

E-centives, Inc.

Corporate Governance Report

Delaware, United States
(State, Country of incorporation)

52-1988332
(IRS Employer Identification No.)

US26830H1032
(ISIN Number)

6901 Rockledge Drive, 6th Floor, Bethesda, MD 20817
(Address of principal executive offices)

(240) 333-6100
(telephone number)

ORGANIZATION

E-centives, Inc. ("E-centives" or the "Company" or "we") was established as Imaginex, Inc. on August 2, 1996, through incorporation in the State of Delaware. During October 1996, the Company amended its articles of incorporation to change its name to Emaginet, Inc. and again, in March 1999, the Company amended its articles of incorporation to change its name to E-centives, Inc. During March 2001, the Company expanded its international operations by establishing a subsidiary in the United Kingdom, E-centives Limited. However, the operations of this subsidiary were terminated in conjunction with the Company's second quarter 2002 restructuring plan that involved closing down the operating activities of the Commerce Division and the PerformOne Network.

CAPITAL

(a) Authorized Capital

On November 7, 2001, the Company's Board of Directors unanimously approved, subject to stockholder approval, (i) an amendment of the Company's Restated Certificate of Incorporation, as amended ("Restated Certificate of Incorporation"), to increase the total authorized capital stock from 50,000,000 shares to 130,000,000 shares in connection with an increase in the authorized common stock from 40,000,000 shares to 120,000,000 shares (this amendment will not effect a change to the 10,000,000 shares of authorized preferred stock); and (ii) an amendment to the Company's Amended and Restated Stock Option and Incentive Plan, as amended (the "Stock Option Plan"), to increase the maximum number of shares available for issuance from 5,000,000 to 21,000,000. On November 30, 2001, holders of a majority of the outstanding shares of the Company's common stock executed a written stockholder consent approving the amendment of the Company's Restated Certificate of Incorporation and the amendment to the Company's Stock Option Plan. Under applicable federal securities laws, the amendments are not effective until at least 20 days after this information statement is sent or given to the Company's stockholders.

The par value of all authorized capital stock is \$.01.

(b) Common Stock

Market Information: Since our initial public offering on October 3, 2000, our common stock has traded on the SWX Swiss Exchange under the symbol "ECEN." The following table reflects the high and low sales prices, in Swiss Francs and U.S. Dollars, reported on the SWX Swiss Exchange for each quarter listed. The amounts listed in U.S. Dollars reflect the relevant exchange rate as of the date of such high or low price.

PERIOD	SWISS FRANCS		US DOLLARS		EXCHANGE RATES	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
<u>2003</u>						
Quarter ended March 31, 2003	CHF 0.85	CHF 0.30	\$0.61	\$0.22	0.71979	0.72296
Quarter ended June 30, 2003	CHF 0.64	CHF 0.32	\$0.48	\$0.23	0.75470	0.72443
Quarter ended September 30, 2003	CHF 0.98	CHF 0.46	\$0.71	\$0.34	0.72230	0.74010
Quarter ended December 31, 2003	CHF 1.04	CHF 0.60	\$0.79	\$0.48	0.76080	0.80100
<u>2004</u>						
Quarter ended March 31, 2004	CHF 0.90	CHF 0.61	\$0.71	\$0.48	0.78340	0.79450
Quarter ended June 30, 2004	CHF 0.79	CHF 0.63	\$0.63	\$0.50	0.78950	0.80240
Quarter ended September 30, 2004	CHF 0.67	CHF 0.51	\$0.54	\$0.40	0.81160	0.78410
Quarter ended December 31, 2004	CHF 0.65	CHF 0.45	\$0.54	\$0.39	0.82850	0.86090

Holders: As of December 31, 2004, there were approximately 85 holders of record of our common stock and 58,388,946 shares outstanding.

Dividends: We have never declared or paid any cash dividends on our common stock. We intend to retain future earnings, if any, to finance the expansion of our business, and do not expect to pay any cash dividends in the foreseeable future. The declaration of dividends is within the discretion of our Board of Directors and subject to limitations set forth in the Delaware General Corporation Law. Our certificate of incorporation provides that if dividends are paid, they must be paid equally on each share of outstanding common stock. Payment of any dividends on our common stock is subject to the rights of any preferred stock then outstanding.

(c) Preferred Stock

On November 30, 2001, the Company's proposal to amend and restate its Articles of Incorporation to authorize 10,000,000 shares

of preferred stock was approved by a majority of the stockholders.

As part of the Company's acquisition of substantially all of the assets of Consumer Review, Inc. in December 2002, 400,000 shares of Series B convertible preferred stock were issued. As of December 31, 2004, there were 400,000 shares of Series B convertible preferred stock authorized, issued and outstanding.

Voting: The holders of Series B convertible preferred stock shall vote with the holders of common stock on all matters submitted to the stockholders. Within the first twelve months of issuance, each holder of shares of Series B convertible preferred stock will be entitled to one vote for each share of Series B convertible preferred stock held immediately after the close of business on the record date fixed for such meeting or the effective date of such written consent. After the first twelve months from issuance, each holder of shares of Series B convertible preferred stock will be entitled to such number of votes as will be equal to the whole number of shares of common stock into which such holder's aggregate number of shares of Series B convertible preferred stock are convertible (pursuant to the conversion table below) immediately after the close of business on the record date fixed for such meeting or the effective date of such written consent.

Dividends: No dividends will be paid on the Series B convertible preferred stock.

Voluntary Conversion: Each share of Series B convertible preferred stock is convertible into the Company's common stock, beginning one year after the closing date of the Consumer Review, Inc. acquisition, based upon the achievement of contractually defined revenue during the calculation period. Based upon the revenue generated by the ConsumerREVIEW.com division during the calculation period, the conversion rate for each share of the Series B convertible preferred stock has been adjusted to 8 to 1.

Mandatory Conversion: Each share of Series B convertible preferred stock shall automatically be converted into shares of common stock at the conversion rate (as defined above) upon the earlier to occur of: (i) the consummation by the Company of a public offering of equity securities with proceeds in excess of CHF 20,000,000 or equivalent in United States Dollars, (ii) an Acquisition, Asset Transfer or other Liquidation (as defined below) or (iii) thirty months from the date of issuance, provided the Series B preferred convertible stock shall automatically convert into shares of the Company's common stock (at a ten for one basis) at the conversion price then in effect if the Company experienced a change in control before the one year anniversary of the closing date of the ConsumerREVIEW.com acquisition.

