which they would charge on a transaction of a similar dollar amount but fewer shares. These circumstances may adversely impact trading in our Common Shares and may also adversely affect our ability to access capital.

*Infringement and liability claims could damage our business.*

Companies in the Internet, technology and media industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. As we face increasing competition and become increasingly high profile, the possibility of intellectual property rights claims against us grows. Our technologies may not be able to withstand any third-party claims or rights against their use. Any intellectual property claims, with or without merit, could be time-consuming, expensive to litigate or settle and could divert resources and attention. In addition, many of our agreements with our advertisers require us to indemnify certain third-party intellectual property infringement claims, which would increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling in any such claims. An adverse determination also could prevent us from offering our services to others and may require that we procure substitute services for these members.

With respect to any intellectual property rights claim, we may have to pay damages or stop using technology or content found to be in violation of a third party's rights. We may have to seek a license for the technology or content, which may not be available on reasonable terms and may significantly increase our operating expenses. The technology or content also may not be available for license to us at all. As a result, we may also be required to develop alternative non-infringing technology, which could require significant effort and expense, or stop using the content. If we cannot license or develop technology or content for the infringing aspects of our business, we may be forced to limit our product and service offerings and may be unable to compete effectively. Any of these results could harm our brand and operating results.

In addition, we may be liable to third-parties for content in the advertising we deliver if the artwork, text or other content involved violates copyright, trademark, or other intellectual property rights of third-parties or if the content is defamatory. Any claims or counterclaims could be time-consuming, could result in costly litigation and could divert management's attention.

Additionally, we may be subject to legal actions alleging patent infringement, unfair competition or similar claims. Others may apply for or be awarded patents or have other intellectual property rights covering aspects of our technology or business. For example we understand that Overture Services, Inc. (recently acquired by Yahoo) purports to be the owner of U.S. Patent No. 6,269,361, which was issued on July 31, 2001 and is entitled "System and method for influencing a position on a search result list generated by a computer network search engine." Overture has aggressively pursued its alleged patent rights by filing lawsuits against other pay-per-click search engine companies such as MIVA (formerly known as FindWhat.com) and Google. MIVA and Google have asserted counter-claims against Overture including, but not limited to, invalidity, unenforceability and non-infringement. While it is our understanding that the lawsuits against MIVA and Google have been settled, there is no guarantee Overture will not pursue its alleged patent rights against other companies.

*Historical net results include net losses for the years ended December 31, 1999 to December 31, 2003 and for the years ended December 31, 2005 and 2006. Working capital may be inadequate.*

For the years ended December 31, 1999 through the year ended December 31, 2003 and for the years ended December 31, 2005 and December 31, 2006, we have reported net losses and net losses per share. We have been financing operations mainly from funds obtained in several private placements, and from exercised warrants and options. Management considers that cash and cash equivalents as at December 31, 2006 will be sufficient to meet normal operating requirements throughout 2007. In the long term, we may require additional liquidity to fund growth, which could include additional equity offerings or debt finance. No assurance can be given that we will be successful in getting required financing in the future.

*Goodwill may be written-down in the future.*

Goodwill is evaluated for impairment annually, or when events or changed circumstances indicate impairment may have occurred. Management monitors goodwill for impairment by considering estimates including discount rate, future growth rates, amounts and timing of estimated future cash flows, general economic, industry conditions and competition. Future adverse changes in these factors could result in losses or inability to recover the carrying value of the goodwill. Consequently, our goodwill, which amounts to approximately \$15.4M as at December 31, 2006, may be written-down in the future which could adversely effect our financial position.

*Long-lived assets may be written-down in the future.*

The Company assesses the carrying value of its long-lived assets, which include property and equipment and intangible assets, for future recoverability when events or changed circumstances indicate that the carrying value may not be recoverable. Management monitors long-lived assets for impairment by considering estimates including discount rate, future growth rates, general economic, industry conditions and competition. Future adverse changes in these factors could result in losses or inability to recover the carrying value of the long-lived assets. Consequently, our long-lived assets, which amounts to approximately \$6.7M as at December 31, 2006, may be written-down in the future.

