

MAMMA COM INC
Form 20-F
May 31, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

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, 2004

OR

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

0-17164

(Commission file number)

MAMMA.COM INC.

(Exact name of registrant as specified in its charter)

(FORMERLY INTASYS CORPORATION)

PROVINCE OF ONTARIO (CANADA)

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

None

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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

Indicate the number of outstanding shares of each of the issuer's classes of capital or Common Shares, as of May 12, 2005:

12,263,029 Common Shares

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

Yes X No

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

Item 17 X Item 18

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 NOTES

On January 6, 2004, the Company changed its name from Intasys Corporation to Mamma.com Inc. At the same time, its subsidiary changed its name from Mamma.com Inc. to Mamma.com Enterprises Inc. Therefore, in order to avoid any confusion in this document, the Company will use the name Mamma.com Inc. in reference to the parent company and Mamma.com Enterprises Inc. for its subsidiary. On May 31, 2004, the wholly owned subsidiary, Mamma.com Enterprises Inc. was wound up into the Company.

In this Annual Report on Form 20-F, unless otherwise indicated or the context otherwise requires, all monetary amounts are expressed in United States dollars.

On July 11, 2001, Mamma.com Inc. (Mamma or the Company) filed articles of amendment consolidating its issued and outstanding Common Shares on the basis of one (1) post-consolidation common share for every ten (10) pre-consolidation Common Shares. In this Annual Report on Form 20-F, unless otherwise indicated or the context otherwise requires, all references to the Company's Common Shares, including those relating to prices of the Company's Common Shares, have been adjusted to reflect this consolidation.

SPECIAL NOTE ON FORWARD-LOOKING STATEMENTS

INFORMATION CONTAINED IN THIS ANNUAL REPORT ON FORM 20-F INCLUDES FORWARD-LOOKING STATEMENTS, WHICH CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS BELIEVES, EXPECTS, MAY, DESIRES, WILL, SHOULD, PROJECTS, ESTIMATES, CONTEMPLATES, ANTICIPATES, INTENDS, OR ANY NEGATIVE

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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 SMALLCAP 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 AND WWW.SEDAR.COM, OR THE COMPANY S WEBSITE AT WWW.MAMMAINC.COM. ALL INFORMATION CONTAINED IN THIS ANNUAL REPORT ON FORM 20-F 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, ECONOMIC RECESSIONS AND RECOVERIES. HISTORICAL OPERATING RESULTS ARE NOT INDICATIVE OF FUTURE RESULTS AND PERFORMANCE.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

NOT APPLICABLE.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

NOT APPLICABLE.

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ITEM 3. KEY INFORMATION

Consolidated statements of operations data for the years ended December 31, 2004, 2003 and 2002, and consolidated balance sheet data as at December 31, 2004 and 2003 is derived from the audited consolidated financial statements included in item 17, all other financial information below is not included in item 17.