Liquidation: Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company ("Liquidation"), before any distribution or payment is made to the holders of the common stock and any other stock of the Company that is not by its terms expressly senior in right of payment to the Series B convertible preferred stock, but following any distribution or payment to the holders of the Series A convertible preferred stock (which is expressly senior to the Series B convertible preferred stock), the holders of Series B convertible preferred stock will be entitled to be paid out of the assets of the Company with respect to each share of Series B convertible preferred stock held, an amount equal to the product of (i) (a) if the Liquidation is not a sale, conversion or other transfer of the Company's stock, the average of the high and low closing prices of the Company's common stock on the day prior to the date of such Liquidation, as such prices are reported by the SWX Swiss Exchange, after applying the CHF-USD exchange rates, as determined by 5 p.m., Swiss time on such date, by swissfirst Bank AG or (b) if the Liquidation is a sale, conversion or other transfer of the Company's stock, the purchase price or other valuation of the Company's common stock pursuant to such Liquidation, and (ii) the number of shares of common stock into which a share of Series B convertible preferred stock would be convertible pursuant to the conversion table above if the conversion had occurred immediately prior to such Liquidation, as appropriately adjusted for any future stock splits, stock combinations, or similar transactions affecting the Series B convertible preferred stock. If, upon any Liquidation, the assets of the Company are insufficient to make payment in full to all holders of Series B convertible preferred stock, then such assets will be distributed among the holders of Series B convertible preferred stock at the time outstanding, ratably in proportion to the full amounts to which they would otherwise be respectively entitled. After payment in full to the holders of Series B convertible preferred stock of the aggregate liquidation preference as aforesaid, the holders of the Series B convertible preferred stock shall, as such, have no right or claim to any of the remaining assets of the Company. The following events will be considered a Liquidation: any merger, consolidation, business combination, reorganization, reclassification or recapitalization of the Company in which the Company is not the surviving entity or in which the stockholders of all classes and series of stock of the Company immediately prior to such transaction own capital stock representing less than 50% of the Company's voting power of all classes and series of stock immediately after such transaction (an "Acquisition"); or a sale, lease or other disposition of all or substantially all of the assets of the Company (an "Asset Transfer").

Limitations of transferability and nominee registrations: The shares of Series B convertible preferred stock (and the underlying shares of common stock into which such shares are convertible into) have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities law, and are subject to restrictions on transfer provided under the Securities Act and state securities laws. Essentially, these shares may not be sold or offered for sale in the absence of an effective registration statement filed with the U.S. Securities and Exchange Commission for the shares or pursuant to an

applicable exemption from such registration (for example, Rule 144 under the Securities Act permits sales by non-affiliates after a one-year holding period and certain other restrictions).

(d) Stock Incentive and Option Plan

The Company's Amended and Restated Stock Incentive and Option Plan provides for the grant of options, restricted stock and other stock-based compensation to its employees, consultants and advisors. As of December 31, 2004, there were 21,000,000 shares of common stock reserved for issuance and there were 7,971,903 options to purchase shares of common stock outstanding at a weighted average exercise price of \$1.23 per share. Options granted under the plan typically vest over time, usually ratably over four years from the date of grant, with some subject to acceleration in the event of a change of control of E-centives. Typically, an option granted under the plan expires ten years after it is granted. In addition, the plan allows for grants of options the vesting of which is tied to the employee's performance. The plan provides for the granting of both incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986 and non-statutory options.

From 1997 through 2004, the following performance-based option grants were issued:

Year	Options	Price
1997	65,618	\$ 2.50
1998	34,400	\$ 2.50
1999	50,000	\$ 2.50
1999	110,400	\$ 3.50
2001	25,000	\$ 3.40
2002	200,000	\$ 0.50
2003	10,000	\$ 0.55
2003	216,810	\$ 0.14
2003	16,500	\$ 0.41

A summary of the Company's stock option activity and weighted average exercise price is as follows:

	Number of shares	Weighted average exercise price
Balance, January 1, 2003	2,206,800	5.18
Granted	8,594,897	0.13
Exercised	(314,325)	0.13
Canceled	(689,150)	2.61
Balance, December 31, 2003	9,798,222	1.10
Granted	847,000	0.21
Exercised	(575,337)	0.13
Canceled	(2,097,982)	0.51
Balance, December 31, 2004	<u>7,971,903</u>	\$ 1.23

The following table summarizes information concerning currently outstanding and exercisable options at December 31, 2004:

Options outstanding					
		Number outstanding at 12/31/2004	Weighted-average remaining contractual life	Options exercisable at 12/31/2004	
Range of exercise prices					
\$0.13 - \$0.50	-	6,736,903	9.6 years	5,320,116	
\$0.54 - \$0.84	-	203,500	9.1 years	66,000	
		332,000	4.2 years	332,000	
\$3.50 - \$3.86	-	78,000	4.9 years	77,500	
		30,000	6.2 years	22,500	
		33,000	5.5 years	33,000	
\$8.02 - \$8.17	-	5,500	6.0 years	4,625	
		3,000	5.8 years	3,000	

\$13.00	<u>550,000</u>	5.5 years	<u>550,000</u>
	<u>7,971,903</u>	9.0 years	<u>6,408,741</u>

(e) Warrants

The Company has issued warrants to purchase common shares in connection with several equity issuances: during 1997 warrants were granted in connection with the issuance of Series A convertible preferred stock, during 1999 warrants were granted in connection with the issuance of Series B convertible preferred stock and during 2000 warrants were granted in connection with the issuance of Series C convertible redeemable preferred stock. The warrants granted in 2001 were in conjunction with the acquisition of the Commerce Division and BrightStreet.com, with rights to purchase common shares of 1,860,577 and 750,000, respectively. The warrants issued in 2002 were issued in consideration of a financing commitment. The warrants issued during 2003 were issued in connection with Peter Friedli's continued support of the business and his assistance with fundraising.

The warrant issued to Inktomi Corporation, in 2001, as part of the Commerce Division acquisition was a contingent performance-based warrant that Inktomi was eligible to exercise based upon the achievement of revenue targets for the Commerce Division at the end of 12 months following the closing of the acquisition. Since revenue did not meet the contractually defined revenue target, the right to exercise the earn-out warrant expired during 2002.

The warrants issued in conjunction with the BrightStreet.com acquisition consist of a warrant to purchase 500,000 shares of the Company's common stock and a contingent performance-based warrant to purchase up to 250,000 shares of the Company's common stock. The performance-based warrant was based upon the achievement of a revenue target of \$7 million for BrightStreet.com during the 18 months following the closing of the acquisition. Since revenue did not meet the contractually defined revenue target, the right to exercise the performance-based warrant expired during 2003.

The following table is a roll forward of the warrants outstanding, the underlying common shares and the weighted average exercise price per share:

	<u>Warrants</u>	<u>Weighted Average Exercise Price</u>
Balance, January 01, 2003	7,357,485	0.71
Granted	345,000	0.50
Expired	<u>(628,000)</u>	0.14
Balance, December 31, 2003	7,074,485	0.75
Exercised	<u>(100,000)</u>	0.14
Balance, December 31, 2004	<u>6,974,485</u>	\$ 0.76

Of the 6,974,485 balance at December 31, 2004, 729,485 were issued through December 31, 2000 with 119,485 expiring on February 18, 2005, 110,000 expiring on December 31, 2008 and 500,000 expiring on December 3, 2005. The 6,000,000 warrants issued during 2002 expire on April 7, 2008. Of the 345,000 warrants issued in 2003 that expire on December 8, 2007, 100,000 were exercised during 2004.

(f) Changes in Capital within the last three financial years

Year ended December 31, 2004

- Common Stock: 50,000 shares issued to the Chairman of the Board; 575,337 shares issued in association with the exercise of outstanding options and 100,000 issued in association with the exercising of outstanding warrants.
- Options to purchase common stock: 847,000 options were granted, 575,337 options were exercised and 2,185,482 options were cancelled.
- Warrants to purchase common stock: Warrants to purchase 100,000 shares were exercised.