*Investment in LTRIM may be written-down in the future.*

We have an investment in LTRIM. LTRIM is a corporation which has started its commercialization phase and there is no assurance that it will become profitable in the future or that we will be able to recover the cost of this investment. Consequently, our investment in LTRIM, which has been written-down to \$150,000, may be written-down again in the future.

*Reduced Internet use may adversely affect our results.*

Our business is based on Internet driven products and services including direct online Internet marketing. The emerging nature of the commercial uses of the Internet makes predictions concerning a significant portion of our future revenues difficult. As the industry is subject to rapid changes, we believe that period-to-period comparisons of its results of operations will not necessarily be meaningful and should not be relied upon as indicative of our future performance. It is also possible that in some fiscal quarters, our operating results will be below the expectations of securities analysts and investors. In such circumstances, the price of our Common Shares may decline. The success of a significant portion of our operations depends greatly on increased use of the Internet by businesses and individuals as well as increased use of the Internet for sales, advertising and marketing. It is not clear how effective Internet related advertising is or will be, or how successful Internet-based sales will be. Our results will suffer if commercial use of the Internet, including the areas of sales, advertising and marketing, fails to grow in the future.

*Our long-term success may be materially adversely affected if the market for E-commerce does not grow or grows slower than expected.*

Because many of our customers' advertisements encourage online purchasing and/or Internet use, our long-term success may depend in part on the growth and market acceptance of e-commerce. Our business will be adversely affected if the market for e-commerce does not continue to grow or grows slower than expected. A number of factors outside of our control could hinder the future growth of e-commerce, including the following:

the network infrastructure necessary for substantial growth in Internet usage may not develop adequately or our performance and reliability may decline;



insufficient availability of telecommunication services or changes in telecommunication services could result in inconsistent quality of service or slower response times on the Internet;

negative publicity and consumer concern surrounding the security of e-commerce could impede our growth; and

financial instability of E-commerce customers.

*Security breaches and privacy concerns may negatively impact our business.*

Consumer concerns about the security of transmissions of confidential information over public telecommunications facilities is a significant barrier to increased electronic commerce and communications on the Internet that are necessary for growth of the Company's business. Many factors may cause compromises or breaches of the security systems we use or other Internet sites use to protect proprietary information, including advances in computer and software functionality or new discoveries in the fields of cryptography and processor design. A compromise of security on the Internet would have a negative effect on the use of the Internet for commerce and communications and negatively impact our business. Security breaches of their activities or the activities of their customers and sponsors involving the storage and transmission of proprietary information, such as credit card numbers, may expose our operating business to a risk of loss or litigation and possible liability. We cannot assure that the measures in place are adequate to prevent security breaches.

*If we fail to detect click fraud, we could lose the confidence of our advertisers, thereby causing our business to suffer.*

We are exposed to the risk of fraudulent clicks on our ads from a variety of potential sources. We have regularly refunded revenues that our advertisers have paid to us that were later attributed to click fraud, and we expect to do so in the future. Click fraud occurs when a person clicks on an ad displayed on a Web site for a reason other than to view the underlying content. If we are unable to stop this fraudulent activity, these refunds may increase. If we find new evidence of past fraudulent clicks we may issue refunds retroactively of amounts previously paid to our network of advertisers. This would negatively affect our profitability, and these types of fraudulent activities could hurt our brands. If fraudulent clicks are not detected, the affected advertisers may experience a reduced return on their investment in our advertising programs because the fraudulent clicks will not lead to potential revenue for the advertisers. This could lead the advertisers to become dissatisfied with our advertising programs, which could lead to a loss of advertisers and revenues and potentially litigation.

*Index spammers could harm the integrity of our Web search results, which could damage our reputation and cause our users to be dissatisfied with our products and services.*

There is an ongoing and increasing effort by index spammers to develop ways to manipulate our Web search results. Although they cannot manipulate our results directly, index spammers can manipulate our suppliers like Ask.com, Gigablast.com or Wisenut.com, which can result in our search engine pages producing poor results. We take this problem very seriously because providing relevant information to users is critical to our success. If our efforts to combat these and other types of manipulation are unsuccessful, our reputation for delivering relevant information could be diminished. This could result in a decline in user traffic, which would damage our business.

