

# **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 the Company's initial public offering on October 3, 2000, its 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
<b>2004</b>						
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
<b>2005</b>						
Quarter ended March 31, 2005	CHF 0.52	CHF 0.43	\$0.44	\$0.37	0.84360	0.85920
Quarter ended June 30, 2005	CHF 0.51	CHF 0.43	\$0.43	\$0.35	0.83840	0.82130
Quarter ended September 30, 2005	CHF 0.48	CHF 0.40	\$0.37	\$0.32	0.77270	0.80960
Quarter ended December 31, 2005	CHF 0.43	CHF 0.34	\$0.33	\$0.26	0.75860	0.77660

Holdings: As of December 31, 2005, there were approximately 80 holders of record of the Company's common stock and 62,165,256 shares outstanding.

Dividends: The Company has never declared or paid any cash dividends on its common stock. The Company intends to retain future earnings, if any, to finance the expansion of its business, and does not expect to pay any cash dividends in the foreseeable future. The declaration of dividends is within the discretion of the Board of Directors and subject to limitations set forth in the Delaware General Corporation Law. The Company's 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 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.

#### Series B Convertible Preferred Stock

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. Upon the one year anniversary of the closing date, the conversion rate for each share of the Series B convertible preferred stock was determined based upon the achievement of contractually defined revenue during the calculation period and was adjusted pursuant to a defined schedule. 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 was adjusted to 8 to 1. In May 2005, the 400,000 shares of Series B convertible preferred stock automatically converted into 3,200,000 shares of common stock. As of December 31, 2005, there were no shares of Series B convertible preferred stock authorized, issued and outstanding.

#### Series C Convertible Preferred Stock

On February 9, 2005, the Company was authorized to issue up to 5,000,000 shares of the Series C convertible preferred stock at an issue price of \$4.00 per share. Associated with the Company's preferred stock financing, the Company received \$2,500,000 and issued 625,192 shares of Series C convertible preferred stock. In addition, on March 31, 2005, 2,614,794 shares of the Series C convertible preferred stock were issued in exchange for certain of the Company's 8% convertible promissory notes and associated accrued interest. As of December 31, 2005, there were 3,239,986 shares of Series C convertible preferred stock issued and outstanding.

Voting: The Series C convertible preferred stock shall vote with the shares of the common stock and any other class of capital stock of the Company having similar voting rights (and not as a separate class) at any annual or special meeting of stockholders of the Company, and may act by written consent in the same manner as the common stock. Each holder of shares of Series C convertible preferred stock shall be entitled to such number of votes as shall be equal to the whole number of shares of common stock into which such holder's aggregate number of shares of Series C convertible preferred stock are convertible immediately after the close of business on the record date fixed for such meeting or the effective date of such written consent.

Rank: The Series C convertible preferred stock shall, with respect to dividend rights and rights on liquidation, winding-up and dissolution, rank (i) senior to Series B convertible preferred stock, common stock and to each other class of capital stock of the Company or series of preferred stock of the Company established hereafter by the Board of Directors, the terms of which do not expressly provide that such class or series ranks senior to, or on a parity with, the Series C convertible preferred stock as to dividend rights and rights on liquidation, winding-up and dissolution of the Company (collectively referred to, together with the common stock of the Company, as "Junior Securities"); (ii) on a parity with each other class of capital stock of the Company or series of preferred stock of the Company established hereafter by the Board of Directors, the terms of which expressly provide that such class or series shall rank on a parity with the Series C convertible preferred stock as to dividend rights and rights on liquidation, winding-up and dissolution (collectively referred to as "Parity Securities"); and (iii) junior to each class of capital stock of the Company or series of preferred stock of the Company established hereafter by the Board of Directors, the terms of which expressly provide that such class or series shall rank senior to the Series C convertible preferred stock as to dividend rights and rights on liquidation, winding-up and dissolution of the Company (collectively referred to as "Senior Securities").

Dividends: Subject to the preferential rights of the holders of any class or series of Senior securities, when and if declared by the Board of Directors, the holders of shares of Series C convertible preferred stock shall be entitled to receive with respect to each share of Series C convertible preferred stock dividends at the rate of 8% per annum of the original purchase price of \$4.00 per share. Dividends shall accrue and shall be cumulative, whether or not declared, from the date of issue of such share of Series C convertible preferred stock.

Voluntary Conversion: Holders of Series C convertible preferred stock shall have the right at any time to convert any or all outstanding shares of Series C convertible preferred stock together with any accrued but unpaid dividends into fully paid and non-assessable shares of common stock. Each outstanding share of Series C convertible preferred stock shall be convertible into a number of shares of common stock equal to the original purchase price of \$4.00 per share divided by the conversion price of \$0.40 and all accrued but unpaid dividends shall convert into a number of shares of common stock equal to the amount of such accrued but unpaid dividends as of the date of conversion divided by the conversion price of \$0.40.

Mandatory Conversion: If the market price per share of common stock is CHF 2.00 or higher for 30 consecutive trading days (such last trading day of such period being the "Automatic Conversion Date") each share of Series C convertible preferred stock shall automatically be converted (without any action required on the part of the holder thereof) into a number of shares of common stock equal to the original purchase price of \$4.00 per share divided by the conversion price of \$0.40 and all accrued but unpaid dividends shall be automatically converted into a number of shares of common stock equal to the amount of such accrued but unpaid dividends as of the Automatic Conversion Date divided by the conversion price of \$0.40.

**Liquidation:** In the event of any liquidation, dissolution or winding-up of the Company, after payment or distribution of the Company's assets shall be made to or set apart for the holders of Senior Securities, and before any payment or distribution of the Company's assets shall be made to or set apart for the holders of Junior Securities, the holders of shares of Series C convertible preferred stock shall be entitled to receive, as to each share of Series C convertible preferred stock, an amount in cash equal to the sum of the \$8.00 plus an amount equal to any accrued and unpaid dividends ("Liquidation Preference") of such share of Series C convertible preferred stock as of the date of liquidation (the aggregate of all such amounts, the "Series C Liquidation Amount"). If, upon any liquidation, dissolution or winding-up of the Company, the Company's assets, or proceeds thereof, shall be insufficient to pay in full the Series C Liquidation Amount, then such assets, or proceeds thereof, shall be distributed among the shares of Series C convertible preferred stock and all such other Parity Securities ratably in accordance with the respective amounts that would be payable on such shares of Series C convertible preferred stock and any such other Parity Securities if all amounts payable thereon were paid in full. Any amounts distributed with respect to the Series C convertible preferred stock shall be allocated pro rata among the shares of Series C convertible preferred stock.

Subject to the rights of the holders of any Junior Securities other than the common stock, after the payment, in cash, to the holders of the shares of Series C convertible preferred stock of the Series C Liquidation Amount and the payment to the holders of any Senior Securities and Parity Securities of the preference amounts payable to them upon such liquidation, dissolution or winding-up, the holders of shares of Series C convertible preferred stock shall be entitled to participate in distributions of all remaining assets of the Company available for distribution to the holders of common stock, pro rata based on the number of shares of common stock into which the shares of Series C convertible preferred stock were convertible immediately prior to the record date for such distribution.

*(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, 2005, there were 21,000,000 shares of common stock reserved for issuance and there were 7,425,353 options to purchase shares of common stock outstanding at a weighted average exercise price of \$1.25 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 2005, 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 Options	Weighted Average Exercise Price
Balance, January 1, 2004	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	7,971,903	1.23
Granted	304,000	0.33
Exercised	(363,800)	0.13
Canceled	(486,750)	1.15
Balance, December 31, 2005	7,425,353	\$ 1.25

The following table summarizes information concerning currently outstanding and exercisable options at December 31, 2005:

			<b>Options outstanding</b>		
			<b>Number</b>	<b>Weighted-</b>	<b>Options</b>
			<b>outstanding</b>	<b>average</b>	<b>exercisable</b>
			<b>at</b>	<b>remaining</b>	<b>at</b>
			<b>12/31/2005</b>	<b>contractual</b>	<b>12/31/2005</b>
<b>Range of exercise prices</b>					
\$0.13	-	\$0.50	6,437,103	5.4 years	5,458,460
\$0.54	-	\$0.60	116,750	7.5 years	63,750
		\$2.50	212,000	2.5 years	212,000
		\$3.50	46,000	4.0 years	46,000
		\$5.53	30,000	5.2 years	30,000
		\$6.50	25,000	4.6 years	25,000
\$8.02	-	\$8.17	5,500	5.0 years	5,500
		\$11.21	3,000	4.8 years	3,000
		\$13.00	550,000	2.7 years	550,000
			<u>7,425,353</u>	5.1 years	<u>6,393,710</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:

	<b>Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance, January 01, 2004	7,074,485	\$ 0.39
Exercised	(100,000)	0.14
Balance, December 31, 2004	6,974,485	0.40
Expired	(619,485)	2.43
Balance, December 31, 2005	<u>6,355,000</u>	<u>\$ 0.20</u>

Of the 6,355,000 balance of warrants at December 31, 2005:

- 110,000 warrants were issued during the period of October 1996 through February 1999, and all such warrants expire on December 31, 2008;
- 6,000,000 warrants were issued during 2002, of which 100,000 were exercised during 2004, with an expiration date of April 7, 2008; and

- 345,000 warrants were issued during 2003 with an expiration date of December 8, 2007.

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

Year ended December 31, 2005

- Common Stock: 200,000 shares issued to members of the Board of Directors; 363,810 shares issued in association with the exercise of outstanding options; 12,500 issued for consulting services and 3,200,000 issued in association with the conversion of Series B Preferred Stock.
- Series C Preferred Stock: 3,239,986 shares of Series C preferred stock were issued.
- Options to purchase common stock: 304,000 options were granted, 363,800 options were exercised and 486,750 options were cancelled.
- Warrants to purchase common stock: Warrants to purchase 619,485 shares were expired.

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.

**CONVERTIBLE PROMISSORY NOTES**

In March 2003, the Company executed convertible promissory notes for an aggregate sum of up to \$6 million, from which the Company 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, the Company agreed to assemble a syndicate of third parties to whom the Company 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 issued to third parties through the syndication process reduced, on a dollar-for-dollar basis, the \$6 million convertible promissory notes and the balance, if any, would continue to be available to the Company under the initial \$6 million commitment. The last convertible promissory note was issued on March 24, 2005, and through that date the Company issued convertible promissory notes totaling \$11,000,000. On March 31, 2005, convertible promissory notes with principal balances totaling \$9,750,000, along with accrued interest of approximately \$709,000, were converted into 2,614,793 shares of Series C convertible preferred stock. The terms of 8% convertible promissory 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 the Company's 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 the Company's 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);
  - 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, 2005 were to be converted into shares of common stock at the conversion price of 2 CHF (assuming an exchange rate of 1.3123 per one U.S. Dollar as of December 31, 2005), the aggregated number of shares issued upon such conversion would be approximately 822,400.
- 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 the Company's assets.

During the year ended December 31, 2005 the Company issued three 10% convertible promissory notes with principal balances totaling \$4,500,000. The terms of the 10% convertible promissory notes include, among other things:

- a 10% interest rate;
- a conversion feature, whereby the principal amount of and accrued interest on the note is convertible at the option of the holder at any time into shares of Series C preferred stock at a conversion price of \$4 per share;
- a redemption feature, whereby the note may be redeemed by the Company at any time by payment of the principal amount of and accrued interest on the note to the holder; and
- a security interest in substantially all of the Company's assets.

## **BOARD OF DIRECTORS**

As of December 31, 2005, the Company's Board of Directors consisted of Kamran Amjadi, Mehrdad Akhavan, Peter Friedli, Sean Deson and David Jodoin, with Mr. Amjadi serving as Chairman of the Board. Mr. Amjadi served as Chairman until June 2004, when he resigned as Chief Executive Officer and Chairman. Mr. Deson, who was named a Director in April 2004, was appointed Chairman on June 22, 2004. In April 2005, when Mr. Amjadi rejoined the Company as Chief Executive Officer, he was re-appointed Chairman.

### *(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 five 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 Company 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 Company 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, 2005:* The Board of Directors met 3 times and acted 4 times 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:* The Board of Directors currently has a Compensation Committee. The Compensation Committee determines the salaries and incentive compensation of officers and provides recommendations for the salaries and incentive compensation of other employees and consultants. The Compensation Committee also administers various incentive compensation, stock and benefit plans. As of December 31, 2005, the Compensation Committee consisted of Mr. Friedli.
- (d) *Director Compensation:* The Company does not currently compensate directors who are also employees. Each non-employee director currently is reimbursed for reasonable travel expenses for each board meeting attended. Through 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, the Company awarded him 50,000 shares of common stock. In 2005, each non-employee director received 100,000 shares of common stock. Future year's compensation for non-employee directors has not yet been decided.
- (e) *Compensation Committee Interlocks and Insider Participation:* None of the Company's 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 the Company's Board of Directors or Compensation Committee.
- (f) *Stockholder Communications with Directors:* Company stockholders who want to communicate with the Board of Directors or any individual director can write to:

E-centives, Inc.  
Board Administration  
6901 Rockledge Drive, 6th Floor  
Bethesda, MD 20817

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 of Directors 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:* The Company's certificate of incorporation provides that directors will not be personally liable to the Company, or the Company's 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 the Company or the Company's 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, the Company and the Company's stockholders may be unable to obtain monetary damages from a director for breach of his or her duty of care.

The Company's bylaws provide for the indemnification of directors and officers and any person who is or was serving at the Company's 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:* The Company does not have a separately designated standing Audit Committee of the Board of Directors, and therefore the Company does not have any independent audit committee financial experts under Item 401(e) of Regulation S-B. In the future, the Company intends to expand the 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:* The Company has adopted a Code of Ethics that applies to its directors and to all of its employees, including its Chief Executive Officer and Chief Financial Officer. The Company's Code of Ethics has been distributed to all employees and is available at The Company's website ([www.e-centives.com](http://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 the Company's executive officers, key employees and directors as of December 31, 2005.

<b>Name</b>	<b>Age</b>	<b>Position(s) with Company</b>	<b>Director Nationality</b>
Kamran Amjadi	42	Chief Executive Officer and Chairman	American
Mehrdad Akhavan	42	Chief Marketing Officer, President, Secretary and Director	American
Tracy Slavin	36	Chief Financial Officer	American
Wendy Roberts	41	Senior Vice President, Business Development	American
John Hoffman	46	Vice President of Network Operations	American
Amori Langstaff	34	Vice President of Client Services	American
Paul Wasseem	35	President of ConsumerREVIEW.com	American
Peter Friedli	51	Director	Swiss
Sean Deson	42	Director	American
David Jodoin	41	Director	American

Kamran Amjadi served as the Company's Chairman and Chief Executive Officer from August 1996 (when he co-founded the Company's business) through June 2004 when he resigned as Chief Executive Officer and Chairman. From June 2004 through April 2005 he worked as a consultant for the Company and in April 2005 he was re-appointed the Company's Chairman and Chief Executive Officer. From September 1990 until August 1996, Mr. Amjadi was the Executive Vice President and Director of United States Operations for MP Technologies, a software company. From July 1986 until August 1990, Mr. Amjadi was a software engineer with the Hewlett-Packard Corporation.

Mehrdad Akhavan was appointed to the new position of Chief Marketing Officer in April 2005. From June 2004 through April 2005 he served as the Company's Chief Executive Officer. Prior to that time, he had served as the Company's President and Chief Operating Officer since October 1999, having served as the Company's Executive Vice President and Secretary since he co-founded the Company's business in August 1996. Mr. Akhavan was elected to the Company's 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 the Company's Chief Financial Officer in June 2004. Ms. Slavin joined the Company in September 2000, and until her promotion served as Controller and Senior Director of Accounting. 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.

Wendy Roberts was promoted to Senior Vice President, Business Development in March 2003. She was hired as the Company's 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 the Company's internal and external computer services, security and operation as the Company's Vice President of Network Operations. He became a member of the Company's team when the Company 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, the Company's Vice President of Client Services, joined the Company 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.

Paul Wassem is the President of the Company's ConsumerREVIEW.com division. He joined the Company in December 2002, when it 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.

Peter Friedli co-founded the Company's business in August 1996. Mr. Friedli was elected to the Company's 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 the Company's shareholders and as a director of certain other companies. Mr. Friedli studied Economics, but did not finish his degree.

Sean Deson was named as a Director in April 2004 and will hold office until his successor is elected and qualified or until the earlier of death, resignation or removal. He was appointed Chairman in June 2004 and held the position until April 2005, when Mr. Amjadi returned to the Company as the Chief Executive Officer and was re-appointed Chairman. Mr. Deson is the founder of Deson & Co., and 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. Mr. Deson spent 10 years at Donaldson, Lufkin & Jenrette. 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.

David Jodoin was appointed as a Director in November 2005. Since December 2005 Mr. Jodoin has been the Chief Executive Officer of Iperia, an enterprise software company specializing in solutions for service providers in the voice over IP industry. From 2002 until 2005, Mr. Jodoin served as Chief Executive Officer of Alpha NetSolutions, Inc., an information technology consulting organization specializing in strategic consulting, web services and Linux migration strategies. Previously, Mr. Jodoin was the founder and Chief Executive Officer of Innovative Computer Concepts, which merged with Vantive Corporation, a publicly held customer relationship management software company, which eventually merged with PeopleSoft, Inc. While at Vantive, Mr. Jodoin held the position of Executive Vice President and General Manager. Mr. Jodoin attended MIT from 1981 through 1982 under the HSSP program, attended University of Lowell from 1982 to 1984 and graduated from Dean College in 1986.

*(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, 2005, 2004 and 2003 to the Company's Chief Executive Officer and other executive officers as of December 31, 2005, and two other most highly compensated employees for the year ended December 31, 2005 (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
Kamran Amjadi (1) Chief Executive Officer and Chairman	2005	\$184,659 (5)	\$ -	\$ -	-	\$ 58,791 (7)
	2004	\$ 98,077 (5)	\$ -	\$ -	-	\$ 84,532 (7)
	2003	\$160,083 (5)	\$ 25,000	\$ -	3,311,971	\$ -
Mehrdad Akhavan (2) Chief Marketing Officer, President, Secretary and Director	2005	\$189,167 (5)	\$ -	\$ -	-	\$ -
	2004	\$135,000 (5)	\$ -	\$ -	-	\$ -
	2003	\$141,250 (5)	\$ 25,000	\$ -	1,868,256	\$ -
Tracy Slavin (3) Chief Financial Officer	2005	\$144,915 (5)	\$ 1,923	\$ -	-	\$ -
	2004	\$130,102 (5)	\$ -	\$ -	305,000	\$ -
	2003	\$129,841 (5)	\$ 11,500	\$ -	45,000	\$ -
Wendy Roberts (4)	2005	\$193,333 (5)	\$ 30,000	\$ 14,462 (6)	-	\$ -

Senior Vice President, Business Development	2004	\$180,000 (5)	\$ -	\$ -	-	\$ -
	2003	\$188,333 (5)	\$ -	\$ -	350,000	\$ -
Amori Langstaff	2005	\$145,000 (5)	\$ 10,000	\$ -	-	\$ -
Vice President of Client Services	2004	\$119,448 (5)	\$ 10,000	\$ -	-	\$ -
	2003	\$ 85,828 (5)	\$ -	\$ -	350,000	\$ -

- (1) Kamran Amjadi resigned as Chairman and Chief Executive Officer in June 2004 and worked for the Company as a consultant until April 2005, when he was re-appointed Chairman and Chief Executive Officer.
- (2) Mehrdad Akhavan served as Chief Executive Officer from June 2004 until April 2005, when Mr. Amjadi was re-appointed Chairman and Chief Executive Officer. He was previously President and Chief Operating Officer.
- (3) Tracy Slavin joined E-centives in September 2000 as Controller and in June 2004 she was promoted to Chief Financial Officer.
- (4) 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.
- (5) Salaries included a 10% deferral that began in July 2003 and ended in April 2005.
- (6) Commissions.
- (7) Consulting fees and reimbursement of business expenses.

*(b) Employment Agreements*

Currently the Company does not have employment agreements with any of its 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, 2005:

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%
Kamran Amjadi	-	0.0%	\$ -		\$ -	\$ -
Mehrdad Akhavan	-	0.0%	\$ -		\$ -	\$ -
Tracy Slavin	-	0.0%	\$ -		\$ -	\$ -
Wendy Roberts	-	0.0%	\$ -		\$ -	\$ -
Amori Langstaff	-	0.0%	\$ -		\$ -	\$ -

*(d) Aggregated Option Exercises and Holdings*

The following table presents information with respect to stock options exercised by each of the Named Executive Officers during the year ended December 31, 2005 and stock options owned by each of the Named Executive Officers at December 31, 2005 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, 2005		In-the-Money Options at December 31, 2005	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Kamran Amjadi	-	\$ -	2,986,791	-	\$ 391,769	\$ -
Mehrdad Akhavan	-	-	2,243,256	-	280,238	-
Tracy Slavin	98,750	32,489	15,000	240,000	-	36,000
Wendy Roberts	-	-	375,000	125,000	39,375	13,125
Amori Langstaff	-	-	105,000	150,000	15,000	22,500

## SECURITY OWNERSHIP

The following table presents information regarding the beneficial ownership of common stock as of January 31, 2006:

- each person, or group of affiliated persons, who is the beneficial owner of more than 5% of the Company's outstanding common stock;
- each of the Named Executive Officers;
- each of the directors; and
- all of the 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, 6<sup>th</sup> Floor, Bethesda, Maryland 20817.

Holders of the Company's 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 the Company's 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, 2006 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
Kamran Amjadi (1)	4,582,791	7.0
Mehrdad Akhavan (2)	2,903,256	4.5
Sean Deson	150,000	*
David Jodoin	--	*
Peter Friedli (3)	63,829,721	66.1
c/o Friedli Corporate Finance AG Freigutstrasse 5 8002 Zürich, Switzerland		
Venturetec, Inc. (4)	19,282,253	26.6
c/o Friedli Corporate Finance AG Freigutstrasse 5 8002 Zürich, Switzerland		
New Venturetec AG (5)	19,282,253	26.6
c/o Friedli Corporate Finance AG Freigutstrasse 5 8002 Zürich, Switzerland		
InVenture, Inc. (6)	25,898,477	34.0
c/o Friedli Corporate Finance AG Freigutstrasse 5 8002 Zürich, Switzerland		
US Venture 05, Inc. (7)	3,750,000	5.7
c/o Friedli Corporate Finance AG Freigutstrasse 5 8002 Zürich, Switzerland		
Bank J Vontobel & Co AG	5,000,000	8.0
Bahnhofstrasse 3 8002 Zurich, Switzerland		
Tracy Slavin (8)	15,000	*
Wendy Roberts (9)	375,000	*
Amori Langstaff (10)	105,000	*
Executive officers and directors as a group (6 persons) (11)	71,840,768	70.2

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

- (1) Includes 2,986,791 shares issuable upon exercise of vested stock options.
- (2) Includes 2,243,256 shares issuable upon exercise of vested stock options.
- (3) Includes 90,000 shares issuable upon exercise of vested stock options, 1,907,000 shares issuable upon exercise of warrants and 32,399,860 shares issuable upon conversions of Series C 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 and 13,915,140 shares issuable upon conversions of Series C preferred stock; Joyce, Ltd. — 235,000 shares of common stock; Pine Inc. — 291,000 shares of common stock and 137,000 shares issuable upon the exercise of warrants; Savetech, Inc. — 165,383 shares of common stock; Spring Technology Corp. — 177,520 shares of common stock; USVentech — 145,750 shares of common stock; US Venture 05, Inc. — 3,750,000 shares issuable upon conversions of Series C preferred stock and Venturetec, Inc. — 9,035,263 shares of common stock, 1,000,000 issuable on exercise of warrants and 9,246,990 shares issuable upon conversions of Series C preferred stock. Mr. Friedli has sole voting and investment power with respect to 13,747,338 shares and shared voting and investment power with respect to 50,082,383 shares. See "Item 12 - Certain Relationships and Related Transactions" for a description of Mr. Friedli's relationships with these entities.
- (4) Includes 9,035,263 shares of common stock, 1,000,000 issuable on exercise of warrants and 9,246,990 shares issuable upon conversions of Series C preferred stock.
- (5) Includes 9,035,263 shares of common stock, 1,000,000 issuable on exercise of warrants and 9,246,990 shares issuable upon conversions of Series C 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, 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.
- (6) Includes 13,915,140 shares issuable upon conversions of Series C preferred stock.
- (7) Includes 3,750,000 shares issuable upon conversions of Series C preferred stock.
- (8) Includes 15,000 shares issuable upon exercise of vested stock options.
- (9) Includes 375,000 shares issuable upon exercise of vested stock options.
- (10) Includes 105,000 shares issuable upon exercise of vested stock options.
- (11) Includes 5,335,047 shares issuable upon exercise of vested stock options, 1,907,000 shares issuable upon exercise of warrants and 32,399,860 shares issuable upon conversions of Series C preferred stock.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Peter Friedli, one of the Company's stockholders and directors, has relationships with several of the Company's investors and stockholders. He serves as the investment advisor to Venturetec, Inc., Pine, Inc., InVenture, Inc., Joyce, Ltd., Savetech, Inc., Spring Technology Corp. and USVentech, Inc. He also serves as President of US Venture 05, Inc. and Venturetec, Inc., as well as its parent corporation, New Venturetec AG. Mr. Friedli is also the President of Friedli Corporate Finance, Inc., a consulting company that is utilized by the Company.

In July 2005, September 2005 and November 2005 the Company issued a 10% convertible promissory note for \$500,000 to Venturetec, Inc., a 10% convertible promissory note for \$1,000,000 to US Venture 05, Inc. and a 10% convertible promissory note for \$3,000,000 to US Venture 05, Inc., respectively.

In March 2005, the Company finalized the terms of a preferred stock financing with Friedli Corporate Finance, which consists of an offering of shares of a newly created series of preferred stock designated Series C convertible preferred stock. The Series C convertible preferred stock has an issue price of \$4.00 per share, has an 8% cumulative dividend feature, is convertible into ten shares of the Company's common stock and has a liquidation feature providing for a payment of two times the initial purchase price upon a liquidation, dissolution, merger or sale of the company. Associated with the preferred stock financing, as of December 31, 2005, the Company received \$2,500,000 and issued 625,192 shares of Series C convertible preferred stock to InVenture, Inc., US Venture 05, Inc. and Venturetec, Inc.

In connection with the preferred stock financing, on March 31, 2005, each of InVenture, Inc., Pine, Inc. and Venturetec, Inc. (collectively, the "Noteholders") agreed to exchange their existing convertible promissory notes for shares of the newly created Series C convertible preferred stock. Under these exchange agreements, the Company issued shares of Series C convertible preferred stock to each of the Noteholders in exchange for their convertible promissory notes. Upon the exchange, the convertible promissory notes were immediately cancelled and the Company owes no further amounts thereunder. As additional consideration for participating in the exchange, each Noteholder will receive a warrant to purchase shares of the Company's common stock, which will be exercisable on or after February 2, 2009 only if the shares of Series C convertible preferred stock have not been converted into shares of common stock prior to that date. The exercise price for each warrant will equal twenty percent below the average of the market prices for the five trading days prior to, but not including, February 2, 2009. The following table presents information regarding the amounts of

outstanding principle and accrued but unpaid interest that the Company owed each Noteholder under their convertible promissory notes that were exchanged, as well as the number of shares of Series C convertible preferred stock 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

On March 29, 2005 the Company received a \$400,000 bridge loan from Peter Friedli that was paid back with interest of approximately \$2,500 on April 27, 2005.

On October 8, 2002, the Company's Board of Directors approved the issuance of 6,000,000 warrants to four investors as consideration for a \$20 million financing commitment which was memorialized in a letter to the Company, by Friedli Corporate Finance, dated September 12, 2002. The warrants entitle each investor to purchase one share of the Company's common stock, \$0.01 per value per share, for an initial exercise price of CHF 0.19 per share during the exercise period. Pursuant to an amendment to the warrants, the exercise period began three months from January 6, 2003 and ends on April 7, 2008. The fair value of these warrants, using the Black-Scholes pricing model on the date they were granted, was estimated to be approximately \$720,000. Two of the investors, Peter Friedli and Venturetec, are stockholders of the Company and pursuant to the terms of the private placement each received 1,000,000 warrants. As part of this financing, in March 2003, the Company executed convertible promissory notes in favor of Friedli Corporate Finance and InVenture, Inc. The notes allow the Company 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 the Company's assets. Subsequent to the issuance of these promissory notes, the Company, Friedli Corporate Finance and InVenture, Inc. agreed to assemble a syndicate of third parties to whom the Company 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 the Company issues 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 the Company under the initial \$6 million commitment. During March 2004, the amount available to the Company under Friedli Corporate Finance's and InVenture, Inc.'s initial commitment was increased from \$6 million to \$12 million. As part of the syndication process the Company issued convertible promissory notes totaling \$11,000,000. As previously mentioned, on March 31, 2005, convertible promissory notes totaling \$9,750,000, along with accrued interest, were exchanged for Series C convertible preferred stock.

Venturetec, Inc. and Pine, Inc. were debenture holders in Consumer Review, Inc. Therefore, as a result of the Company's 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 the Company's Series B convertible preferred stock. In May 2005, all shares of Series B convertible preferred stock automatically converted into shares of the Company's common stock (each 1 share of Series B convertible preferred stock converted into 8 shares of common stock).

In July 1996, the Company entered into a consulting agreement with Friedli Corporate Finance, which has been renewed several times, with the most recent renewal occurring during 2004. Under the agreement, Friedli Corporate Finance provides services to the Company in the form of consultation, advice and other assistance upon the Company's request. Such services may include, but are not limited to, (a) providing general business, financial and investment advice to the Company during the term of the agreement, and (b) serving as liaison between Friedli Corporate Finance clients/investors and the Company by disseminating information to such investors on behalf of the Company. 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 and the preferred stock financing, Friedli Corporate Finance, Inc. was paid \$750,000 during the year ended December 31, 2005 and a total of \$1,815,000 since May 2003, which Friedli Corporate Finance, Inc. has indicated to the Company will be distributed to a number of third party banks, affiliated entities and individuals who assisted in the financing effort.

Through December 31, 2005, as non-employee members of the Company's Board of Directors, Peter Friedli has received 100,000 shares of common stock and 90,000 options and Sean Deson has received 150,000 shares of common stock.

## **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, the Company decided to no longer engage KPMG LLP ("KPMG") as its independent registered public accounting firm and on September 27, 2004 the Board of Directors engaged BDO Seidman, LLP as the Company's independent registered public accounting firm.

#### *Accountant Fees*

Aggregate fees for professional services rendered to the Company by BDO Seidman, LLP for the years ended December 31, 2005 and 2004, respectively, are summarized in the table below.

	<b>2005</b>	<b>2004</b>
Audit fees <sup>(1)</sup>	\$141,000	\$128,000

Audit Related fees	0	0
Tax fees <sup>(2)</sup>	26,000	25,000
All Other fees	0	0
Total fees	\$167,000	\$153,000

(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 the Company does 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 by the Company's independent registered public accounting. 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 registered public accounting. 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**

The Company's Internet website address is [www.e-centives.com](http://www.e-centives.com). The Company makes available, free of charge, on or through its website its 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 the Company electronically files 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](mailto:investors@e-centives.com).