Year ended December 31, 2003

- Common Stock: 20,000,000 shares issued in association with the conversion of Series A Preferred Stock and 314,325 shares issued in association with the exercise of outstanding options.
- Series A Preferred Stock: 2,000,000 reduction due to the conversion of all shares of Series A preferred stock to common stock at a conversion rate of 1:10.
- Options to purchase common stock: 8,594,897 options were granted, 314,325 options were exercised and 689,150 options were cancelled.
- Warrants to purchase common stock: Warrants to purchase 345,000 were issued and warrants to purchase 628,000 shares expired.

Year ended December 31, 2002

- Common Stock: 30 shares issued in association with the exercise of outstanding options.
- Series B Preferred Stock: 400,000 shares were issued in association with a business acquisition.
- Options to purchase common stock: 445,00 options to purchase shares were granted, 30 options were exercised and 1,400,500 options were cancelled.
- Warrants to purchase common stock: Warrants to purchase 6,000,000 shares were issued and warrants to purchase 1,680,577 shares expired.

CONVERTIBLE PROMISSORY NOTES

In March 2003, we executed convertible promissory notes for an aggregate sum of up to \$6 million, from which we could draw down against at any time and in any amount during the first two years of the notes. Subsequent to the issuance of the promissory notes, we agreed to assemble a syndicate of third parties to whom we would issue convertible promissory notes on terms similar to the March 2003 convertible promissory notes (as noted below). The aggregate dollar amount of the convertible promissory notes that we issue to third parties through the syndication process will reduce, on a dollar-for-dollar basis, the \$6 million convertible promissory notes and the balance, if any, will continue to be available to us under the initial \$6 million commitment. During March 2004, the credit facility available to us was increased from \$6 million to \$12 million pursuant to amended notes. During 2004 and 2003 we received an aggregate of \$7,050,000 and \$3,450,000, respectively, in connection with the issuance of convertible promissory notes. The terms of the notes include, among other things:

- an 8% interest rate;
- a maturity date three years from the date of issuance;
- an automatic conversion feature, whereby the note automatically converts into shares of our common stock at a conversion rate, as defined in the note, on the date when the average trading price on the SWX Swiss Exchange of our common stock for 30 consecutive trading days has been equal to or greater than 2.75 CHF;
- the conversion price will be 2 CHF or lower in certain circumstances described below (as converted to U. S. dollars pursuant to a then recent exchange rate, as calculated us);
- a one-time final payment charge of 10% of the principal for each year that the principal is not paid on or before each annual anniversary of the date the notes were issued (with a maximum of 30%); and
- a security interest in substantially all of our assets.

The number of shares of common stock to which the holders of the convertible promissory notes will be entitled upon an automatic conversion would be equal to the product of the principal amount outstanding under the convertible notes divided by the average trading price on the SWX Swiss Exchange of the common stock for the five previous trading days (but in no event higher than CHF 2). If all of the aggregated principal amount of the convertible notes outstanding as of December 31, 2004 were to be converted into shares of common stock at the conversion price of 2 CHF (assuming an exchange rate of 1.1314 CHF per one U.S. Dollar as of December 31, 2004), the aggregated number of shares issued upon such conversion would be approximately 5,954,000.

BOARD OF DIRECTORS

As of December 31, 2004, our Board of Directors consisted of Mehrdad Akhavan, Peter Friedli and Sean Deson, with Mr. Deson serving as Chairman of the Board. Mr. Deson was appointed to our Board of Directors on April 19, 2004. On June 17, 2004, Kamran Amjadi resigned as director and Chairman of our Board of Directors, and on June 22, 2004, Mr. Deson was appointed Chairman of the Board.

(a) Elections and terms of office

Number and Election: The number of directors which shall constitute the whole Board of Directors shall not be fewer than three nor more than seven. Within the limits above specified, the number of directors shall be determined by resolution of the Board of Directors. The current Board of Directors consists of four members. Directors are elected annually at the Company's Annual Meeting of Stockholders. Once elected or chosen pursuant to the Certificate of Incorporation and Bylaws, a director shall hold office until the director's successor is elected and qualified or until the director dies, resigns or is removed; provided, however, that if the Board of Directors decreases the number of directors constituting the whole Board of Directors and designates a particular directorship to be eliminated due to the decrease, a director in the eliminated directorship shall cease to hold office after the next election of directors, unless the director is nominated and elected to another directorship on the Board of Directors.

Vacancies: Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by the affirmative vote of a majority of the directors then in office, although fewer than a quorum, or by a sole remaining director. Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the Certificate of Incorporation, vacancies and

newly created directorships of such class or classes or series may be filled by the affirmative vote of a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected. Each director so chosen shall hold office until the next election of directors of the class to which such director was appointed, and until such director's successor is elected and qualified, or until the director's earlier death, resignation or removal. In the event that one or more directors resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office until the next election of directors, and until such director's successor is elected and qualified, or until the director's earlier death, resignation or removal.

(b) Meetings

Regular Meetings: Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors.

Special Meetings: Special meetings of the Board of Directors may be called by the Chairman, Chief Executive Officer or President on not less than 48 hours notice to each director, either personally or by telephone, express delivery service (so that the scheduled delivery date of the notice is at least one day in advance of the meeting), telegram or facsimile transmission, and on five days' notice by mail (effective upon deposit of such notice in the mail). The notice need not describe the purpose of a special meeting.

Presence at Meetings: Members of the Board of Directors may participate in a meeting of the Board of Directors by any communication by means of which all participating directors can simultaneously hear each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting.

Action Without Meeting: Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if the action is taken by all members of the Board of Directors. The action must be evidenced by one or more written consents describing the action taken, signed by each director, and delivered to the Corporation for inclusion in the minute book.

Waiver of Notice of Meeting: A director may waive any notice required by statute, the Certificate of Incorporation or Bylaws before or after the date and time (1) stated in the notice or (2) of the meeting. Except as set forth below, the waiver must be in writing, signed by the director entitled to the notice, and delivered to the Corporation for inclusion in the minute book. Notwithstanding the foregoing, a director's attendance at or participation in a meeting waives any required notice to the director of the meeting unless the director at the beginning of the meeting objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

Meetings during the year ended December 31, 2004: The Board of Directors met 15 times and acted 1 time by unanimous written consent. The Board of Directors only has one standing committee, the Compensation Committee, which met 2 times during the year. The normal length of a Board of Directors meeting is approximately two to three hours and the normal length of a Compensation Committee meeting is 30 minutes to one hour.

(c) Compensation Committee: Our Board of Directors currently has a Compensation Committee. The Compensation Committee determines the salaries and incentive compensation of our officers and provides recommendations for the salaries and incentive compensation of other employees and consultants. The Compensation Committee also administers our various incentive compensation, stock and benefit plans. As of December 31, 2004, the Compensation Committee consisted of Mr. Friedli.