*Our business is subject to a variety of U.S. and foreign laws that could subject us to claims or other remedies based on the nature and content of the information searched or displayed by our products and services, and could limit our ability to provide information regarding regulated industries and products.*

The laws relating to the liability of providers of online services for activities of their users are currently unsettled both within the U.S. and abroad. Claims have been threatened and filed under both U.S. and foreign law for defamation, libel, invasion of privacy and other data protection claims, tort, unlawful activity, copyright or trademark infringement, or other theories based on the nature and content of the materials searched and the ads posted or the content generated by our users. Increased attention focused on these issues and legislative proposals could harm our reputation or otherwise affect the growth of our business.

The application to us of existing laws regulating or requiring licenses for certain businesses of our advertisers, including, for example, distribution of pharmaceuticals, adult content, financial services, alcohol or firearms and online gambling, can be unclear. Existing or new legislation could expose us to substantial liability, restrict our ability to deliver services to our users, limit our ability to grow and cause us to incur significant expenses in order to comply with such laws and regulations.

Several other federal laws could have an impact on our business. Compliance with these laws and regulations is complex and may impose significant additional costs on us. For example, the Digital Millennium Copyright Act has provisions that limit, but do not eliminate, our liability for listing or linking to third-party Web sites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. The Children's Online Protection Act and the Children's Online Privacy Protection Act restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors. In addition, the Protection of Children from Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Any failure on our part to comply with these regulations may subject us to additional liabilities.

*If the technology that we currently use to target the delivery of online advertisements and to prevent fraud on our networks is restricted or becomes subject to regulation, our expenses could increase and we could lose customers or advertising inventory.*

Web sites typically place small files of non-personalized (or anonymous) information, commonly known as cookies, on an Internet user's hard drive, generally without the user's knowledge or consent. Cookies generally collect information about users on a non-personalized basis to enable Web sites to provide users with a more customized experience. Cookie information is passed to the Web site through an Internet user's browser software. We currently use cookies to track an Internet user's movement through the advertiser's Web site and to monitor and prevent potentially fraudulent activity on our network. Most currently available Internet browsers allow Internet users to modify their browser settings to prevent cookies from being stored on their hard drive, and some users currently do so. Internet users can also delete cookies from their hard drives at any time. Some Internet commentators and privacy advocates have suggested limiting or eliminating the use of cookies, and legislation (including, but not limited to, Spyware legislation such as U.S. House of Representatives Bill HR 29 the Spy Act) has been introduced in some jurisdictions to regulate the use of cookie technology. The effectiveness of our technology could be limited by any reduction or limitation in the use of cookies. If the use or effectiveness of cookies were limited, we would have to switch to other technologies to gather demographic and behavioural information. While such technologies currently exist, they are substantially less effective than cookies. We would also have to develop or acquire other technology to prevent fraud. Replacement of cookies could require significant reengineering time and

resources, might not be completed in time to avoid losing customers or advertising inventory, and might not be commercially feasible. Our use of cookie technology or any other technologies designed to collect Internet usage information may subject us to litigation or investigations in the future. Any litigation or government action against us could be costly and time-consuming, could require us to change our business practices and could divert management's attention.

*Increased regulation of the Internet may adversely affect our business.*

If the Internet becomes more strongly regulated, a significant portion of our operating business may be adversely affected. For example, there is increased pressure to adopt laws and regulations relating to Internet unsolicited advertisements, privacy, pricing, taxation and content. The enactment of any additional laws or regulations in Canada, Europe, Asia or the United States, or any state or province of the United States or Canada may impede the growth of the Internet and our Internet-related business, and could place additional financial burdens on us and our Internet-related business.