CANADIAN GAAP
YEAR ENDED DECEMBER 31ST

| <u>Consolidated Statement of Operation Data</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | 15,808,999 | 8,938,863 | 4,222,352 | 4,195,342 | 7,672,270 |
| Earnings (loss) from continuing operations | 60,411 | 88,990 | (782,878) | (14,874,318) | (27,499,869) |
| Results of discontinued operations | 1,043,996 | (300,053) | 465,884 | 267,635 | (4,736,623) |
| Net earnings (loss) for the year | 1,104,407 | (211,063) | (316,994) | (14,606,683) | (32,236,492) |
| Basic and diluted earnings (loss) per share from continuing operations | 0.01 | 0.01 | (0.18) | (4.63) | (10.21) |
| Basic and diluted earnings (loss) per share from discontinued operations | 0.09 | (0.04) | 0.11 | 0.08 | (1.76) |
| Basic and diluted net earnings (loss) per share | 0.10 | (0.03) | (0.07) | (4.55) | (11.97) |
| Weighted average number of shares - basic | 10,758,604 | 6,207,360 | 4,356,751 | 3,206,996 | 2,692,364 |
| Weighted average number of shares - diluted | 11,209,906 | 8,041,236 | 4,356,751 | 3,206,996 | 2,692,364 |
| <u>Consolidated Balance Sheet Data</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
| | \$ | \$ | \$ | \$ | \$ |
| Total assets | 35,166,098 | 11,736,414 | 9,971,214 | 7,139,984 | 23,642,904 |
| Total liabilities | 3,130,526 | 3,716,276 | 3,270,019 | 2,704,141 | 6,842,333 |
| Net Assets | 32,035,572 | 8,020,138 | 6,701,195 | 4,435,843 | 16,800,571 |
| Working capital | 27,528,003 | 4,351,746 | 3,357,422 | 2,202,718 | 5,898,756 |
| Capital stock | 90,496,088 | 70,522,179 | 69,873,994 | 68,077,781 | 63,502,772 |
| Additional paid-in capital | 5,255,249 | 1,166,814 | 750,111 | 339,550 | 2,180,976 |
| Deferred stock-based compensation | (1,333,443) | (262,806) | (10,667) | (418,727) | -- |
| Cumulative translation adjustment | 360,884 | 441,564 | (275,693) | (243,205) | (170,304) |
| Accumulated deficit | (62,743,206) | (63,847,613) | (63,636,550) | (63,319,556) | (48,712,873) |
| Shareholders' equity | 32,035,572 | 8,020,138 | 6,701,195 | 4,435,843 | 16,800,571 |
| <u>Other</u> | | | | | |
| Cash Dividends | None | None | None | None | None |

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U.S. GAAP
YEAR ENDED DECEMBER 31st

| <u>Consolidated Statement of Operation Data</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|---|-------------|-------------|-------------|--------------|--------------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | 15,808,999 | 8,938,863 | 4,222,352 | 4,195,342 | 7,672,270 |
| Earnings (loss) from continuing operations | 60,411 | 88,990 | (1,720,774) | (16,811,300) | (25,662,681) |
| Results of discontinued operations | 1,043,996 | (300,053) | 465,884 | 267,635 | (4,736,623) |

U.S. GAAP YEAR ENDED DECEMBER 31st

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| | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|
| Net earnings (loss) for the year | 1,104,407 | (211,063) | (1,254,890) | (16,543,665) | (30,399,304) |
| Basic and diluted earnings (loss) per share from continuing operations | 0.01 | 0.01 | (0.40) | (5.24) | (9.53) |
| Basic and diluted earnings (loss) per share from discontinued operations | 0.09 | (0.04) | 0.11 | 0.08 | (1.76) |
| Basic and diluted net earnings (loss) per share | 0.10 | (0.03) | (0.29) | (5.16) | (11.29) |
| Weighted average number of shares - basic | 10,758,604 | 6,207,360 | 4,356,751 | 3,206,996 | 2,692,364 |
| Weighted average number of shares - diluted | 11,209,906 | 8,041,236 | 4,356,751 | 3,206,996 | 2,692,364 |
| Consolidated Balance Sheet Data | 2004 | 2003 | 2002 | 2001 | 2000 |
| | \$ | \$ | \$ | \$ | \$ |
| Total assets | 35,166,098 | 11,736,414 | 9,971,214 | 7,139,984 | 23,130,477 |
| Total liabilities | 3,130,526 | 3,716,276 | 3,270,019 | 2,704,141 | 6,206,329 |
| Net assets | 32,035,572 | 8,020,138 | 6,701,195 | 4,435,843 | 16,924,148 |
| Working capital | 27,528,003 | 4,351,746 | 3,357,422 | 2,202,718 | 5,898,756 |
| Capital stock | 107,265,658 | 87,291,749 | 86,643,564 | 84,847,351 | 80,272,344 |
| Additional paid-in capital | 6,292,939 | 2,204,504 | 1,787,801 | 1,469,240 | 3,854,670 |
| Deferred stock-based compensation | (1,333,443) | (262,806) | (10,667) | (418,727) | -- |
| Accumulated other comprehensive gain (loss) | 360,884 | 441,564 | (275,693) | (1,273,101) | (3,557,609) |
| Accumulated deficit | (80,550,466) | (81,654,873) | (81,443,810) | (80,188,920) | (63,645,257) |
| Shareholders' equity | 32,035,572 | 8,020,138 | 6,701,195 | 4,435,843 | 16,924,148 |
| Other | | | | | |
| Cash dividends | None | None | None | None | None |

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Capitalization and Indebtedness

NOT APPLICABLE.