(d) Director Compensation: We do not currently compensate our directors who are also employees. Each non-employee director currently is reimbursed for reasonable travel expenses for each board meeting attended. Though the year ended December 31, 2003, each non-employee director received 10,000 stock options per year of service, with vesting one year from the date of grant. When Mr. Deson agreed to serve as Chairman of the Board, we awarded him 50,000 shares of our common stock. Starting in 2005, each non-employee director will receive 100,000 shares of our common stock.

(e) Compensation Committee Interlocks and Insider Participation: None of our executive officers serves as a member of the Board of Directors or compensation committee of any entity that has one or more executive officers serving on our Board of Directors or Compensation Committee.

(f) Stockholder Communications with Directors: Company stockholders who want to communicate with the Board or any individual director can write to:

E-centives, Inc.
Board Administration
6901 Rockledge Drive, 6th Floor

Letters should indicate that you are a Company stockholder. Depending on the subject matter, management will:

- Forward the communication to the director or directors to whom it is addressed;
- Attempt to handle the inquiry directly, when it is a request for information about the Company or it is a stock-related matter; or
- Not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic.

At each Board meeting, a member of management will present a summary of all communications received since the last meeting that were not forwarded and will make those communications available to the directors on request.

(g) *Limitation of Liability and Indemnification of Directors and Officers:* Our certificate of incorporation provides that our directors will not be personally liable to us, or our stockholders, for monetary damages for breach of their fiduciary duties as a director, except for liability:

- for any breach of the director's duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- under a provision of Delaware law relating to unlawful payment of dividends or unlawful stock purchase or redemption of stock; or
- for any transaction from which the director derives an improper personal benefit.

As a result of this provision, we and our stockholders may be unable to obtain monetary damages from a director for breach of his or her duty of care.

Our bylaws provide for the indemnification of our directors and officers and any person who is or was serving at our request as a director, officer, employee, partner or agent of another corporation or of a partnership, joint venture, limited liability company, trust or other enterprise. This indemnification is provided to the fullest extent authorized by, and subject to the conditions set forth in, the Delaware General Corporation Law. This indemnification will include the right to advanced payment of expenses by us of any proceeding for which indemnification may be had in advance of its final disposition.

(h) *Audit Committee/Audit Committee Financial Expert:* We do not have a separately designated standing Audit Committee of our Board of Directors, and therefore we do not have any independent audit committee financial experts under Item 401(e) of Regulation S-B. We are listed on the SWX Swiss Exchange, which exchange does not currently require that listed companies have an audit committee. We intend to expand our current Board of Directors to accommodate a separately designated Audit Committee, and to appoint members of such Committee, at a later date.

(i) *Code of Ethics:* We have adopted a Code of Ethics that applies to our directors and to all of our employees, including our chief executive officer and chief financial officer. Our Code of Ethics has been distributed to all employees and is available at our website (www.e-centives.com).

DIRECTORS, EXECUTIVE OFFICERS AND KEY EMPLOYEES

(a) *Information On Directors, Executive Officers And Key Employees*

The following table presents information about each of our executive officers, key employees and directors as of December 31, 2004.

Name	Age	Position(s) with Company	Director Nationality
Mehrdad Akhavan	41	Chief Executive Officer, Secretary and Director	American
Tracy Slavin	35	Chief Financial Officer	American
Paul Wasseem	34	President of ConsumerREVIEW.com	American
Wendy Roberts	40	Senior Vice President, Business Development	American
John Hoffman	45	Vice President of Network Operations	American
Amori Langstaff	33	Vice President of Client Services	American
Peter Friedli	50	Director	Swiss
Sean Deson	41	Chairman	American

Mehrdad Akhavan was appointed as our Chief Executive Officer on June 22, 2004. Prior to that time, he had served as our

President and Chief Operating Officer since October 1999, having served as our Executive Vice President and Secretary since he co-founded our business in August 1996. Mr. Akhavan was elected to our Board of Directors in October 1996 and will hold office until his successor is elected and qualified or until the earlier of death, resignation or removal. From December 1994 until August 1996, Mr. Akhavan was President of TechTreK, a children's computer entertainment and education center. From January 1991 until December 1994, Mr. Akhavan was President of Trident Software, a company he co-founded, which digitized works of art. Mr. Akhavan received both his MBA and his BS in Economics from Georgetown University.

Tracy Slavin became our Chief Financial Officer in June 2004. Ms. Slavin joined us in September 2000, and until her promotion served as Controller and Senior Director of Accounting. Ms. Slavin, a certified public accountant, has an MBA and over twelve years of corporate accounting, finance and auditing experience. Prior to joining E-centives, she served as Vice President of Accounting for Thomson Financial, a division of The Thomson Corporation, a leading provider of financial information, analysis, research and software products. From 1993 to 1997, Ms. Slavin served as Assistant Controller for Phillips International, Inc., a consumer and business-to-business information company. Ms. Slavin began her career as an auditor with PricewaterhouseCoopers LLP. Ms. Slavin is a CPA who received her MBA, with a concentration in Finance, from The University of Maryland. She graduated with High Distinction Honors from The Pennsylvania State University with a BS in accounting.

Paul Wassem is the President of our ConsumerREVIEW.com division. He joined us in December 2002, when we acquired ConsumerREVIEW.com, as Vice President and General Manager. Prior to the acquisition, he was the President and CEO of ConsumerREVIEW, Inc. Before joining ConsumerREVIEW.com in June 2000, he was a channel manager at BuyersEdge.com, an online marketplace backed by CMGI @ Ventures. From 1998 to 2000, Paul was vice president and general manager of GSS, Inc., a start-up staffing firm. Until 1998, he was a general manager at Borg-Warner Security Corporation. During his nine years at Borg-Warner, Paul was promoted from front-line sales and consulting positions to executive general management. Mr. Wassem studied business management at the University of Phoenix.

Wendy Roberts was promoted to Senior Vice President, Business Development in March 2003. She was hired as our Vice President of Emerging Markets in May 2002. Wendy brings more than 18 years of experience in the areas of new business development, management consulting and strategic planning. From 1997 to 2001, she served as Senior Partner at ionStrategy and served as Vice President of New Business Development and as Partner of Strategy at Agency.com, a leader in the development of Digital Relationship Management for Fortune 1000 companies. At Agency.com she developed and grew vertical market strategies and relationships in the areas of Pharmaceuticals, Financial Services and Insurance, High Technology, Retail and Travel. Through various senior roles in Sales, Marketing, Consulting and Client Management areas, Wendy has lead efforts to develop Relationship Management strategies for many leading companies. Ms. Roberts received both her MBA and her BS in Marketing from Salve Regina University.

John Hoffman oversees our internal and external computer services, security and operation as our Vice President of Network Operations. He became a member of our team when we acquired BrightStreet.com in December 2001. At BrightStreet.com he oversaw their network infrastructure and managed more than 24 systems providing scalability and high availability architectures. John brings more than 19 years of experience in computer operations, software development and security. He has obtained varied development and operational experience both in high security government work and the Internet. Prior to BrightStreet.com, he held various positions at Lockheed Missile & Space Company, from 1998 to 2000, and at Netcom Online Communications, from 1994 to 1998. Mr. Hoffman earned a BS in Electrical Engineering from the University of the Pacific in 1982.