*Changes in key personnel, labour availability and employee relations could disrupt our business.*

Our success is dependent upon the experience and abilities of our senior management and our ability to attract, train, retain and motivate other high-quality personnel, in particular for our technical and sales teams. There is significant competition in our industries for qualified personnel. Labour market conditions generally and additional companies entering industries which require similar labour pools could significantly affect the availability and cost of qualified personnel required to meet our business objectives and plans. There can be no assurance that we will be able to retain our existing personnel or that we will be able to recruit new personnel to support our business objectives and plans. We believe our employee relations are good. Currently, none of our employees are unionized. There can be no assurance, however, that a collective bargaining unit will not be organized and certified in the future. If certified in the future, a work stoppage by a collective bargaining unit could be disruptive and have a material adverse effect on us until normal operations resume.

*Possible future exercise of warrants and options could dilute existing and future shareholders.*

As at March 16, 2007, we had 646,392 warrants and 655,482 stock options outstanding. As at March 16, 2007, the exercise price of a significant portion of warrants issued were lower than the market price of our Common Shares. When the market value of the Common Shares is above the respective exercise prices of all options and warrants, their exercise could result in the issuance of up to an additional 1,301,874 Common Shares. To the extent such shares are issued, the percentage of our Common Shares held by our existing stockholders will be reduced. Under certain circumstances the conversion or exercise of any or all of the warrants or stock options might result in dilution of the net tangible book value of the shares held by existing Company stockholders. For the life of the warrants and stock options, the holders are given, at prices that may be less than fair market value, the opportunity to profit from a rise in the market price of the shares of Common Shares, if any. The holders of the warrants and stock options may be expected to exercise them at a time when the Company may be able to obtain needed capital on more favourable terms. In addition, we reserve the right to issue additional shares of Common Shares or securities convertible into or exercisable for shares of Common Shares, at prices, or subject to conversion and exercise terms, resulting in reduction of the percentage of outstanding Common Shares held by existing stockholders and, under certain circumstances, a reduction in the net tangible book value of existing stockholders' Common Shares.

*Strategic acquisitions and market expansion present special risks.*

A future decision to expand our business through acquisitions of other businesses and technologies presents special risks. Acquisitions entail a number of particular problems, including (i) difficulty integrating acquired technologies, operations, and personnel with the existing businesses, (ii) diversion

of management's attention in connection with both negotiating the acquisitions and integrating the assets as well as the strain on managerial and operational resources as management tries to oversee larger operations, (iii) exposure to unforeseen liabilities relating to acquired assets, and (iv) potential issuance of debt instruments or securities in connection with an acquisition possessing rights that are superior to the rights of holders of the our currently outstanding securities, any one of which would reduce the benefits expected from such acquisition and/or might negatively affect our results of operations. We may not be able to successfully address these problems. We also face competition from other acquirers, which may prevent us from realizing certain desirable strategic opportunities.

*We do not plan to pay dividends on the Common Shares.*

The Company has never declared or paid dividends on its shares of Common Shares. The Company currently intends to retain any earnings to support its working capital requirements and growth strategy and does not anticipate paying dividends in the foreseeable future. Payment of future dividends, if any, will be at the discretion of the Company's Board of Directors after taking into account various factors, including the Company's financial condition, operating results, current and anticipated cash needs and plans for expansion.

*Rapidly evolving marketplace and competition may adversely impact our business.*

The markets for our products and services are characterized by (i) rapidly changing technology, (ii) evolving industry standards, (iii) frequent new product and service introductions, (iv) shifting distribution channels, and (v) changing customer demands. The success of the Company will depend on its ability to adapt to its rapidly evolving marketplaces. There can be no assurance that the introduction of new products and services by others will not render our products and services less competitive or obsolete. We expect to continue spending funds in an effort to enhance already technologically complex products and services and develop or acquire new products and services. Failure to develop and introduce new or enhanced products and services on a timely basis might have an adverse impact on our results of operations, financial condition and cash flows. Unexpected costs and delays are often associated with the process of designing, developing and marketing enhanced versions of existing products and services and new products and services. The market for our products and services is highly competitive, particularly the market for Internet products and services which lacks significant barriers to entry, enabling new businesses to enter this market relatively easily. Competition in our markets may intensify in the future. Numerous well-established companies and smaller entrepreneurial companies are focusing significant resources on developing and marketing products and services that will compete with the Company's products and services. Many of our current and potential competitors have greater financial, technical, operational and marketing resources. We may not be able to compete successfully against these competitors. Competitive pressures may also force prices for products and services down and such price reductions may reduce our revenues.