Reasons for the Offer and Use of Proceeds

NOT APPLICABLE.

Risk Factors

You should consider carefully the following risk factors inherent in and affecting the Company's business, as well as all other information set forth in this Annual Report on Form 20-F and in the reports and other information that the Company files or furnishes with the SEC and/or OSC.

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, 2004, approximately 29% and 11% respectively of our revenues were derived from agreements with our two largest customers. Revenues from these customers represented 33% and 8% of our revenues in 2003 and 16% and 8% of our revenues in 2002. 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.

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

We are the subject of an SEC investigation described in Item 8 below under the heading FINANCIAL INFORMATION SEC Investigation. The scope, focus and subject matter of the SEC investigation may change from time to time. Adverse developments in connection with the investigation or our internal fact finding 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. 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.

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Expenses relating to the SEC investigation and the activities of our Special Independent Committee could negatively affect our results of operations.

Our legal, public relations and accounting expenses have increased considerably with estimated additional expenses in the first quarter of 2005 of approximately \$1 million reflecting costs associated with responding to the SEC investigation. In addition, the independent investigation by our Special Independent Committee incurred costs of approximately one-half million dollars. These expenses will adversely impact our first quarter 2005 results. While we are not able to estimate, at this time, the amount of the expenses that we will incur in future connection with the investigation, we expect that they may continue to be significant.

Adverse Results in purported securities class action lawsuits could result in significant damages and adversely affect the Company's financial condition and results of operation.

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

We rely on our co-branded web site partners for significant portion of our net revenues, and otherwise benefit from our association with them. The loss of these co-branded web site partners could prevent us from receiving the benefits from our association with these co-branded web site partners, which could adversely affect our business.

We provide advertising, web search and other services to members of our co-branded partner web sites. We expect the percentage of our net revenues generated from this network to increase in the future. We consider this network to be critical in the future growth of our net 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 co-branded web site partners decide to use a competitor's or their own web search or advertising services, our net revenues would decline.

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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 and Google, 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. The other main competitors are Ask Jeeves, Findwhat, Value Click, FastClick, Burst Media and Tribal Fusion.

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.

We expect our growth rates to decline and anticipate downward pressure on our operating margin in the future.

We expect that in the future our revenue growth rate will decline and anticipate that there will be downward pressure on our operating margin. We believe our revenue growth rate will decline as a result of anticipated changes to our advertising program revenue mix, increasing competition and the inevitable decline in growth rates as our net revenues increase to higher levels. We believe our operating margin will decline as a result of increasing competition and increased expenditures for all aspects of our business as a percentage of our net 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 net revenues generated from our co-branded partner web sites. The margin on revenue we generate from our co-branded partner web sites is generally significantly less than the margin on revenue we generate from advertising on our web sites. Additionally, the margin we earn on revenue generated from our co-branded partner web sites could decrease in the future if our co-branded partners require a greater portion of the advertising fees.

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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 co-branded web site partners. Our operating results would also suffer if our innovations are not responsive to the needs of our users, advertisers and co-branded web site partners, are not appropriately timed with market opportunity or are not effectively brought to market. 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.

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

We generated all of our net revenues in 2004 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. 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.

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.

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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 has been, and may likely continue to be, volatile, experiencing wide fluctuations. During the sixteen-month period ended April 30, 2005, the closing per share price of our Common Shares has varied from \$3.26 to \$15.90. During that same period, the daily trading volume of our Common Shares has varied between 27,000 and 68,314,304 with an average daily trading of 2,806,539 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 SmallCap 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.

We may be subject to infringement or liability claims. From time to time, we have been, and expect to continue to be, subject to third party claims in the ordinary course of business. Any such claims may damage our business, including by (i) subjecting us to significant liability for damages, (ii) resulting in invalidation of our proprietary rights, (iii) being time-consuming and expensive to defend even if such claims are not meritorious; and (iv) resulting in the diversion of management's time and attention. Liability claims may also arise in relation to business conducted via and information retrieved from the Internet, including claims for defamation, negligence, copyright or trademark infringement, personal injury or other theories based on the nature, content, publication and distribution of materials or the transaction of business via the Internet. Although we, via their contractual arrangements, seek to limit the scope of potential claims, there can be no assurance that any such contractual arrangements will adequately protect us against such claims.