Amori Langstaff, our Vice President of Client Services, joined us in March 2000. Amori oversees all client implementations, managing such processes as account services, business strategy, performance analyses and production. She brings to E-centives ten years of experience designing and delivering results-based database and customer loyalty marketing solutions for retail and hospitality companies, including the Mandarin Oriental Hotel Group, Asset Marketing and Regent International Hotels. Amori has extensive experience in creating and implementing marketing campaigns, customer segmentations, database marketing programs and corporate business plans, and in leading consultative client engagements. At E-centives, her contributions have promoted better and more profitable client relationships, streamlined sales and fulfillment processes. Ms. Langstaff received a BA in English from Carleton College in 1992.

Peter Friedli co-founded our business in August 1996. Mr. Friedli was elected to our Board of Directors in October 1996 and will hold office until his successor is elected and qualified or until the earlier of death, resignation or removal. Mr. Friedli is the sole shareholder and director Friedli Corporate Finance, Inc., a venture capital firm, since its inception in 1986. Prior to joining Friedli Corporate Finance, Mr. Friedli worked as an international management consultant for service and industrial companies in Europe and the U.S. Mr. Friedli also serves as the President of Venturetec and its parent corporation, New Venturetec AG, a publicly traded Swiss venture capital investment company. He also serves as an investment advisor to certain of our shareholders and as a director of certain other companies. Mr. Friedli studied Economics, but did not finish his degree.

On June 22, 2004, Sean Deson (who was named a director effective as of April 19, 2004) was appointed as Chairman of the Board and will hold office until his successor is elected and qualified or until the earlier of death, resignation or removal. Mr. Deson is the founder of Deson & Co., Deson Ventures, and Treeline Capital, all technology-focused investment related firms. Prior to founding his investment firms, Mr. Deson was a Senior Vice President at Donaldson, Lufkin & Jenrette, now Credit Suisse First Boston. Messrs. Friedli and Deson have co-invested in a number of companies. Mr. Deson received both his MBA in Finance and BS in Computer Technology and Management from the University of Michigan, Ann Arbor.

(b) Cross-involvement

Mr. Friedli is on the Board of Directors of New Venturetec (SWX: NEV) and Basilea Pharmaceuticals (SWX: BSLN). No other board member of executive has cross-involvement.

(c) Definitions of areas of responsibility

The officers of the Corporation shall be a Chairman, Chief Executive Officer, President and Secretary, and such other officers as the Board of Directors (or an officer authorized by the Board) from time to time may appoint, including a Vice Chairman, one or more Vice Presidents (any of whom may be designated Senior Vice President or Executive Vice President), Assistant Secretaries, Treasurer and Assistant Treasurers. Each such officer shall exercise such powers and perform such duties as shall be set forth below and such other powers and duties as from time to time may be specified by the Board of Directors or by any officer(s) authorized by the Board of Directors to prescribe the duties of such other officers. Any number of offices may be held by the same person. Each of the Chairman, Vice Chairman, Chief Executive Officer, President and/or any Vice President may execute bonds, mortgages, contracts and other instruments and documents under the seal of the Corporation, if required, except where required or permitted by law to be otherwise executed and except where the execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the Corporation.

Chairman: The Chairman shall (when present and unless otherwise provided by resolution of the Board of Directors or delegated by the Chairman) preside at all meetings of the Board of Directors and stockholders, and shall ensure that all orders and resolutions of the Board of Directors and stockholders are carried into effect.

Chief Executive Officer: The Chief Executive Officer shall be the chief executive of the Corporation and shall have full responsibility and authority for management of the operations of the Corporation and shall have and perform such other duties as may be prescribed by the stockholders, the Board of Directors or the Executive Committee (if any).

President: The President shall report directly to the Chief Executive Officer and shall have the duties, responsibilities and authorities as may be prescribed by the Chief Executive Officer, the Board of Directors or the Executive Committee (if any). In addition, in the absence of the Chief Executive Officer or in the event of the Chief Executive Officer's inability or refusal to act, the president shall perform the duties of the Chief Executive Officer, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the Chief Executive Officer.

Secretary: The Secretary shall have responsibility for preparation of minutes of meetings of the Board of Directors and of the stockholders and for authenticating records of the Corporation. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board. The Secretary or an Assistant Secretary may also attest all instruments signed by any other officer of the Corporation.

Chief Financial Officer: The Chief Financial Officer shall have responsibility for the custody of the corporate funds and securities and shall see to it that full and accurate accounts of receipts and disbursements are kept in books belonging to the Company. The Chief Financial Officer shall render to the Chairman, the Chief Executive Officer, the President and the Board of Directors, upon request, an account of all financial transactions and of the financial condition of the Company.

(d) Information and control instruments vis-a via senior management

Due to the small size of the Company, information is communicated through on-going interaction between and among senior management and the Board of Directors. Senior management typically has weekly management meetings that include two members of the Board of Directors (the Chief Executive Officer and the Chief Marketing Officer are directors).

(e) Content and method of determining the compensation and shareholding programs

Senior Management: The Compensation Committee of the Board of Directors determines the salaries and incentive compensation of the Company's officers and provides recommendations for the salaries and incentive compensation of other employees and consultants. The Compensation Committee also administers the various incentive compensation, stock and benefit plans. The Compensation Committee seeks to provide competitive salaries based upon individual performance together with annual cash bonuses awarded based on the Company's overall performance relative to corporate objectives, taking into account individual contributions, teamwork and performance levels. In addition, it is the policy of the Company to grant stock options to executives upon their commencement of employment and thereafter as determined by the Compensation Committee in order to strengthen the alliance of interest between such executives and the Company's stockholders and to give executives the opportunity to reach the top compensation levels of the competitive market depending on the Company's performance, as reflected in the market price of the Company's common stock.

- **Base Salaries:** Base salaries of executives are initially determined by evaluating the responsibilities of the position, the experience and knowledge of the individual, and the competitive marketplace for executive talent, including a comparison to base salaries for comparable positions at peer companies in the Company's geographic region. The Compensation Committee reviews the base salaries of executive officers based upon, among other things, individual performance and responsibilities. The Chief Executive Officer recommends annual salary adjustments by evaluating the performance of each executive officer after considering new responsibilities and the previous year's performance. The Compensation Committee performs the same review when evaluating the performance of the Chief Executive Officer. Individual performance ratings take into account such factors as achievement of specific goals that are driven by the Company's strategic plan and attainment of specific individual objectives.
- **Bonuses:** The Company's bonuses to its executive officers are based on both corporate and individual performance. The corporate performance factors include, among other things, revenue and earnings targets established in the Company's annual budget.
- **Stock-Based Compensation:** A third component of executive officers' compensation consists of awards under the Company's Amended and Restated Stock Option and Incentive Plan, pursuant to which the Company grants executive officers and other key employees options to purchase shares of common stock. The Compensation Committee grants stock options to the Company's executives in order to align the interests of those executives with the interests of the stockholders. Stock options are considered by the Compensation Committee to be an effective long-term incentive because the executives' gains are linked to increases in the value of the common stock, which in turn results in stockholder gains. The Compensation Committee generally grants options to new executive officers and other employees upon their commencement of employment with the Company and thereafter as determined by the Compensation Committee. The options generally are granted at an exercise price equal to the closing market price of the common stock on the trading day of the date of grant. Options granted typically vest over a period of four years following the date of grant. The maximum option term is ten years. The full benefit of the options is realized upon appreciation of the stock price in future periods, thus providing an incentive to create value for the Company's stockholders through appreciation of stock price. Management of the Company believes that stock options have been helpful in attracting and retaining skilled executive personnel.