*An inability to protect our intellectual property rights could damage our business.*

We rely upon a combination of trade secret, copyright, trademark, patents and other laws to protect our intellectual property assets. We have entered into confidentiality agreements with our management and key employees with respect to such assets and limit access to, and distribution of, these and other proprietary information. However, the steps we take to protect our intellectual property assets may not be adequate to deter or prevent misappropriation. We may be unable to detect unauthorized uses of and take appropriate steps to enforce and protect our intellectual property rights. Although senior management believes that our services and products do not infringe on the intellectual property rights of others, we nevertheless are subject to the risk that such a claim may be asserted in the future. Any such claims could damage our business.

*To the extent our net revenues are paid in foreign currencies, and currency exchange rates become unfavourable, we may lose some of the economic value of the net revenues in U.S. dollar terms.*

Although we currently transact a majority of our business in U.S. dollars, as we expand our operations more of our customers may pay us in foreign currencies. Conducting business in currencies other than U.S. dollars subjects us to fluctuations in currency exchange rates. If the currency exchange rates were to change unfavourably, the value of net receivables we receive in foreign currencies and later convert to U.S. dollars after the unfavourable change would be diminished. This could have a negative impact on our reported operating results. We do not currently engage in hedging strategies, such as forward contracts, options and foreign exchange swaps related to transaction exposures to mitigate this risk. If we determine to initiate such hedging activities in the future, there is no assurance these activities will effectively mitigate or eliminate our exposure to foreign exchange fluctuations. Additionally, such hedging programs would expose us to risks that could adversely affect our operating results, because we have limited experience in implementing or operating hedging programs. Hedging programs are inherently risky and we could lose money as a result of poor trades.

*Higher inflation could adversely affect our results of operations and financial condition.*

We do not believe that the relatively moderate rates of inflation experienced in the United States and Canada in recent years have had a significant effect on our revenues or profitability. Although higher rates of inflation have been experienced in a number of foreign countries in which we might transact business, we do not believe that such rates have had a material effect on our results of operations, financial condition and cash flows. Nevertheless, in the future, high inflation could have a material, adverse effect on the Company's results of operations, financial condition and cash flows.

*Our future growth significantly depends to a high degree on our ability to successfully commercialize the Copernic Desktop Search® product, and any failure or delays in that commercialization would adversely affect our business and results of operations.*

On December 22, 2005, we completed our acquisition of Copernic, which we believe positioned the Company as a leader in search technologies and applications and as a multi-channel online marketing services provider. We have high expectations for the Copernic Desktop Search® (CDS) award-winning product. Any failure or significant delay in successfully commercializing the CDS product could adversely affect our business and results of operations.

#### Disclosure Controls and Procedures

We carried out an evaluation, under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, as to the effectiveness, design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act)) as of December 31, 2006. The evaluation considered the procedures designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported in the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission and communicate to our management as appropriate to allow discussions regarding required disclosure. Upon such review, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2006.

#### Changes in Internal Control Over Financial Reporting

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. During 2006, the Company took certain steps to improve its internal control over financial reporting. These improvements included:

Engaging outside independent consultant to assist in the evaluation, design and implementation of improved internal controls;

Adopting a revised/formal policy on various accounting matters;

Providing additional training to our accounting staff and acquiring other accounting resources to improve our ability to report our financial statements in accordance with generally accepted accounting principles;

Formally documenting our accounting policies and procedures;

Improving segregation of duties of accounting staff;

Improving procedures for reviewing business agreements and analyzing, reviewing and documenting the support of management's accounting entries and significant transactions;

Providing formal review and analysis of quarterly accounting issues and related literature to Audit Committee members; including a formal agenda item on Audit Committee and Board of Director meeting agendas to report on the progress of changes;

Made various minor adjustments to our internal control processes as a result of our detailed documentation and evaluation process in preparation for compliance with Section 404 of the Sarbanes Oxley Act of 2002;

Formalized security policy and various security improvements;

Improved process for dealing with third parties;

Centralized and improved authentication and access controls;

Improved process for responding to and resolving IT problems.