Historical net results include net earnings in 2004 and net losses in the previous four years; working capital may be inadequate.

We have reported net earnings in 2004 and net losses in the previous four years. We have been financing operations mainly from funds obtained in several private placements, from exercised warrants and options, and from positive cash flow from continuing operations in 2004. Management considers that cash and cash equivalents as at December 31, 2004 will be sufficient to meet normal operating requirements throughout fiscal 2005. In the longer term, however, the Company may need additional liquidity to fund growth, which could include additional equity offerings or debt financing in the future. We cannot assure you that we will be successful in obtaining any such additional required funding in the future.

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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 \$1.4M as at December 31, 2004, 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, plant 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 \$2.4M as at December 31, 2004, may be written-down in the future.

Minority interest in LTRIM Technologies Inc. may be written-down in the future.

During the past years, we acquired minority interests in companies that develop and market analog integrated circuit products, new media and telecommunications sectors as a technology incubator. In February 2001, we announced a moratorium on new incubator activities. On a regular

basis, we reassess our minority interests to determine if there is other than temporary decline in its value. All our minority interests except the investment in LTRIM Technologies Inc. (LTRIM) have been written-down to nil as of December 31, 2002. LTRIM is a corporation in the development stage. As at December 31, 2004, based on its assessment of the fair value of the Company's investment in LTRIM Technologies Inc., 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. Consequently, our investment in LTRIM, which has been written-down to \$720,000 in 2004, 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 on-line 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.

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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.

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. In particular, the United States government recently enacted the CAN SPAM Act of 2003 that, among other matters, regulates certain aspects of e-mail marketing, such as the opt-in e-mail marketing our Digital Arrow subsidiary engages in. The enactment of any additional laws or regulations 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.

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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. Although we have implemented certain compensatory, retention incentives for several of our key employees, 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 April 30, 2005, we had 646,392 warrants and 461,334 stock options outstanding. As at April 30, 2005, the exercise prices of all our outstanding warrants and 83% of our outstanding options issued pursuant to our stock option plan are higher than the market price of our

Common Shares. While the market value of the Common Shares is below the bulk of the respective exercise prices of some or all the warrants and options, the exercise at April 30, 2005 of all such options with such lower exercise prices could result in the issuance of up to an additional 78,334 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 Common 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.

The Company seeks to grow its business and expand its markets both internally and by future appropriate acquisitions. 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.

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

We have never paid dividends on any class of our shares. Our management anticipates that any earnings generated from our operations will be used to finance our working capital and potential market expansion opportunities and that for the foreseeable future cash dividends will not be paid to holders of the Common Shares.

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 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.

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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 unfavorably, the value of net receivables we receive in foreign currencies and later convert to U.S. dollars after the unfavorable 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.

Period-to-period comparisons may not be indicative of future results and performance.

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.

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ITEM 4. INFORMATION ON THE COMPANY

HISTORY OF THE COMPANY

The Company was incorporated as Quartet Management Ltd. on July 5, 1985, pursuant to the Business Corporations Act (Ontario), promulgated under the laws of the Province of Ontario, Canada. The Company's name was then changed to Health Care Products, Inc. on March 18, 1987, then to Celltech Media Inc. on March 25, 1994, and again changed on June 28, 1995 to Smartel Communications Corporation. On July 26, 1996, the Company received shareholder approval to change its name to Intasys Corporation. On January 6, 2004, the Company received shareholder approval to change its name to Mamma.com Inc. On May 31, 2004, the wholly owned subsidiary, Mamma.com Enterprises Inc. was wound up and merged into the Company.

The Company maintains its registered head office c/o Goodmans LLP, 250 Yonge Street, Suite 2400, Toronto, Ontario, Canada M5B 2M6.

FINANCING

Recent Financings

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

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On December 12, 2002, the Company entered into subscription agreements to sell 1,893,939 Units, for a purchase price of \$1.32 per Unit or total proceeds of \$2.5 million. Each Unit consisted of one share of Common Shares plus one nontransferable A Warrant that entitled the holder to purchase one additional Common Share at a price of \$1.40 on or before November 30,