Directors: The Board of Directors has the authority to fix the compensation of directors. No such payment shall preclude any director from serving the Company in any other capacity and receiving compensation therefor.

EXECUTIVE COMPENSATION

(a) Summary Compensation Table

The following table sets forth the compensation paid during the years ended December 31, 2004, 2003 and 2002 to our current and previous Chief Executive Officers and our other executive officers as of December 31, 2004, and two other most highly compensated employees for the year ended December 31, 2004 (collectively, the "Named Executive Officers").

Name and Principal Position(s)	Year	Annual Compensation			Long-Term Compensation	
		Salary (\$)	Bonus (\$)	Other (\$)	Securities Underlying Options	All Other Compensation
Mehrdad Akhavan (1)	2004	\$135,000 (7)	\$ -	\$ -	-	\$ -

Chief Executive Officer, Secretary and Director	2003	\$141,250 (7)	\$ 25,000	(2)	\$ -	1,868,256	\$ -
	2002	\$150,000	\$ -		\$ -	-	\$ -
Kamran Amjadi (2)	2004	\$ 98,077 (7)	\$ -		\$ -	-	\$ 84,532 (9)
Consultant	2003	\$160,083 (7)	\$ 25,000		\$ -	3,311,971	\$ -
	2002	\$170,000	\$ -		\$ -	-	\$ -
Tracy Slavin (3)	2004	\$130,102 (7)	\$ -		\$ -	305,000	\$ -
Chief Financial Officer	2003	\$129,841 (7)	\$ 11,500	(2)	\$ -	45,000	\$ -
	2002	\$122,954	\$ 5,750	(3)	\$ -	-	\$ -
Paul Wassem (4)	2004	\$138,030	\$ 4,441	(4)	\$ -	-	\$ -
President of ConsumerREVIEW.com	2003	\$136,525	\$ 3,347		\$ -	134,000	\$ -
	2002	\$ 10,750	\$ -		\$ -	-	\$ -
Wendy Roberts (5)	2004	\$180,000 (7)	\$ -		\$ -	-	\$ -
Senior Vice President, Business Development	2003	\$188,333 (7)	\$ -		\$ -	350,000	\$ -
	2002	\$116,667	\$ -		\$ -	150,000	\$ -
James Thomas (6)	2004	\$ 87,550	\$ -		\$ 71,181 (8)	-	\$ -
Sales Manager of ConsumerREVIEW.com	2003	\$ 87,125	\$ -		\$ 64,350 (8)	10,500	\$ -
	2002	\$ 7,083	\$ -		\$ 4,595 (8)	-	\$ -

- (1) Mehrdad Akhavan was made Chief Executive Officer in June 2004. He was previously President and Chief Operating Officer.
- (2) Kamran Amjadi resigned as our Chairman and Chief Executive Officer in June 2004 and has been working for us as a consultant.
- (3) Tracy Slavin joined E-centives in September 2000 as Controller and in June 2004 she was promoted to Chief Financial Officer.
- (4) Paul Wassem joined E-centives in December 2002 as General Manager of the ConsumerREVIEW.com division and in September 2004 he was promoted to President of the ConsumerREVIEW.com division.
- (5) Wendy Roberts joined E-centives in May 2002 as Vice President of Emerging Markets and in March 2003 she was promoted to Senior Vice President, Business Development.
- (6) James Thomas joined E-centives in December 2002
- (7) Salaries for 2004 and 2003 included a 10% deferral that began in mid-2003
- (8) Commissions.
- (9) Consulting fees and reimbursement of business expenses.

(b) Employment Agreements

Currently we do not have employment agreements with any of our executive officers, and as such they remain employees “at will.”

(c) Option Grants in Last Fiscal Year

The following table contains information concerning grants of stock options made to each of the Named Executive Officers during the year ended December 31, 2004:

Name	Number of Shares of Common Stock Underlying Options Granted	% of Total Options Granted to Employees in 2004	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Mehrdad Akhavan	-	0.0%	\$ -		\$ -	\$ -
Kamran Amjadi	-	0.0%	\$ -		\$ -	\$ -
Tracy Slavin	305,000	36.0%	\$ 0.13	06/22/14	218,693	371,718
Paul Wassem	-	0.0%	\$ -		-	-
Wendy Roberts	-	0.0%	\$ -		-	-
James Thomas	-	0.0%	\$ -		-	-

(d) Aggregated Option Exercises and Holdings

The following table presents information with respect to stock options exercised by each of our Named Executive Officers during the year ended December 31, 2004 and stock options owned by each of our named executive officers at December 31, 2004 on an aggregated basis.

Name	Number of Shares		Number of Securities Underlying		Value of Unexercised	
	Acquired on Exercise	Value Realized	Unexercised Options at December 31, 2004		In-the-Money Options at December 31, 2004	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Mehrdad Akhavan	-	-	2,243,256	-	\$ 515,201	\$ -
Kamran Amjadi	-	-	2,986,791	-	720,243	-
Tracy Slavin	-	-	26,250	327,500	3,102	90,313
Paul Wassem	-	-	33,500	67,000	8,903	17,806
Wendy Roberts	-	-	250,000	250,000	48,259	48,259
James Thomas	-	-	6,263	5,025	1,664	1,335

SECURITY OWNERSHIP

The following table presents information regarding the beneficial ownership of common stock as of January 31, 2005:

- each person, or group of affiliated persons, who is the beneficial owner of more than 5% of our outstanding common stock;
- each of our Named Executive Officers;
- each of our directors; and
- all of our executive officers and directors as a group.

Unless otherwise indicated, the address of each person identified is c/o E-centives, Inc., 6901 Rockledge Drive, 6th Floor, Bethesda, Maryland 20817.

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a stockholder vote. The persons named in this table have sole voting power for all shares of our common stock shown as beneficially owned by them, subject to community property laws where applicable and except as indicated in the footnotes to this table. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options and warrants held by that person that are currently exercisable or exercisable within 60 days after January 31, 2005 are deemed outstanding. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

Name	Shares Beneficially Owned	
	Number	Percent of Class
Mehrdad Akhavan (1)	2,903,256	4.8
Sean Deson	50,000	*
Peter Friedli (2) c/o Friedli Corporate Finance AG Freigutstrasse 5 8002 Zürich, Switzerland	31,329,861	50.2
Venturetec, Inc. (3) c/o Friedli Corporate Finance AG Freigutstrasse 5 8002 Zürich, Switzerland	10,035,263	16.3
New Venturetec AG (4) c/o Friedli Corporate Finance AG Freigutstrasse 5 8002 Zürich, Switzerland	10,035,263	16.3
InVenture, Inc. c/o Friedli Corporate Finance AG Freigutstrasse 5 8002 Zürich, Switzerland	11,983,337	20.5

Bank J Vontobel & Co AG Bahnhofstrasse 3 8002 Zurich, Switzerland	5,000,000	8.6
Rahn & Bodmer Banquiers Talstrasse 15, Postfach 8002 Zurich, Switzerland	4,187,535	7.2
Tracy Slavin (5)	26,250	*
Paul Wassem (6)	33,500	*
Wendy Roberts (7)	250,000	*
James Thomas (8)	6,263	*
Kamran Amjadi (9)	4,582,791	7.5
All executive officers and directors as a group (5 persons) (10)	34,342,867	53.1

* Less than 1% of the outstanding shares of common stock.