Performed a security review of our network infrastructure and found various vulnerabilities. Formulated a remediation plan, and started upgrading and restructuring the infrastructure to address the issues. This project will be completed by end of Q3 2007. It should be noted that while management believes that current disclosure and internal controls and procedures provide a reasonable level of assurance, it cannot be expected that existing disclosure controls and procedures or internal financial controls will prevent all human error and circumvention or overriding of the controls and procedures. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

#### Capital Stock Information

The following table discloses the Company's outstanding share data:

| Number of issued and outstanding common shares as at March 16, 2007 | Book value as at December 31, 2006 | Book value as at December 31, 2006 |
|---|------------------------------------|------------------------------------|
|   | under Canadian GAAP                | under US GAAP                      |
| 14,454,629  | \$ 95,298,234                      | \$ 112,067,804                     |

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As at March 16, 2007, the Company also had 646,392 warrants and 655,482 stock options outstanding.

### **Forward-Looking Statements**

Information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements, which can be identified by the use of forward-looking terminology such as believes, expects, may, desires, will, should, project, estimates, contemplates, anticipates, intends, or any negative such as does not believe or other variations thereof or comparable terminology. No assurance can be given that

potential future results or circumstances described in the forward-looking statements will be achieved or occur. Such information may also include cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties that could cause actual results to vary materially from the projections and other expectations described in such forward-looking statements. Prospective investors, customers, vendors and all other persons are cautioned that forward-looking statements are not assurances, forecasts or guarantees of future performance due to related risks and uncertainties, and that actual results may differ materially from those projected. Factors which could cause results or events to differ from current expectations include, among other things: the severity and duration of the adjustments in our business segments; the effectiveness of our restructuring activities, including the validity of the assumptions underlying our restructuring efforts; fluctuations in operating results; the impact of general economic, industry and market conditions; the ability to recruit and retain qualified employees; fluctuations in cash flow; increased levels of outstanding debt; expectations regarding market demand for particular products and services and the dependence on new product/service development; the ability to make acquisitions and/or integrate the operations and technologies of acquired businesses in an effective manner; the impact of rapid technological and market change; the impact of price and product competition; the uncertainties in the market for Internet-based products and services; stock market volatility; the trading volume of our stock; the possibility that our stock may not satisfy our requirements for continued listing on the NASDAQ Capital Market including whether the minimum bid price for the stock falls below \$1; and the adverse resolution of litigation. Developments in the SEC inquiry, purported class action litigation or related events could have a negative impact on the Company, increase Company expenses or cause events or results to differ from current expectations. For additional information with respect to these and certain other factors that may affect actual results, see the reports and other information filed or furnished by the Company with the United States Securities and Exchange Commission ( SEC ) and/or the Ontario Securities Commission ( OSC ) respectively accessible on the internet at [www.sec.gov](http://www.sec.gov) and [www.sedar.com](http://www.sedar.com), or the Company's Web site at [corporate.mamma.com](http://corporate.mamma.com). All information contained in these audited financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations is qualified in its entirety by the foregoing and reference to the other information the Company files with the OSC and SEC. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

#### **Period-to-Period Comparisons**

A variety of factors may cause period-to-period fluctuations in the Company's operating results, including business acquisitions, revenues and expenses related to the introduction of new products and services or new versions of existing products, new or stronger competitors in the marketplace as well as currency fluctuations. Historical operating results are not indicative of future results and performance.



**Selected Annual Information**

(In thousand of US dollars, except per share data and in accordance with generally accepted accounting principles in Canada)

|   | <b>For the years ended December 31,</b> |             |             |
|---|---|-------------|-------------|
|   | <b>2006</b>                             | <b>2005</b> | <b>2004</b> |
| Revenues  | \$ 9,596                                | \$ 9,444    | \$ 14,636   |
| Earnings (loss) from continuing operations              | (4,358)                                 | (3,343)     | 371         |
| Results of discontinued operations, net of income taxes | 89                                      | (2,315)     | 734         |
| Net earnings (loss) for the year                        | (4,269)                                 | (5,658)     | 1,104       |
| Earnings (loss) per share from continuing operations    |   |             |             |
| Basic and diluted                                       | (0.31)                                  | (0.27)      | 0.03        |
| Net earnings (loss) per share                           |   |             |             |
| Basic and diluted                                       | (0.30)                                  | (0.46)      | 0.10        |
| Total assets  | \$ 33,339                               | \$ 38,327   | \$ 35,166   |

**Quarterly Financial Highlights**

(In thousand of US dollars, except per share data and in accordance with generally accepted accounting principles in Canada)

|   | <b>2006</b> |           |           |           | <b>2005</b> |           |           |           |
|---|-------------|-----------|-----------|-----------|-------------|-----------|-----------|-----------|
|   | <b>Q4</b>   | <b>Q3</b> | <b>Q2</b> | <b>Q1</b> | <b>Q4</b>   | <b>Q3</b> | <b>Q2</b> | <b>Q1</b> |
| Revenues  | \$ 3,566    | \$ 1,891  | \$ 1,929  | \$ 2,210  | \$ 1,638    | \$ 2,391  | \$ 2,413  | \$ 3,002  |
| Earnings (loss) from continuing operations              | 365         | (2,553)   | (1,270)   | (900)     | (740)       | (574)     | (1,375)   | (654)     |
| Results of discontinued operations, net of income taxes | 55          | 5         | 4         | 25        | (23)        | (931)     | (1,124)   | (237)     |
| Net earnings (loss) for the period                      | 420         | (2,548)   | (1,266)   | (875)     | (763)       | (1,505)   | (2,499)   | (891)     |
| Earnings (loss) per share from continuing operations    |             |           |           |           |             |           |           |           |
| Basic   | 0.03        | (0.18)    | (0.09)    | (0.06)    | (0.06)      | (0.05)    | (0.11)    | (0.05)    |
| Diluted   | 0.03        | (0.18)    | (0.09)    | (0.06)    | (0.06)      | (0.05)    | (0.11)    | (0.05)    |
| Net earnings (loss) per share                           |             |           |           |           |             |           |           |           |
| Basic   | 0.03        | (0.18)    | (0.09)    | (0.06)    | (0.06)      | (0.13)    | (0.20)    | (0.07)    |
| Diluted   | 0.03        | (0.18)    | (0.09)    | (0.06)    | (0.06)      | (0.13)    | (0.20)    | (0.07)    |

**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.

| <b>Name <sup>1</sup></b> | <b>Functions and areas of experience within the Company</b> | <b>Present Principal Occupation(s)</b>  | <b>Date first elected Director or appointed Senior Officer of the Company</b> |
|--------------------------|---|---|---|
| Martin Bouchard          | Director and Officer  | President, and Chief Executive Officer<br>Mamma.com Inc.  | December 22, 2005   |
| Claude E. Forget         | Director  | Consultant Formerly CEO,<br>Intasys Billing Technologies  | October 11, 1999  |
| David Goldman            | Director and Officer  | Executive Chairman,<br>Mamma.com Inc.<br>Director, SNC-Lavalin Group Inc. (an engineering and construction company listed on the Toronto Stock Exchange),<br>Director, Workbrain (an enterprise software provider listed on the Toronto Stock Exchange)   | May 24, 2001  |
| Irwin Kramer             | Director  | President, iCongo, Inc.<br>(an e-commerce and service company)  | May 24, 2001  |
| Dr. David Schwartz       | Director  | Associate Professor, Bar Ilan University<br>School of Business Administration   | May 23, 2002  |
| Daniel Bertrand          | Officer   | Executive Vice President and<br>Chief Financial Officer<br>Mamma.com Inc.   | July 8, 1999  |
| Patrick Hopf             | Officer   | Executive Vice President Business Development<br>Mamma.com Inc.   | January 12, 2004  |
| W. Brian Edwards         | Director  | Chairman, Miranda Technologies Inc. (manufacturer of high-performance hardware and software for the television broadcast industry),<br>Chairman, Bionix Inc. (an iHealth company) and<br>Director, Camoplast, Inc. (a company, who designs, develops and manufactures specialized components, sub-systems and assemblies for the world leading original equipment manufacturers (OEMs) of both on- and off-road vehicles) | March 17, 2006  |
| Éric Bouchard            | Officer   | Vice President Products<br>Mamma.com Inc.   | December 22, 2005   |