- (1) Includes 2,243,256 shares issuable upon exercise of vested stock options.
- (2) Includes 27,374,341 shares of common stock, 90,000 shares issuable upon exercise of vested stock options, 1,907,000 shares issuable upon exercise of warrants and 1,958,520 shares issuable upon conversions of Series B preferred stock held by Mr. Friedli individually, as well as shares of common stock and common stock underlying warrants held by entities over which Mr. Friedli has control, as follows: InVenture, Inc. — 11,983,337 shares of common stock; Joyce, Ltd. — 235,000 shares of common stock; Pine Inc. — 255,000 shares of common stock and 36,000 shares issuable upon conversions of Series B preferred stock; Savetech, Inc. — 165,383 shares of common stock; Spring Technology Corp. — 177,520 shares of common stock; USVentech — 145,750 shares of common stock; and Venturetec, Inc. — 7,112,743 shares of common stock, 1,000,000 issuable on exercise of warrants and 1,922,520 shares issuable upon conversions of Series B preferred stock. Mr. Friedli has sole voting and investment power with respect to 8,159,608 shares and shared voting and investment power with respect to 27,374,341 shares.
- (3) Includes 7,112,743 shares of common stock, 1,000,000 issuable on exercise of warrants and 1,922,520 shares issuable upon conversions of Series B preferred stock.
- (4) Includes 7,112,743 shares of common stock, 1,000,000 issuable on exercise of warrants and 1,922,520 shares issuable upon conversions of Series B preferred stock held by Venturetec, Inc. New Venturetec AG may be deemed to control Venturetec, Inc. by virtue of its ownership of 100% of Venturetec, Inc.'s capital stock and its corresponding right to elect Venturetec, Inc.'s directors, and, therefore, our capital stock owned by Venturetec, Inc. may also be deemed to be beneficially owned by New Venturetec, Inc. New Venturetec AG has shared voting and investment power with respect to 10,035,263 shares.
- (5) Includes 26,350 shares issuable upon exercise of vested stock options.
- (6) Includes 33,500 shares issuable upon exercise of vested stock options.
- (7) Includes 250,000 shares issuable upon exercise of vested stock options.
- (8) Includes 6,263 shares issuable upon exercise of vested stock options.
- (9) Includes 2,986,791 shares issuable upon exercise of vested stock options.
- (10) Includes 28,084,311 shares of common stock, 2,393,006 shares issuable upon exercise of vested stock options, 1,907,000 shares issuable upon exercise of warrants and 1,958,520 shares issuable upon conversions of Series B preferred stock.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Peter Friedli, one of our stockholders and directors, serves as the investment advisor to both Venturetec, Inc. and Pine, Inc. and also serves as President of Venturetec, Inc. and its parent corporation, New Venturetec AG. Mr. Friedli also has relationships with several of our other stockholders; he serves as the investment advisor to InVenture, Inc., Joyce, Ltd., Savetech, Inc., Spring Technology Corp. and USVentech, Inc. Mr. Friedli also services as the President of Friedli Corporate Finance, Inc., a company that provides us with consulting services.

On October 8, 2002, our Board of Directors approved the issuance of 6,000,000 warrants to four investors as consideration for a \$20 million financing commitment. Two of the investors were Peter Friedli and Venturetec, and each received 1,000,000 warrants. As part of this financing, in March 2003, we executed convertible promissory notes in favor of Friedli Corporate Finance and InVenture, Inc. The notes allow us to draw down against the available principal of up to \$6 million at any time and in any amount during the first two years of the notes. All principal drawn upon will be secured by substantially all of our assets. Subsequent to the issuance of these promissory notes, we, Friedli Corporate Finance and InVenture, Inc. agreed to assemble a syndicate of third parties to whom we would issue convertible promissory notes on terms similar to the March 2003 \$6 million convertible promissory notes. The aggregate dollar amount of the convertible promissory notes that we issue to third parties through syndication will reduce, on a dollar-for-dollar

basis, the \$6 million convertible promissory notes of Friedli Corporate Finance and InVenture, Inc. and the balance, if any, will continue to be available to us under the initial \$6 million commitment. During March 2004, the credit facility available to us under Friedli Corporate Finance's and InVenture, Inc.'s initial commitment was increased from \$6 million to \$12 million, pursuant to amended notes. As part of the syndication process, through December 31, 2004 we issued convertible promissory notes totaling \$10,500,000.

Venturetec, Inc. and Pine, Inc. were debenture holders in Consumer Review, Inc. Therefore, as a result of our acquisition of substantially all the assets of Consumer Review, Inc. in December 2002, Venturetec, Inc. and Pine, Inc. received 240,315 shares and 4,500 shares, respectively, of our Series B convertible preferred stock.

In July 1996, we entered into a consulting agreement with Friedli Corporate Finance, Inc., whereby Mr. Friedli provides us with financial consulting services and investor relations advice. Pursuant to the most recent renewed agreement, which is scheduled to expire in November 2008, Friedli Corporate Finance, Inc. is paid \$4,000 per month plus reimbursement of expenses related to Mr. Friedli's services. In connection with his continued support of the business and his assistance with fundraising, on December 8, 2003, Peter Friedli was issued 345,000 warrants with an exercise price of \$0.50 and an expiration date of December 8, 2007. As a result of the help provided in securing the funds associated with the convertible promissory notes, Friedli Corporate Finance, Inc. was paid fees of \$1,035,000, which Friedli Corporate Finance, Inc. has indicated to us will be distributed to a number of third party banks, affiliated entities and individuals who assisted in the financing effort.

We are presently in discussions with Friedli Corporate Finance for a preferred stock financing which would consist of an offering of shares of a newly created series of preferred stock designated Series C preferred stock. The Series C preferred stock will have an 8% cumulative dividend feature and will be convertible into 10 shares of our common stock. The issue price for each share of Series C preferred stock is expected to be \$4.00 per share. The Series C preferred stock will have a liquidation feature providing for a payment of 2 times the initial purchase price upon a liquidation, dissolution, merger or sale of the company. However, the aggregate dollar size and other material terms and conditions have not been finalized as of the date of the Form 10-KSB and there can be no assurance that we will be able to consummate this proposed financing on acceptable terms or at all. In connection with this financing, each of InVenture, Inc., Pine, Inc. and Venturetec, Inc. (collectively, the "Noteholders") have agreed to exchange their existing convertible promissory notes for shares of the newly created Series C preferred stock. The exchange is expected to be effective on March 31, 2005. Under these exchange agreements, we will issue shares of Series C preferred stock to each of the Noteholders in exchange for their convertible promissory notes. Upon the exchange, the notes will be immediately cancelled and we will owe no further amounts thereunder. As additional consideration for participating in the exchange, each Noteholder would receive a warrant to purchase shares of the Company's common stock, which would be exercisable on or after February 2, 2009 only if the shares of Series C preferred stock have not been converted into shares of common stock prior to that date. The exercise price for each warrant would equal twenty percent below the average of the market prices for the five trading days prior to, but not including, February 2, 2009. The foregoing exchanges are expected to occur even if the proposed preferred stock financing is not consummated.

The following table presents information regarding the amounts of outstanding principle and accrued but unpaid interest that the Company owes each Noteholder under their convertible promissory notes, as well as the number of shares of Series C preferred stock being issued in the exchange and the number of shares of common stock underlying each of the warrants to be granted to each of the Noteholders.

Noteholders	Amount of Outstanding Principal and Interest	Number of Shares of Preferred Stock	Shares of Common Stock Underlying the Warrants
InVenture, Inc.	\$5,065,288	1,266,322	2,026,115
Pine, Inc.	\$2,195,090	548,773	878,035
Venturetec, Inc.	\$3,198,795	799,699	1,279,518

As a member of our Board of Directors, through December 31, 2004, Peter Friedli has received 90,000 options as Director Compensation and in August 2004 we awarded Sean Deson 50,000 shares of our common stock for his agreement to serve as Chairman of the Board.

SHAREHOLDER PARTICIPATION

Voting Rights and Procedures

Only stockholders of record will be entitled to notice of and to vote at the any meeting of stockholders or any adjournments or postponements thereof. Each stockholder of record will be entitled to one vote on all matters to be voted upon at the meeting, for each share of the Company's capital stock that has voting power and that is held by such stockholder. Holders of a majority of the votes present at the meeting in person or represented by proxy at the meeting, voting as a single class, may approve most actions submitted to the stockholders. Cumulative voting in the election of Directors is not permitted.

A majority of the outstanding shares of the voting stock represented in person or by proxy and entitled to vote will constitute a quorum for the transaction of business at the meeting. For purposes of voting on the matters described herein, at any meeting of stockholders at which a quorum is present, the required vote is as follows: (a) the affirmative vote of a plurality of the shares of votes represented by shares present at the meeting in person or represented by proxy at the meeting, voting as a single class, is required to elect the four nominees for Directors and (b) the affirmative vote of a majority of votes represented shares present at the meeting in person or represented by proxy at the meeting, voting as a single class, is required to approve the other matters at the meeting. Therefore, the aggregate number of votes cast by all stockholders present in person or by proxy will be used to determine whether a motion will carry.

Shares represented by proxies that reflect abstentions will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum. Since Directors will be elected by a favorable vote of a plurality of the votes represented by the shares present at the meeting in person or represented by proxy at the meeting, voting as a single class, and entitled to vote at the meeting, abstentions from the election of Directors will not affect the election of the candidates receiving the most votes. With respect to all other proposals to come before the meeting, abstentions will have the same effect as votes against such proposal. Shares represented by brokers who are prohibited from exercising discretionary authority because the beneficial owners of such shares have not provided voting instructions, commonly referred to as "broker non-votes", will be counted as present for determining the presence of a quorum, but will not be counted for any purpose in determining the election of Directors and will have no effect on other proposals.

All Proxies that are properly executed and returned to the Company prior to commencement of voting at the meeting will be voted at the meeting or any adjournments or postponements thereof in accordance with the instructions thereon. A proxy card is signed and returned without specifying a choice, the shares will be voted in accordance with the recommendations of the Board of Directors.

All valid Proxies received may be voted at the discretion of the proxy holders named therein for adjournments or postponements or other matters that may properly come before the meeting. The proxy holders may exercise their discretion to vote all valid Proxies for an adjournment or postponement in the absence of a quorum, to the extent necessary to facilitate the tabulation process or in other cases.

All votes will be tabulated by the inspector of elections (the "Inspector") appointed for the meeting who will, for each proposal to be voted on, determine the number of shares outstanding, the number of shares entitled to vote, the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of all proxies received by the Company. The Inspector will also separately tabulate affirmative and negative votes and broker "non-votes", and determine the result for each proposal.

Revocation of Proxies

A proxy may be revoked at any time before it is valid by filing with the Secretary of the Company a written revocation or a duly executed proxy bearing a later date or by attending the meeting and voting in person. The presence of a stockholder at the meeting will not automatically revoke such stockholder's proxy. If a stockholder submits a proxy by telephone or through the Internet, they may also revoke it by submitting a new proxy using the same procedures at a later date.

ACCOUNTING FEES AND SERVICES

Change in Accountants

In July 2004, with the approval of the Board of Directors, we decided to no longer engage KPMG LLP ("KPMG") as our independent accountants and on September 27, 2004 the Board of Directors engaged BDO Seidman, LLP as our independent accountants. KPMG's audit reports on our consolidated financial statements as of and for each of the years ended December 31, 2003 and December 31, 2002 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles, except as follows:

KPMG's report on our consolidated financial statements as of and for the years ended December 31, 2003 and 2002, contained a separate paragraph stating that the "Company is dependent upon its principal shareholder for continued funding". KPMG's report on our consolidated financial statements as of and for the years ended December 31, 2003 and 2002, also contained a separate paragraph stating that "effective January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No.142, Goodwill and Other Intangible Assets."

Accountant Fees

Aggregate fees for professional services rendered to the Company by BDO Seidman, LLP and KPMG LLP for the years ended December 31, 2004 and 2003, respectively, are summarized in the table below.

	<u>2004</u>	<u>2003</u>
Audit fees ⁽¹⁾	\$128,000	\$210,345
Audit Related fees	0	0
Tax fees ⁽²⁾	25,000	33,380
All Other fees	0	0
Total fees	<u>\$153,000</u>	<u>\$243,725</u>

(1) Audit fees include consents and review of and assistance with documents filed with the SEC

(2) Tax fees consisted of fees for tax consultation and tax compliance services.

Audit Committee Pre-Approval Policies and Procedures

As we do not have an Audit Committee, the Board of Directors has established a policy regarding pre-approval of all audit and non-audit services provided to us by our independent auditor. On an ongoing basis, management communicates specific projects and categories of service for which the advance approval of the Board of Directors is requested. The Board of Directors reviews these requests and advises management if the Board of Directors approves the engagement of the independent auditor. On a periodic basis, management reports to the Board of Directors regarding the actual spending for such projects and services compared to the approved amounts. The projects and categories of service are as follows:

- Audit fees: Professional services rendered for the audits of the financial statements of the Company and assistance with review of documents filed with the SEC.
- Audit Related fees: Services related to employee benefit plan audits, business acquisitions, accounting consultations and consultations concerning financial and accounting and reporting standards.
- Tax fees: Services related to tax compliance, including the preparation of tax returns, tax planning and tax advice.
- All Other fees: Other services are pre-approved on an engagement-by-engagement basis.

AVAILABLE INFORMATION

Our Internet website address is www.e-centives.com. We make available, free of charge, on or through our website our Annual Reports on Forms 10-KSB and 10-K, Quarterly Reports on Forms 10-QSB and 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. For additional information, inquiries can be sent to investors@e-centives.com.