<sup>1</sup> Guy Fauré resigned as President and CEO and as a Director effective January 31, 2007. 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 Éric 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.

### **QUORUM FOR SHAREHOLDER MEETINGS**

In accordance with an exemption from the requirements of The Nasdaq Stock Exchange<sup>®</sup> applicable to home country practices, the quorum for any meeting of the Company's shareholders is two or more shareholders present in person or represented by proxy holding at least 20% of the total number of votes attaching to all shares carrying the right to vote at the meeting.

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

#### ***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.

The Board of Directors has approved and adopted a document entitled "Responsibilities of the Board of Directors and its Three Committees" which sets forth the responsibilities for the Board and these three committees. That document was revised and approved by the Board of Directors on March 29, 2006 and is available on EDGAR at [www.sec.gov/edgar](http://www.sec.gov/edgar) and on SEDAR at [www.sedar.com](http://www.sedar.com). It was prepared in response to certain corporate governance concerns. That document includes the Board's mandate, the Charters of the Board's three committees and the Company's insider trading policy and code of ethics. The Company's code of ethics is available on EDGAR at [www.sec.gov/edgar](http://www.sec.gov/edgar) and on SEDAR at [www.sedar.com](http://www.sedar.com). In accordance with the policies and guidelines outlined in that 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 of Directors does not act until all factors have been adequately considered. This approach is expected 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 independent directors. An independent 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 Exchange<sup>®</sup> and the Ontario Securities Commission.

The Chair of the Board of Directors is David Goldman, who is not an independent director. The Board feels strongly that Mr. Goldman's abilities, extensive experience as a director of listed companies and role in the Company make him best suited for this position. The Board will continue to consider whether or not the position of Chairman should be occupied by an independent director and, if circumstances change, will take action to adjust the composition of the Board accordingly or appoint a lead director who is independent. Independent directors meet regularly through in camera sessions conducted after or during each meeting of the Board. The independent directors, when they deem it advisable, make recommendations to the Board on various matters. The Board will continue to encourage regular meetings of the independent directors through in camera sessions as it feels that it is a good way to facilitate Board operations independently of management and to maintain and improve the quality of governance.

The directors consider the following directors to be independent to the Company: Claude E. Forget, Irwin Kramer, Dr. David Schwartz and W. Brian Edwards. Through October 2, 2001, Claude E. Forget was Chief Executive Officer of Intasys Billing Technologies, a subsidiary of the Company, whose business was subsequently sold. The Board of Directors has determined that Martin Bouchard and David Goldman are not independent because they are officers of the Company.

During the 2006 fiscal year the Board of Directors met 11 times and all of the Directors attended all of the meetings, except for Brian Edwards, who attended 10 of the 11 meetings, and Dr. David Schwartz, who attended 9 of the 11 meetings.

The Board of Directors' mandate is set forth in the document entitled "Responsibilities of the Board of Directors and its Three Committees," which provides in pertinent part:

It is the explicit responsibility of the Board of Directors to assume the global stewardship of the Company and to ensure itself of the pertinence and efficiency of the key functions and of the following matters: