



FORM 10QSB

E CENTIVES INC – N/A

Filed: November 14, 2005 (period: September 30, 2005)

Quarterly report filed by small businesses

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission File Number: 000-31559

E-CENTIVES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

52-1988332
(I.R.S. Employer
Identification No.)

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

20817
(Zip Code)

(240) 333-6100
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of November 7, 2005, there were 62,165,256 shares of the registrant's common stock outstanding.

Transitional Small Business Disclosure Format (check one): YES NO

E-CENTIVES, INC.
FORM 10-QSB
FOR THE QUARTER ENDED JUNE 30, 2005

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

E-CENTIVES, INC.

BALANCE SHEETS

	<u>September 30, 2005</u>	<u>December 31, 2004</u>
(unaudited)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,511,516	\$ 303,136
Accounts receivable, net of allowance for doubtful accounts of \$89,025 and \$64,081 at September 30, 2005 and December 31, 2004, respectively	851,648	1,370,240
Other receivables	28,147	28,848
Prepaid expenses	38,427	93,636
Restricted cash	70,000	70,000
	<u>2,499,738</u>	<u>1,865,860</u>
Property and equipment, net	146,298	257,723
Other intangible assets, net	97,143	534,286
Deferred financing fee	279,672	1,088,455
Other assets	11,000	11,000
	<u>3,033,851</u>	<u>3,757,324</u>
Total assets	\$ 3,033,851	\$ 3,757,324
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 1,656,349	\$ 3,060,148
Accrued expenses	674,944	1,002,691
Deferred revenue	452,043	254,669
Current portion of capital leases	9,798	122,710
Short-term debt	2,150,000	—
Other liabilities	121,334	672,475
	<u>5,064,468</u>	<u>5,112,693</u>
Total current liabilities	5,064,468	5,112,693
Capital leases, net of current portion	—	5,208
Long-term debt	600,000	10,500,000
Other long-term liabilities	259,945	814,452
	<u>5,924,413</u>	<u>16,432,353</u>
Total liabilities	5,924,413	16,432,353
Commitments and contingencies		
Stockholders' deficit:		
Series B convertible preferred stock (voting), \$.01 par value, 400,000 shares authorized, 0 and 400,000 shares issued and outstanding at September 30, 2005 and December 31, 2004.	—	4,000
Series C convertible preferred stock (voting), \$.01 par value, 5,000,000 shares authorized, 3,239,986 and 0 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively.	32,400	—
Common stock, \$.01 par value, 120,000,000 shares authorized, 62,153,956 and 58,388,946 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively.	621,540	583,889
Additional paid-in capital	139,784,783	126,627,098
Accumulated deficit	(143,329,285)	(139,890,016)
	<u>(2,890,562)</u>	<u>(12,675,029)</u>
Total stockholders' deficit	(2,890,562)	(12,675,029)
Total liabilities and stockholders' deficit	\$ 3,033,851	\$ 3,757,324

The accompanying notes are an integral part of the Financial Statements.

E-CENTIVES, INC.

STATEMENTS OF OPERATIONS

	Three Months ended September 30,		Nine Months ended September 30,	
	2005	2004	2005	2004
	(unaudited)			
Revenue	\$ 1,319,028	\$ 1,422,750	\$ 4,316,964	\$ 3,802,308
Operating expenses:				
Cost of revenue	769,929	815,807	2,228,300	2,191,150
Product development, exclusive of stock-based compensation	239,060	295,301	731,882	1,078,764
General and administrative, exclusive of stock-based compensation	861,646	1,696,174	2,895,006	6,511,309
Sales and marketing, exclusive of stock-based compensation	326,873	375,827	1,034,295	1,259,802
Stock-based compensation:				
Product development	7,296	4,548	17,448	17,914
General and administrative	34,402	104,045	83,827	380,699
Sales and marketing	11,744	(328)	33,766	62,501
Loss from operations	(931,922)	(1,868,624)	(2,707,560)	(7,699,831)
Interest expense	(172,988)	(493,141)	(737,054)	(1,121,222)
Interest income	2,140	490	5,344	1,069
Loss before income taxes	(1,102,770)	(2,361,275)	(3,439,270)	(8,819,984)
Income taxes	—	—	—	—
Net loss	\$ (1,102,770)	\$ (2,361,275)	\$ (3,439,270)	\$ (8,819,984)
Basic and diluted net loss per common share	\$ (0.02)	\$ (0.04)	\$ (0.06)	\$ (0.15)
Shares used to compute basic and diluted net loss per common share	62,066,198	58,103,825	60,239,290	57,861,149

The accompanying notes are an integral part of the Financial Statements.

E-CENTIVES, INC.
STATEMENTS OF CASH FLOWS

	Nine Months ended September 30,	
	2005	2004
	(unaudited)	
Cash flows used in operating activities:		
Net loss	\$(3,439,270)	\$(8,819,984)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	584,495	1,813,697
Amortization of deferred financing fee	1,008,783	328,215
Stock-based compensation	135,041	461,115
Issuance of common stock	82,010	19,995
Provision for doubtful accounts	9,000	15,000
(Increase) decrease in:		
Accounts receivable	509,593	382,447
Prepaid expenses and other current assets	55,209	33,734
Other receivables	701	(46,927)
Increase (decrease) in:		
Accounts payable	(1,353,800)	810,331
Deferred revenue	197,374	(183,408)
Accrued expenses and other liabilities	(724,221)	665,167
Net cash used in operating activities	(2,935,085)	(4,520,618)
Cash flows from investing activities:		
Decrease in restricted cash	—	16,220
Acquisition of property and equipment	(35,927)	(23,132)
Acquisition of Collabrys	—	(15,000)
Purchase of intangible asset	—	(71,945)
Net cash used in investing activities	(35,927)	(93,857)
Cash flows from financing activities:		
Payments on obligations under capital lease	(118,120)	(201,283)
Proceeds from issuance of debt	2,400,000	6,050,000
Payment of debt	(400,000)	—
Debt issuance costs	(250,000)	(605,000)
Proceeds from issuance of Series C convertible preferred stock	2,500,767	—
Exercise of stock options	46,745	60,495
Net cash provided by financing activities	4,179,392	5,304,212
Net increase in cash and cash equivalents	1,208,380	689,737
Cash and cash equivalents, beginning of period	303,136	285,076
Cash and cash equivalents, end of period	\$ 1,511,516	\$ 974,813
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 75,265	\$ 13,115

Supplemental disclosure of non-cash investing and financing activities:

During May 2005, 400,000 shares of Series B convertible preferred stock automatically converted into an aggregate of 3,200,000 shares of common stock.

During March 2005, convertible promissory notes totaling \$9,750,000, along with accrued interest of approximately \$709,000 were exchanged for 2,614,793 shares of Series C convertible preferred stock.

During February 2004 and June 2004, the Company entered into a capital leases for approximately \$24,000 and \$19,000, respectively.

The accompanying notes are an integral part of the Financial Statements.

E-CENTIVES, INC.

NOTES TO FINANCIAL STATEMENTS

(unaudited)

(1) DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

(a) Description of Business

E-centives, Inc. ("E-centives" or the "Company") 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 certificate of incorporation to change its name to E-centives, Inc.

E-centives provides interactive database marketing technologies and services, as well as on-line advertising capabilities and solutions for companies across a range of industries. With its proprietary technology, the Company provides acquisition and retention solutions for companies that do business with millions of Internet users every day. The Company currently derives its revenues from two divisions: the Interactive Database Marketing division and the ConsumerREVIEW.com division. The principal offerings of the Interactive Database Marketing division include: data warehousing, online reporting, Internet couponing, e-mail marketing, strategic consulting and program management, user experience design and development, as well as analytics and data mining. The ConsumerREVIEW.com division provides on-line advertising and e-commerce services through its network of web communities.

One of the Company's Interactive Database Marketing division customers, Reckitt Benckiser, contributed 30% and 24%, respectively, of the Company's revenue for the nine months ended September 30, 2005 and 2004. The customer's initial contract expired in October 2002 and the customer subsequently signed three annual renewal agreements, with the most recent renewal expiring on December 31, 2005. Due to the lower scope of work to be performed by the Company, and the customer's savings through automation, the fixed fees associated with the renewal agreements have been lower than the original agreement. However, overall fees have increased and may continue to increase with the addition of new countries, brands and services with the customer. Loss of this customer could have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

The Company currently anticipates that future revenues and cash from existing financing sources will be sufficient to meet its anticipated cash needs for working capital and capital expenditures into the third quarter of 2006. This forecast is based on the Company's plan to use funds from the financing commitment described as follows.

- Friedli Corporate Finance provided a written commitment to provide the Company with debt or equity financing of up to \$20 million in the aggregate.
- Of the \$20 million commitment, \$12 million was in the form of two \$6 million global three-year convertible promissory notes that were issued in March 2003 and March 2004. The Company borrowed \$11 million of the \$12 million available pursuant to these convertible promissory notes in the form of 8% convertible promissory notes.
- In March 2005, the Company finalized the terms of a preferred stock financing with Friedli Corporate Finance, that consisted of an offering of shares of a newly created series of preferred stock designated Series C convertible preferred stock. The Company is 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. 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.
- During the three months ended September 30, 2005, the Company received \$1.5 million in funding in the form of two 10% convertible promissory notes.

Of the \$20 million aggregate commitment, \$5 million is remaining. If Friedli Corporate Finance is unable to fulfill its remaining financing commitment or the Company is not offered financing by Friedli Corporate Finance on acceptable terms and conditions, the Company is not likely to be able to replace such committed funds on acceptable terms or at all. If future revenues are insufficient to cover the Company's operating costs, the Company will need to secure additional funds to continue operations. In addition, the Company may need to raise additional funds sooner than anticipated to respond to competitive pressures, to develop new or enhanced products or services, to fund the Company's future expansion or to make acquisitions. The Company may not find any additional financing on acceptable terms or at all. If adequate funds are not available, or not available on acceptable terms, the Company may not be able to continue its business, and would need to seek bankruptcy protection or a buyer for its assets.

(b) Basis of Presentation

These unaudited Financial Statements are presented in accordance with the requirements of Form 10-QSB and consequently do not include all the disclosures required in the financial statements included in the Company's annual report on Form 10-KSB. Accordingly, these financial statements and related notes should be read in conjunction with the financial statements and related notes in the Company's annual report on Form 10-KSB for fiscal year 2004.

In the opinion of the Company, the accompanying unaudited Financial Statements reflect all normal recurring adjustments necessary to present fairly the Company's balance sheet position as of September 30, 2005 and the results of operations for the three and nine month periods ended September 30, 2005 and 2004 and cash flows for the nine month periods ended September 30, 2005 and 2004.

The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year or for future periods.

(c) Revenue Recognition

Revenue is currently generated by providing the services of the Company's two divisions: Interactive Database Marketing division and ConsumerREVIEW.com.

The Interactive Database Marketing division, which represented 62% and 54% of the Company's revenue for the nine months ended September 30, 2005 and 2004, respectively, provides a solution that allows businesses to build direct consumer relationships. Revenue is generated by charging fees for data hosting, database management, e-mail delivery, promotion delivery, campaign and program management, strategy services, creative services, as well as various analytical services. Revenue related to one-time service fees for setting up the customer is recognized ratably over the expected term of the customer relationship and all other revenue is recognized when the service is provided, assuming collection is reasonably assured.

ConsumerREVIEW.com, which we acquired in December 2002, manages web communities around common product interests. The web properties are dedicated to meeting the needs of consumers who are researching products on the web. Revenue is predominantly generated through on-line advertising and e-commerce fees. Advertising revenue is derived from the sale of advertisements on pages delivered to community members of ConsumerREVIEW.com's websites. This revenue is recognized in the period in which the advertisements are delivered. E-commerce fees are derived from on-line performance-based programs and are earned on either a lead referral basis or on an affiliate commission basis. Revenue is earned from performance-based programs when a user of ConsumerREVIEW.com's websites responds to a commerce link by linking to a customer's websites. For lead referral programs, customers are charged on a cost-per-click basis, and revenue is recognized in the month the click occurs. For affiliate-commission programs revenue is recognized when the commission is earned, which is in the month the transaction occurs. ConsumerREVIEW.com represented 38% and 46% of the Company's total revenue for the nine months ended September 30, 2005 and 2004, respectively.

(d) Cost of Revenue

Cost of revenue consists primarily of expenses related to providing the Company's services, including related personnel costs, depreciation of servers, content costs, as well as network and hosting charges.

(e) Product Development Costs

Product development consists primarily of compensation and related benefits and other operating expenses associated with the Company's technology department. The technology performs research and development, enhances and maintains existing products and provides quality assurance. The Company expenses product development costs as they are incurred, as the costs do not meet the criteria to be capitalized.

(f) Basic and Diluted Net Loss per Share

The Company computes net income (loss) applicable to common shares in accordance with FAS 128, *Earnings Per Share*. Under the provisions of FAS 128, basic net income (loss) available per share is computed by dividing the net income (loss) available to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) available per share is computed by dividing the net income (loss) for the period by the weighted average number of common and dilutive common equivalent shares outstanding during the period. As the Company had a net loss in each of the periods presented, basic and diluted net income (loss) available per share are the same.

(g) Recent New Accounting Pronouncements

In December 2004, the FASB issued FAS 123(R), *Share-Based Payments*. FAS 123(R) requires stock options and other share-based payments made to employees to be accounted for as compensation expense and recorded at fair value, and to reflect the related tax benefit received upon exercise of the options in the statement of cash flows as a financing activity inflow rather than an adjustment of operating activity as currently presented. Consistent with the provisions of the new standard, the Company intends to adopt FAS 123(R) in the first quarter of 2006. The ultimate impact of adopting FAS 123(R) is not yet known.

In December 2004, the FASB issued FAS 153, *Exchanges of Non-monetary Assets*, which amends APB Opinion No. 29, *Accounting for Non-monetary Transactions*, which requires a non-monetary exchange of assets be accounted for at fair value, recognizing any gain or loss, if the exchange meets a commercial substance criterion and fair value is determinable. The commercial substance criterion is assessed by comparing the entity's expected cash flows immediately before and after the exchange. This eliminates the "similar productive assets exception," which accounts for the exchange of assets at book value with no recognition of gain or loss. FAS 153 will be effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not believe the adoption of FAS 153 will have a material impact on its financial statements.

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 14*. FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional upon a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional despite uncertainty regarding the timing or method of settlement, including those that may be conditional on a future event. Accordingly, entities are required to recognize a liability for a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when sufficient information to reasonably estimate the fair value of an asset retirement obligation is considered available. The Company does not believe the adoption of FIN 47 will have a material impact on its financial statements.

In June 2005, the FASB issued SFAS 154, *Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3*. SFAS 154 changes the requirements for the accounting and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in accounting principle as well as changes required by an accounting pronouncement that do not otherwise include specific transition provisions. Previously, most changes in accounting principle were required to be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of a change in accounting principle as if that principle had always been used. In addition, SFAS 154 requires that retrospective application of a change in accounting principle be limited to the direct effects of the change while indirect effects should be recognized in the period of the accounting change. SFAS 154 will be effective for fiscal years beginning after December 15, 2005. The impact of the adoption of SFAS 154 will depend upon the nature of accounting changes the Company may initiate in future periods, if any.

(2) RESTRICTED CASH

The Company's restricted cash as of September 30, 2005 and December 31, 2004 relate to a letter of credit associated with their Bethesda, Maryland office. As part of the amended and modified lease agreement dated June 29, 2000 for the Company's headquarters office space lease in Bethesda, Maryland, the Company was required to have an irrevocable letter of credit as a security deposit throughout the lease term of five years. In the event that the letter of credit was drawn upon, the Company established a certificate of deposit for an equivalent amount, which served as collateral for the letter of credit. The \$449,579 letter of credit, which was reduced from the first year value of \$542,984 on June 29, 2001, was to be reduced by 20% on the first day of each subsequent lease year. However, in accordance with a September 25, 2002 partial lease termination agreement, which provided for early termination of half of the office space, a new letter of credit was established with a provision that permitted a partial draw by the landlord of \$309,579 any time after January 1, 2003 as partial consideration for the new agreement. Per the new agreement, in April 2003 the required security deposit for the remaining office space was reduced to \$70,000; therefore, the letter of credit and the associated certificate of deposit was also reduced to that amount. On September 30, 2005, the balance was \$70,000. Due to the expiration of the lease and lease renewal not requiring an irrevocable letter of credit as a security deposit, the balance was subsequently returned to the Company during November 2005.

(3) CONVERTIBLE PROMISSORY NOTES

As of September 30, 2005, \$1,500,000 of the Company's short-term debt relates to the principal balance associated with two 10% convertible promissory notes issued in July 2005 and September 2005. The terms of the notes include, among other things:

- a 10% interest rate;
- a maturity date of December 31, 2005;
- 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.

As of September 30, 2005, the Company had \$650,000 of short-term debt and \$600,000 of long term debt representing the principal balances associated with 8% convertible promissory notes issued from May 2003 through February 2004. The other long-term liabilities balance of \$259,945 represents the final payment charges associated with these 8% 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 notes automatically convert into shares of the Company's common stock at a conversion rate, as defined in the notes, 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 by the Company);
- 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.

The number of shares of common stock to which the holders of the 8% 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 September 30, 2005 were to be converted into shares of common stock at the conversion price of 2 CHF (assuming an exchange rate of 1.2925 CHF per one U.S. Dollar as of September 30, 2005), the aggregated number of shares issued upon such conversion would be approximately 807,800.

If the Company holds the 8% convertible promissory notes to maturity, a final payment charge of \$375,000 will be due at various dates from May 2006 through February 2007.

On March 31, 2005, 8% convertible promissory notes 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 (see Notes 4 and 9 for further details).

(4) SERIES C CONVERTIBLE PREFERRED STOCK

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 September 30, 2005, the Company received \$2,500,000 and issued 625,192 shares of Series C convertible preferred stock.

In connection with the preferred stock financing, on March 31, 2005, certain of our convertible promissory noteholders (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 2,614,793 shares of Series C convertible preferred stock in exchange for convertible promissory notes totaling \$9,750,000, along with accrued interest of approximately \$709,000. 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 be equal to twenty percent below the average of the market prices for the five trading days prior to, but not including, February 2, 2009.

On September 30, 2005, the cumulative dividend value of the undeclared dividends was approximately \$475,000.

(5) ROYALTY

On June 29, 2004, the Company entered into an Asset Purchase Agreement (“Agreement”) with Collabrys, Inc. (“Collabrys”), whereby the Company acquired substantially all of the assets of Collabrys. The assets acquired primarily consisted of hardware, software, furniture and customer list, none of which are considered significant. Collabrys was acquired for \$15,000 in cash at closing, plus future royalty payments as defined in the Agreement. The acquisition was accounted for under the purchase method of accounting and, accordingly, the purchase price was allocated to the assets acquired based on their estimated fair values at the acquisition date. The Company does not expect the royalty payments to be significant and are therefore expensing the royalty as it is incurred.

(6) SEGMENT INFORMATION

(a) Operating Segments

Starting in 2002, with the acquisition of substantially all of the assets of Consumer Review, Inc., the Company has two reportable operating segments: Interactive Database Marketing division (“IDBM”) and ConsumerREVIEW.com. IDBM includes such products and services as data warehousing system, online reporting system, Internet coupon system, e-mail marketing system, strategic consulting and program management, user experience design and development, and analytics and data mining; while ConsumerREVIEW.com includes on-line advertising and e-commerce services that are provided through its network of web communities.

Information as to the operations of the reportable operating segments as of and for the nine months ended September 30, 2005 and 2004 are set forth below. The Company’s chief operating decision maker evaluates performance based primarily on operating profit and cash generated from operations. The accounting policies of the operating segments are the same as those described in the summary of significant accounting.

September 30, 2005	IDBM	ConsumerREVIEW.com	Segment Totals	Unallocated Amounts	Total
Operating revenue	\$ 2,696,08	\$ 1,620,876	\$ 4,316,964	\$ —	\$ 4,316,964
Operating loss	(2,000,390)	(707,170)	(2,707,560)	—	(2,707,560)
Depreciation and amortization	137,890	446,605	584,495	—	584,495
Capital expenditures	23,138	12,789	35,927	—	35,927
Assets	996,484	455,851	1,452,335	1,581,516(1)	3,033,851

September 30, 2004	IDBM	ConsumerREVIEW.com	Segment Totals	Unallocated Amounts	Total
Operating revenue	\$ 2,057,974	\$ 1,774,334	\$ 3,802,308	\$ —	\$ 3,802,308
Operating loss	(6,965,213)	(734,618)	(7,699,831)	—	(7,699,831)
Depreciation and amortization	1,305,194	508,503	1,813,697	—	1,813,697
Capital expenditures	24,555	(8,335)	16,220	—	16,220
Assets	2,572,193	1,075,461	3,647,654	1,085,662(1)	4,733,316

(1) The asset, unallocated amounts, represents corporate assets that consist of cash and equivalents, as well as restricted cash.

(b) Customers

For the nine months ended September 30, 2005 and 2004, one of the Company’s IDBM customers, Reckitt Benckiser, contributed \$1,275,000 and \$919,000 (or 30% and 24%), respectively, of the Company’s revenue. This customer’s original agreement expired in October 2002, and the customer has subsequently entered into three renewal agreements, with the most recent one expiring on December 31, 2005. This customer also represented approximately \$123,000 of the \$852,000 net accounts receivable balance as of September 30, 2005. The Company does not believe there is a significant risk of uncollectibility due to the customer’s payment history and credit-worthiness.

No other customer represented 10% or more of the Company’s revenue for nine months ended September 30, 2005 and 2004.

(7) GUARANTEES AND INDEMNIFICATIONS

Effective December 31, 2002, the Company adopted FIN 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others*. The initial recognition and measurement provisions of FIN 45 apply on a prospective basis to certain guarantees and indemnifications issued or modified after December 31, 2002. Accordingly, any contractual guarantees or indemnifications the Company issues or modifies subsequent to December 31, 2002 will be evaluated and, if required, a liability for the fair value of the obligation undertaken will be recognized. The adoption of FIN 45 did not have a material effect on the Company’s financial position or results of operations.

The Company guaranteed the payment of sublease rentals to its Landlord on the property that it sublets. As of September 30, 2005, the maximum guarantee on this property was \$0, as the sub-leases expired in late September 2005.

The Company sometimes indemnifies certain of its customers against damages, if any, they might incur as a result of a claim brought against them related to patent infringement from the use of the Company’s products. The Company is unable to estimate the maximum exposure of such indemnifications due to the inherent uncertainty and the varying nature of the contractual terms.

(8) LITIGATION

The Company is subject to legal proceedings and claims from time to time, which arise in the ordinary course of business. Other than the matters described below, as of September 30, 2005, management is not aware of any asserted or pending litigation or claims against the Company that would have a material adverse effect on the Company's financial condition, results of operations or liquidity.

On or about September 24, 2003, Trifocal, LLC ("Trifocal") filed suit against the Company in California Superior Court, County of Santa Clara, alleging, among other things, breach of contract and intentional and negligent misrepresentation. Trifocal's most recent claim for damages on these claims is \$898,585, exclusive of interest, punitive damages and attorneys' fees and costs. The Company moved the case to the United States District Court for the Northern District of California (San Jose Division), denied any liability, and filed counterclaims seeking money damages in excess of \$1.8 million for Trifocal's breach of contract, breach of the implied covenant of good faith and fair dealing, intentional interference with contract, negligent interference with contract, and breach of fiduciary duty. Under the supervision of the Court, the parties underwent two unsuccessful mediation sessions. The trial is scheduled for January 24, 2006. The Company denies any liability to Trifocal and plans to vigorously defend the complaint, as well as prosecute the Company's counterclaim.

On or about November 14, 2002, the Company filed a joint patent infringement action with Black Diamond CCT Holding, LLC against Coupons, Inc. in the Federal District Court of Maryland. In this suit, the Company alleged infringement of two U.S. patents relating to online coupons, rights of which the Company acquired from BrightStreet.com. On April 25, 2005 the companies reached a mutually agreeable settlement. As a result of the settlement, the lawsuit was dismissed, the Company will receive an aggregate of \$1 million dollars over the next two years in exchange for a release from us of all claims raised in the litigation, including claims of lost profits and past royalties, and Coupons, Inc. has been granted a limited license to the two patents pursuant to which the Company may receive future royalty payments based on future revenue of Coupons, Inc. related to these patents as agreed to in the settlement agreement.

There were no material additions to, or changes in status of the settlement with CoolSavings.com, Inc. ("CoolSavings"). The terms of the settlement with CoolSavings provide for a cross-license between the Company and CoolSavings for each of the patents currently in dispute. There are no royalties or other incremental payments involved in the cross-license. Pursuant to this settlement, the Company paid \$650,000 to CoolSavings on September 29, 2000, at the signing of the settlement documents. The Company may have to make payments of up to \$700,000 to CoolSavings as follows:

- \$250,000, which was accrued for during 2001, was due if, within one year from the date of entry of the Stipulated Order of Dismissal filed on or about March 3, 2000, Catalina Marketing Corporation prevailed in a motion for summary judgment in a separate litigation between it and CoolSavings, involving the CoolSavings' patent currently in dispute. However, a dispute has arisen between the parties regarding whether this portion of the license fee is actually due, despite Catalina Marketing Corporation not prevailing in its motion. This dispute is based in part on the fact that the Company may be entitled to a license under the CoolSavings' patent at issue as a result of the Company's acquisition of the assets of BrightStreet.com, which acquisition included the settlement of infringement litigation between CoolSavings and BrightStreet.com regarding the same CoolSavings patent at issue in the Company's settled litigation. CoolSavings previously filed a lawsuit to collect such \$250,000 amount, but the Company understands that it later voluntarily dismissed the lawsuit without prejudice.
- Up to \$450,000 if and to the extent the CoolSavings' patent currently in dispute survives the pending reexamination proceedings at the Patent and Trademark Office that were initiated by a third party. This component of the settlement arrangement has not been accrued for because the possibility of the Company's having to make this payment continues to remain remote.

(9) RELATED PARTY 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 and September 2005 the Company issued a 10% convertible promissory note for \$500,000 to Venturetec, Inc. and a 10% convertible promissory note for \$1,000,000 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 September 30, 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 (see Note 3 above for further details). 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 \$450,000 during the nine months ended September 30, 2005, 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 September 30, 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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion should be read in conjunction with our Financial Statements and the notes thereto presented in "Item 1 – Financial Statements." The matters discussed in this report on Form 10-QSB include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any statements contained in this Form 10-QSB that are not statements of historical fact may be deemed to be forward-looking statements. Words such as "may", "will", "expect", "believe", "anticipate", "intend", "could", "plan", "estimate" or "continue" or similar words are intended to identify forward-looking statements, although not all forward-looking statements are identified by those words. While forward-looking statements are sometimes presented with numerical specificity, they are based on current expectations and various assumptions made by management regarding future circumstances over which we may have little or no control. These statements are inherently predictive, speculative and subject to risk and uncertainties, and it should not be assumed that they will prove to be correct. A number of important factors, including those identified under the caption "Risk Factors" in our annual reports on Forms 10-KSB filed with the SEC, which is hereby incorporated by reference, as well as factors discussed elsewhere in this Form 10-QSB, could cause our actual results to differ materially from those in forward-looking statements or forward-looking financial information. Actual results may differ from forward-looking results for a number of reasons, including market acceptance of our services, adverse market conditions affecting the Internet sector, retention of major clients, competitive factors, failure to keep pace with changing technologies and failure to protect our intellectual property. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated or projected. These forward looking statements are made only as of the date hereof, and we undertake no obligation to update or revise these forward looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

General

We provide customer acquisition and retention solutions for companies that do business with millions of Internet users every day. We currently derive our revenues from two operating segments: the Interactive Database Marketing division and the ConsumerREVIEW.com division.

- Our Interactive Database Marketing division offers a suite of digital marketing technologies and services, including e-mail marketing system, Internet coupon system, data warehousing system, online reporting system, strategic consulting and program management, user experience design and development, and analytics and data mining. Through a hosted technology infrastructure, this division provides solutions for relationship marketing, including creating, targeting, publishing, managing and tracking e-mails, coupons and promotional incentives, as well as data management and tracking of individual consumer's responses to such activities.
- Our ConsumerREVIEW.com division manages web communities around common product interests, and provides on-line advertising and e-commerce services through its network of web communities. The web properties are dedicated to meeting the needs of consumers who are researching products on the web. We focus on creating an online environment that fosters communication and consumer-generated reviews of products, by providing an interface to a large database of product information, forums, and other useful content.

For financial information regarding our reportable segments, including operating revenue, operating profit/loss, identifiable assets and other information by segment, see Note 6 of the Notes to Financial Statements.

To date we have not been profitable, incurring net losses of \$3.4 million for the nine months ended September 30, 2005 and net losses of \$10.8 million, \$12.3 million and \$17.1 million for the years ended December 31, 2004, 2003 and 2002, respectively. Over the past few years we have shifted focus away from our older solutions and devoted resources towards building our two operating segments. We have undertaken a series of cost-cutting measures to preserve cash and have continued to decrease our losses over the past few years. These have included reduction in personnel and other operating expenses such as rent, hosting charges and professional fees. We also continue to examine ways to reduce general overhead expenses and manage our human and capital resources more efficiently, without materially impacting our ability to properly serve our clients and continue technological innovation.

One of our Interactive Database Marketing customers, Reckitt Benckiser, contributed 30% and 24% of our revenue for the nine months ended September 30, 2005 and 2004, respectively. This customer's initial contract expired in October 2002 and the customer subsequently signed three annual renewal agreements, with the most recent renewal expiring on December 31, 2005. Due to the lower scope of work to be performed and the customer's savings through automation, the fixed fees associated with the renewal agreements have been lower than the original agreement. However, overall fees have increased and may continue to increase with the addition of new countries, brands and services with the customer. Loss of this customer could have a material adverse effect on our business, financial condition, results of operations and cash flow.

We believe that as more consumers use the Internet and as the economy continues to recover, marketers will shift more of their marketing budgets online. We believe this will improve demand for Internet based marketing programs.

We continue to expand our list of clients and focus on further building our products and services through internal development and corporate acquisition. We gain additional new clients through our internal sales force, and expand our relationship with existing clients through the provision of additional products and services. We have recently renewed agreements with key clients, including with Reckitt Benckiser whose renewal also included the addition of a new division and expansion of the solutions we provide to them.

We have recently revamped and expanded the sales force of our Interactive Database Marketing division, and have hired new sales personnel whose background and experience we believe are better suited to positively impact revenues. We have also revamped and expanded our client services and service delivery personnel in order to improve operational efficiencies and enhance our strategic capabilities. We believe these changes will enable us to acquire new clients and to better focus on increasing the size of our existing clients' businesses through growing the level and types of technologies and services we provide to them. Our ConsumerREVIEW.com division also plans to focus on enhancing the user experience on its sites, growing traffic to its various sites and increasing business with its existing clients and expanding its number of advertiser clients.

We believe that the combination of expense reduction and control measures, new sales and client services resources and the pursuit of additional acquisitions, will enable us to achieve profitability, although there can be no assurances as to the timing or effectiveness of any such efforts. We are continuing to work with Friedli Corporate Finance for additional financing necessary to fund our operations. Our revenues are insufficient to cover our operating costs and we are therefore dependent on Friedli Corporate Finance to fund our current operations. If we do not receive the proceeds from the financing commitments or obtain additional funding with Friedli Corporate Finance as discussed in this report, we may not be able to obtain replacement or additional financing on acceptable terms or at all. In such event, we would not be able to continue our operations, which could result in the full loss of your investment in us. (See "Liquidity and Capital Resources" below for further details.)

Critical Accounting Policies

Our significant accounting policies are described fully in Note 2 to our consolidated financial statements included in our annual report on Form 10-KSB for the fiscal year ended December 31, 2004. We consider a number of accounting policies to be critical to the understanding of our results of operations. These accounting policies relate to revenue recognition, estimating the allowance for doubtful accounts and impairment of long-lived and amortizable intangible assets. These policies are discussed in Item 6 — "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" of our annual report on Form 10-KSB for the fiscal year ended December 31, 2004. The impact of any associated risks related to these policies on our business operations is discussed in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" section where these policies affect our reported and expected financial results. Our preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recently Enacted Accounting Pronouncements

In December 2004, the FASB issued FAS 123(R), *Share-Based Payments*. FAS 123(R) requires stock options and other share-based payments made to employees to be accounted for as compensation expense and recorded at fair value, and to reflect the related tax benefit received upon exercise of the options in the statement of cash flows as a financing activity inflow rather than an adjustment of operating activity as currently presented. Consistent with the provisions of the new standard, we intend to adopt FAS 123(R) in the first quarter of 2006. The ultimate impact of adopting FAS 123(R) is not yet known.

In December 2004, the FASB issued FAS 153, *Exchanges of Non-monetary Assets*, which amends APB Opinion No. 29, *Accounting for Non-monetary Transactions*, which requires a non-monetary exchange of assets be accounted for at fair value, recognizing any gain or loss, if the exchange meets a commercial substance criterion and fair value is determinable. The commercial substance criterion is assessed by comparing the entity's expected cash flows immediately before and after the exchange. This eliminates the "similar productive assets exception," which accounts for the exchange of assets at book value with no recognition of gain or loss. FAS 153 will be effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not believe the adoption of FAS 153 will have a material impact on our financial statements.

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 14*. FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional upon a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional despite uncertainty regarding the timing or method of settlement, including those that may be conditional on a future event. Accordingly, entities are required to recognize a liability for a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when sufficient information to reasonably estimate the fair value of an asset retirement obligation is considered available. We do not believe the adoption of FIN 147 will have a material impact on our financial statements.

In June 2005, the FASB issued SFAS 154, *Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3*. SFAS 154 changes the requirements for the accounting and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in accounting principle as well as changes required by an accounting pronouncement that do not otherwise include specific transition provisions. Previously, most changes in accounting principle were required to be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of a change in accounting principle as if that principle had always been used. In addition, SFAS 154 requires that retrospective application of a change in accounting principle be limited to the direct effects of the change while indirect effects should be recognized in the period of the accounting change. SFAS 154 will be effective for fiscal years beginning after December 15, 2005. The impact of the adoption of SFAS 154 will depend upon the nature of accounting changes we may initiate in future periods, if any.

Related Party Transactions

Peter Friedli, one of our stockholders and a director, has relationships with several of our 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 company that provides us with our existing financing commitment and provides consulting services to us.

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

In March 2005, we finalized the terms of a preferred stock financing with Friedli Corporate Finance, which financing consists of an offering of shares of a newly created series of convertible 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 our 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. As of September 30, 2005, we 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. as part of the Series C preferred stock financing.

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 (see below for details on the convertible promissory notes) for shares of the newly created Series C convertible preferred stock. Under these exchange agreements, we issued shares of Series C convertible preferred stock to each of the Noteholders in exchange for their convertible promissory notes. Upon the exchange, the notes were immediately cancelled and we owe no further amounts thereunder. As additional consideration for participating in the exchange, each Noteholder will receive a warrant to purchase shares of the our 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 be 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 we owed each Noteholder under their convertible promissory notes, 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 we received a \$400,000 bridge loan from Peter Friedli, which was paid back with interest of approximately \$2,500 on April 27, 2005.

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, Inc., and each received warrants to purchase 1,000,000 shares of our common stock. As part of this financing, in March 2003, we executed convertible promissory notes in favor of Friedli Corporate Finance and InVenture, Inc. The notes allowed 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 was 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 issued to third parties through syndication would 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, would continue to be available to us under the initial \$6 million commitment. During March 2004, the credit arrangement 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 March 31, 2005 we issued convertible promissory notes totaling \$11,000,000. As noted above, on March 31, 2005, convertible promissory notes totaling \$9,750,000, along with associated 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 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 May 2005, all shares of Series B convertible preferred stock automatically converted into shares of the our common stock (each 1 share of Series B convertible preferred stock converted into 8 shares of common 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 and preferred stock financing, through September 30, 2005, Friedli Corporate Finance, Inc. was paid fees totaling \$1,515,000 (of which \$450,000 was paid during the nine months ended September 30, 2005). Friedli Corporate Finance, Inc. has indicated to us that these fees will be distributed to a number of third party banks, affiliated entities and individuals who assisted in the financing effort.

Through September 30, 2005, as non-employee members of our Board of Directors, Peter Friedli has received 100,000 shares of our common stock and 90,000 options and Sean Deson has received 150,000 shares of our common stock.

RESULTS OF OPERATIONS

The following presents our financial position and results of operations as of and for the three months ended September 30, 2005 and 2004.

Revenue. Revenue for the three months ended September 30, 2005 was \$1,319,000, a \$104,000 decrease from \$1,423,000 for the same period in 2004.

Our *Interactive Database Marketing* division contributed \$735,000 in revenue for the three months ended September 30, 2005, a decrease of \$97,000 from the same period in 2004. The decrease in revenue was primarily the result of the non-renewal of customers acquired in association with the acquisition of Collabrys, Inc. that occurred in June 2004.

The *ConsumerREVIEW.com* division generated \$584,000 in revenue for the three months ended September 30, 2005, a decrease of \$7,000 from the same period in 2004. Advertising revenue was up by \$40,000, while e-commerce related revenue was down by \$47,000.

We are continuing to focus on efforts to increase the revenue generated from our *Interactive Database Marketing* business segment by trying to grow the level and types of technologies and services that we provide to our existing clients, as well as acquiring new clients. Our *ConsumerREVIEW.com* division also plans to offset the declining e-commerce related revenue with increased advertising revenue which we hope to accomplish by growing the amount of traffic at its various web sites coupled with an increase in the number of advertiser clients.

Cost of Revenue. Cost of revenue consists primarily of expenses related to providing our services, including related personnel costs, depreciation of servers, network and hosting charges, content costs and revenue share payments. The \$770,000 in cost of revenue for the three months ended September 30, 2005 was a decrease of \$46,000 over the \$816,000 for the three months ended September 30, 2004. We have been maintaining our existing servers and have not purchased new servers in the recent past, causing depreciation to be lower. In addition, network and hosting charges have decreased due to the consolidation of space.

Although our cost of revenue will fluctuate based on future revenue activity, there are some fixed costs that will not change if revenue does not significantly increase or decrease. Such fixed costs include network and hosting and personnel related costs.

Product Development. Product development consists primarily of expenses related to the development and enhancement of our technology and services, including payroll and related expenses for personnel, as well as other associated expenses for our technology department. We expense product development costs as incurred, as the costs do not meet the criteria to be capitalized. Product development expenses decreased by \$56,000 to \$239,000 for the three months ended September 30, 2005, compared to \$295,000 for the three months ended September 30, 2004. The decrease is primarily attributable to the reduction in product development personnel and the reduction in the use of external consultants due to cost reduction initiatives.

Our product development expenses are expected to remain at current levels, as we do not expect to significantly increase the number of personnel or incur additional product development related expenses.

General and Administrative. General and administrative expenses include payroll and related expenses for accounting, finance, legal, human resources, and administrative personnel, as well as executive officers. In addition, general and administrative expenses include fees for professional services, occupancy related costs, and all other corporate costs, including depreciation and amortization. General and administrative expenses decreased by \$834,000 to \$862,000 for the three months ended September 30, 2005, compared to \$1,696,000 for the three months ended September 30, 2004. A large portion of this decrease in expense is the effect of lower professional fees resulting from the April 2005 settlement of the infringement action that we had against Coupons, Inc. (see Part II – Other Information, Item 1. Legal Proceedings for further details). In addition amortization expense was lower due to the assets associated with the acquisition of Brightstreet being fully amortized.

We expect that our general and administrative expenses will stay at or near this lower level in future periods in the near term due to the settlement of the patent infringement litigation.

Sales and Marketing. Sales and marketing expenses consist primarily of payroll, sales commissions and related expenses for personnel engaged in sales, marketing and customer support, as well as advertising and promotional expenditures. Sales and marketing expenses decreased by \$49,000 to \$327,000 for the three months ended September 30, 2005, compared to \$376,000 for the three months ended September 30, 2004. As we have undertaken a series of cost-cutting measures to reduce our ongoing operating expenditures, we have significantly reduced marketing efforts, including a reduction in the number of marketing personnel.

Our sales and marketing expenses are expected to stay at or near the current levels in future periods in the near term until future business conditions warrant increasing these costs to support growth.

Stock-based Compensation. Stock-based compensation expense consists of the difference between the fair value of our common stock and the exercise price of certain performance-based options prior to the measurement date and the difference between the estimated fair value of our common stock and the exercise price of stock options issued to employees recognized ratably over the vesting period. Stock-based compensation expense was \$53,000 for the three months ended September 30, 2005, compared to \$108,000 for the three months ended September 30, 2004. The lower expense was the result of options fully vesting and options being cancelled for employees who had not fully vested due to termination of employment.

Interest Expense. Interest expense primarily consists of interest related to convertible promissory notes that were issued from May 2003 through September 2005, deferred financing fee amortization and interest for financing agreements. Interest expense of \$173,000 for the three months ended September 30, 2005 was \$320,000 lower than the interest expense for the three months ended September 30, 2004. This decrease is the effect of the lower interest and deferred financing fee amortization resulting from the March 2005 exchange of a majority of the convertible promissory notes for Series C convertible preferred stock.

Net loss. Net loss of \$1,103,000 for the three months ended September 30, 2005 was an improvement of \$1,258,000 in comparison to a net loss of \$2,361,000 for the three months ended September 30, 2004. As described above, although revenue was lower by \$104,000, operating expenses were lower by \$1,040,000 and interest expense was lower by \$320,000.

We believe that our net loss will incrementally decrease in future periods in the near term due to anticipated increases in revenue and constant operating costs.

The following presents our financial position and results of operations as of and for the nine months ended September 30, 2005 and 2004.

Revenue. Revenue of \$4,317,000 for the nine months ended September 30, 2005 was \$515,000 higher than the \$3,820,000 for the nine months ended September 30, 2004.

For the nine months ended September 30, 2005 and 2004, our *Interactive Database Marketing* division contributed \$2,696,000 and \$2,058,000 in revenue, respectively. The \$638,000 increase in revenue was the result of an increase in our customer base and additional work for existing customers.

The *ConsumerREVIEW.com* division generated \$1,621,000 in revenue for the nine months ended September 30, 2005, a decrease of \$123,000 from the same period in 2004. Advertising revenue was higher by \$25,000 and e-commerce related revenue was lower by \$148,000.

Cost of Revenue. Cost of revenue of \$2,228,000 for the nine months ended September 30, 2005 was higher by \$37,000 when compared to the \$2,191,000 for the nine months ended September 30, 2004. This increase is due to higher personnel related expenses which more than offset the lower network and hosting charges, that resulted from the consolidation of space, and the lower depreciation expense.

Product Development. Product development expenses decreased by \$347,000 to \$732,000 for the nine months ended September 30, 2005, compared to \$1,079,000 for the nine months ended September 30, 2004. The decrease is the result of a reduction in product development personnel and a reduction in the use of external consultants due to cost reduction initiatives.

General and Administrative. General and administrative expenses of \$2,895,000 for the nine months ended September 30, 2005 was lower by \$3,616,000 when compared to \$6,511,000 for the nine months ended September 30, 2004. This decrease in expense reflects lower professional fees for the second quarter of 2005 due to the settlement of the patent infringement litigation, lower professional fees for the first quarter of 2005 due to reversal of prior year's expenses associated with payment agreements with several professional service vendors, as well as lower rent, amortization and depreciation.

Sales and Marketing. The \$1,034,000 in sales and marketing expenses for the nine months ended September 30, 2005, was \$225,000 lower than the \$1,260,000 for the nine months ended September 30, 2004. As we have undertaken a series of cost-cutting measures to reduce our ongoing operating expenditures, we have reduced marketing efforts, including a reduction in the number of marketing personnel.

Stock-based Compensation. Stock-based compensation expense was \$135,000 for the nine months ended September 30, 2005, compared to \$461,000 for the nine months ended September 30, 2004. The lower expense was the result of options fully vesting and options being cancelled for employees who had not fully vested due to termination of employment.

Interest Expense. Interest expense primarily consists of interest related to the convertible promissory notes we began issuing in the second quarter of 2003, deferred financing fee amortization and interest for financing agreements. Interest expense of \$737,000 for the nine months ended September 30, 2005 was \$384,000 lower than the interest expense of \$1,121,000 for the nine months ended September 30, 2004. This decrease is the net effect of the reversal of accrued interest on convertible promissory notes that were exchanged for Series C convertible preferred stock in March 2005 and the accelerated amortization of the deferred financing fees associated with the exchanged convertible promissory notes.

Net loss. Net loss of \$3,439,000 for the nine months ended September 30, 2005 was an improvement of \$5,381,000 when compared to a net loss of \$8,820,000 for the nine months ended September 30, 2004. As previously noted above, revenue was higher by \$515,000, operating expenses were lower by \$4,478,000 and interest expense was lower by \$384,000.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception through December 31, 2000, we funded our operations primarily from private sales of our convertible preferred stock and common stock, as well as our initial public offering on the SWX Swiss Exchange. Through these financing activities, we raised net proceeds of approximately \$82.5 million. In late 2001, we closed a rights offering in which we received approximately \$12.6 million in net proceeds during 2001, and the remaining net proceeds of the rights offering of \$9.6 million was received during the second quarter of 2002.

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. 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 us under the initial \$6 million commitment. The last convertible promissory note was issued on March 24, 2005, and through that date we issued convertible promissory notes totaling \$11,000,000.

In March 2005 we finalized the terms of a preferred stock financing with Friedli Corporate Finance, that consisted of an offering of shares of a newly created series of preferred stock designated Series C convertible preferred stock. As of September 30, 2005, we received \$2,500,000 in new funding and issued 625,192 shares of Series C convertible preferred stock as part of the Series C preferred stock financing. On March 31, 2005 convertible promissory notes totaling \$9,750,000, along with associated accrued interest, were exchanged for Series C convertible preferred stock (see "Related Party Transactions" for additional details).

In July 2005 and September 2005 we issued 10% convertible promissory notes for \$500,000 and \$1,000,000, respectively.

On September 30, 2005, we held \$1,512,000 in cash and cash equivalents. In addition, we had restricted cash of \$70,000 in the form of a certificate of deposit that serves as collateral for a letter of credit commitment to secure our lease payment obligations for our Bethesda, Maryland offices.

Cash used in operating activities for the nine months ended September 30, 2005 was \$2,935,000, a decrease of \$1,586,000 over the \$4,521,000 for the nine months ended September 30, 2004. The decrease reflects an improvement of \$4,562,000 in net loss adjusted to reconcile to net cash used in operating activities. The decreases in accounts payable and accrued expenses also effected the change in cash used in operating activities.

Investing activities for the nine months ended September 30, 2005 and 2004 used \$36,000 and \$94,000 in cash, respectively. Cash used in investing activities for the nine months ended September 30, 2005 represented the purchase of property and equipment. Cash used in investing activities for the nine months ended September 30, 2004 included a decrease in restricted cash of \$16,000 due a reduction in the letter of credit commitment related to our D&O insurance policy, \$72,000 for transaction compensation for the patent related to the BrightStreet.com acquisition, \$23,000 used to purchase property and equipment and \$15,000 for the acquisition of Collabrys.

For the nine months ended September 30, 2005, the net cash provided by financing activities was \$4,179,000. Approximately \$4,900,000 related to funding, consisting of \$2,000,000 from the issuance of convertible promissory notes, \$400,000 received from a bridge loan and \$2,500,000 from the issuance of Series C convertible preferred stock. We also received \$47,000 in association with the exercise of options, paid off the \$400,000 bridge loan, paid \$250,000 in debt issuance costs and made payments of \$118,000 under capital lease obligations. The net cash

provided by financing activities of \$5,304,000, for the nine months ended September 30, 2004, reflected \$6,050,000 received related to the issuance of convertible promissory notes and \$60,000 received in association with the exercise of options, offset by \$605,000 in debt issuance costs and \$201,000 in payments under capital lease obligations.

We currently anticipate that future revenues and cash from our existing financing commitments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures into the third quarter of 2006. This forecast is based on our plan to use the funds from the financing commitment described below.

Friedli Corporate Finance has provided us with a written commitment to provide us with debt or equity financing of up to \$20 million in the aggregate. Of the \$20 million commitment, \$12 million was in the form of two \$6 million global three-year convertible promissory notes that were issued in March 2003 and March 2004. We have borrowed \$11 million of the \$12 million available pursuant to these convertible promissory notes. In March 2005 we finalized the terms of a preferred stock financing with Friedli Corporate Finance that consists of an offering of a newly created series of preferred stock designated as Series C convertible preferred stock. We are 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, of which 625,192 shares have been issued in association with new funding and 2,614,794 shares have been issued in exchange for existing convertible promissory notes. During the three months ended September 30, 2005, we issued two short-term 10% convertible promissory notes totaling \$1.5 million.

Of the \$20 million aggregate commitment, \$5 million is remaining. If Friedli Corporate Finance is unable to fulfill its remaining financing commitment to us or we are not offered financing by Friedli Corporate Finance on acceptable terms and conditions, it is not likely that we will be able to replace such committed funds on acceptable terms or at all. If future revenues are insufficient to cover our operating costs, we will need to secure additional funds to continue operations. In addition, we may need to raise additional funds sooner than anticipated to respond to competitive pressures, to develop new or enhanced products or services, to fund our future expansion or to make acquisitions. We may not find any additional financing on acceptable terms or at all. If adequate funds are not available, or not available on acceptable terms, we may not be able to continue operations, and would need to seek bankruptcy protection or a buyer for our assets.

ITEM 3. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On or about September 24, 2003, Trifocal, LLC (“Trifocal”) filed suit against us in California Superior Court, County of Santa Clara, alleging, among other things, breach of contract and intentional and negligent misrepresentation. Trifocal’s most recent claim for damages on these claims is \$898,585, exclusive of interest, punitive damages and attorneys’ fees and costs. We moved the case to the United States District Court for the Northern District of California (San Jose Division), denied any liability, and filed counterclaims seeking money damages in excess of \$1.8 million for Trifocal’s breach of contract, breach of the implied covenant of good faith and fair dealing, intentional interference with contract, negligent interference with contract, and breach of fiduciary duty. Under the supervision of the Court, the parties underwent two unsuccessful mediation sessions. The trial is scheduled for January 24, 2006. We deny any liability to Trifocal and plans to vigorously defend the complaint, as well as prosecute our counterclaim.

On or about November 14, 2002, we filed a joint patent infringement action with Black Diamond CCT Holding, LLC against Coupons, Inc. in the Federal District Court of Maryland. In this suit, we alleged infringement of two U.S. patents relating to online coupons, rights of which we acquired from BrightStreet.com. On April 25, 2005 the companies reached a mutually agreeable settlement. As a result of the settlement, the lawsuit was dismissed, we will receive an aggregate of \$1 million dollars over the next two years in exchange for a release from us of all claims raised in the litigation, including claims of lost profits and past royalties, and Coupons, Inc. has been granted a limited license to the two patents, pursuant to which we may receive future royalty payments based on future revenue of Coupons, Inc. related to these patents as agreed to in the settlement agreement.

There have been no material additions to, or changes in status of the settlement with CoolSavings.com, Inc. (“CoolSavings”). The terms of the settlement with CoolSavings provided for a cross-license between CoolSavings and us for each of the patents in dispute. There are no royalties or other incremental payments involved in the cross-license. Pursuant to this settlement, we paid \$650,000 to CoolSavings on September 29, 2000, at the signing of the settlement documents. In addition, we may have to make payments of up to \$700,000 to CoolSavings as follows:

- \$250,000, which was accrued for during 2001, was due if, within one year from the date of entry of the Stipulated Order of Dismissal filed on or about March 3, 2000, Catalina Marketing Corporation prevailed in a motion for summary judgment in a separate litigation between it and CoolSavings, involving the CoolSavings’ patent currently in dispute. However, a dispute has arisen between the parties regarding whether this portion of the license fee is actually due, despite Catalina Marketing Corporation not prevailing in its motion. This dispute is based in part on the fact that we may be entitled to a license under the CoolSavings’ patent at issue as a result of our acquisition of the assets of BrightStreet.com, which acquisition included the settlement of infringement litigation between CoolSavings and BrightStreet.com regarding the same CoolSavings patent at issue in our settled litigation. CoolSavings previously filed a lawsuit to collect such \$250,000 amount, but we understand that it later voluntarily dismissed the lawsuit without prejudice.
- Up to \$450,000 if and to the extent the CoolSavings’ patent in dispute survives the pending reexamination proceedings at the Patent and Trademark Office that were initiated by a third party. This component of the settlement arrangement has not been accrued for because, in the opinion of management, the possibility of us having to make this payment continues to remain remote.

Depending on the amount and timing, an unfavorable resolution of some or all of these matters could materially adversely affect our business, financial condition, results of operations and cash flow in a particular period.

In addition, from time to time, we are a party to various legal proceedings incidental to our business. None of these proceedings is considered by management to be material to the conduct of our business, operations or financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Convertible Promissory Note

On August 19, 2005, we issued a convertible promissory note in the principal amount of \$500,000 to Venturetec, Inc. (“Venturetec”). The terms of the note include, among other things:

- a 10% interest rate;
- a maturity date of October 31, 2005;
- 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 us 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 our assets.

The note began to accrue interest as of June 25, 2005, the date on which Venturetec delivered the \$500,000 purchase price for the note to us. The note is subordinated in right of payment to all existing and future bank indebtedness, including lease and equipment finance obligations, as well as all other indebtedness designated as senior indebtedness.

The Series C convertible preferred stock into which the note is convertible has an issue price of \$4.00 per share, has an 8% cumulative dividend feature, is convertible into ten shares of our 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.

ITEM 5. OTHER INFORMATION

Amendment No. 1 to \$500,000 Convertible Promissory Note

On October 31, 2005, Venturetec and us amended the \$500,000 convertible promissory note (the "Amendment No. 1") to extend the maturity date of the note to December 31, 2005. All of the other terms and conditions of the note continue in full force and effect. A copy of the Amendment No. 1 is filed as Exhibit 4.1 hereto.

\$1,000,000 Convertible Promissory Note

On September 30, 2005, we issued a convertible promissory note in the principal amount of \$1,000,000 to US Venture 05, Inc. ("US Venture 05"). The terms of the note include, among other things:

- a 10% interest rate;
- a maturity date of December 31, 2005;
- 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 us 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 our assets.

The note began to accrue interest as of September 30, 2005, the date on which US Venture 05 delivered the \$1,000,000 purchase price for the note to us. The note is subordinated in right of payment to all existing and future bank indebtedness, including lease and equipment finance obligations, as well as all other indebtedness designated as senior indebtedness.

Peter Friedli, a director and largest stockholder, serves as the President of US Venture 05 and as such may be deemed to beneficially own such shares. The terms of the Series C Preferred Stock in which the note is convertible are identical to the terms of the shares issued on March 31, 2005, April 19, 2005 and June 24, 2005 which were part of the Series C preferred stock financing commenced on March 31, 2005, which is described in the Current Report on Form 8-K filed with the Securities and Exchange Commission on April 6, 2005. The \$4 conversion price of the note is also the same as the purchase price of the shares of Series C preferred in such financing.

The issuance of the convertible note was not registered under the Securities Act of 1933, as amended, in reliance upon the exemption set forth in Section 4(2) of the Securities Act relating to transactions by an issuer not involving a public offering.

A copy of the convertible promissory note is filed as Exhibit 4.2 hereto.

ITEM 6. EXHIBITS

Exhibit Index

Exhibit Number	Description
3.1	Certificate of Designations of the Powers, Preferences and Relative, Participating, Optional and other Special Rights of Series C Preferred Stock of E-centives, Inc. as filed in the Office of the Secretary of State of Delaware on March 21, 2005 (incorporated herein by reference to Exhibit 3.1 to E-centives' Current Report on Form 8-K filed on April 7, 2005).
4.1	Amendment No. 1 to Convertible Promissory Note dated October 31, 2005 by and between E-centives, Inc. and Venturetec, Inc.
4.2	Convertible Promissory Note dated September 30, 2005 by and between E-centives, Inc. and US Venture 05, Inc.
10.1	Form of Exchange Agreement between the Company and Noteholder (incorporated herein by reference to Exhibit 10.1 to E-centives' Current Report on Form 8-K filed on April 7, 2005).
31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
31.2	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 11, 2005

E-CENTIVES, INC.

By: /s/ Tracy L. Slavin

Tracy L. Slavin
Chief Financial Officer (Duly Authorized Representative
and Principal Financial and Accounting Officer)

AMENDMENT No. 1 TO CONVERTIBLE PROMISSORY NOTE

This Amendment No. 1 (this "Amendment") to the Convertible Promissory Note (as defined below) is made as of October 31, 2005 by and between E-centives, Inc., a Delaware corporation (the "Company"), and Venturetec, Inc. (the "Holder").

WHEREAS, on August 19, 2005, the Company issued a convertible promissory note (the "Convertible Promissory Note") in the principal amount of US \$500,000 to the Holder; and

WHEREAS, the Company and the Holder desire to amend the Convertible Promissory Note in accordance with the terms and conditions hereof.

NOW THEREFORE, in consideration of the mutual covenants contained herein the parties hereto agree as follows:

1. Amendment: Section 1 of the Convertible Promissory Note is hereby amended and restated in its entirety to read as follows:

"1. Payment Terms. The Company promises to pay to Holder the balance of Principal, together with accrued unpaid interest, on **December 31, 2005**, unless this Note is earlier prepaid as herein provided or earlier converted into Series C preferred stock, par value US \$0.01 per share, of the Company (the "**Series C Preferred Stock**") pursuant to Section 3 hereof. All payments hereunder shall be made in lawful money of the United States of America. Payment shall be credited first to the accrued interest then due and payable and the remainder to Principal."

2. Representations and Warranties. To induce the Holder to enter into this Amendment, the Company represents and warrants to the Holder that, after giving effect to this Amendment, the representations and warranties set forth in Section 7 of the Convertible Promissory Note are true and correct in all material respects on and as of the date hereof.

3. Effectiveness. This Amendment shall become effective as of the date first set forth above when the Company shall have received counterparts of this Amendment that, when taken together, bear the signatures of the Company and the Holder.

4. No Other Modifications. Except as specifically modified herein, all of the terms and conditions of the Convertible Promissory Note shall continue in full force and effect and are hereby ratified and affirmed.

5. Capitalized Terms. All capitalized terms used in this Amendment and not otherwise defined shall have the meanings assigned to them in the Convertible Promissory Note.

6. Governing Law; Counterparts. This Amendment shall be governed by, and construed and interpreted in accordance with, the laws of the State of Maryland, without reference to conflicts of law provisions of such state. This Amendment may be executed in counterparts and the executed counterparts shall together constitute a single instrument.

7. Severability. If any term, provision, covenant or restriction of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Amendment shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

8. Headings. The headings of this Amendment are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned have caused this Amendment to be duly executed and delivered as of the date first written above.

E-centives, Inc.

By: /s/ Kamran Amjadi

Name: Kamran Amjadi
Title: Chief Executive Officer

ACCEPTED AND AGREED:

Venturetec, Inc.

By: /s/ Peter Friedli

Name: Peter Friedli
Title: President

THIS CONVERTIBLE PROMISSORY NOTE AND THE SECURITIES THAT MAY BE ACQUIRED PURSUANT TO THIS CONVERTIBLE PROMISSORY NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THIS CONVERTIBLE PROMISSORY NOTE AND SUCH OTHER SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF A REGISTRATION STATEMENT AND LISTING APPLICATION IN EFFECT WITH RESPECT TO THIS CONVERTIBLE PROMISSORY NOTE OR SUCH OTHER SECURITIES UNDER THE SECURITIES ACT AND ANY OTHER APPLICABLE SECURITIES LAW, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION AND LISTING ARE NOT REQUIRED PURSUANT TO A VALID EXEMPTION THEREFROM UNDER THE SECURITIES ACT AND THE APPLICABLE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION.

CONVERTIBLE PROMISSORY NOTE

US \$1,000,000

As of September 30, 2005

FOR VALUE RECEIVED, **E-centives, Inc.**, a Delaware corporation (the "Company"), having an address of 6901 Rockledge Drive, 6th Floor, Bethesda, Maryland 20817, hereby promises to pay to the order of **US Venture 05, Inc.** (the "Holder"), at the offices of Holder at **c/o Friedli Corporate Finance, Freigutstrasse 5, 8002 Zürich**, or such other place as may be designated by Holder to the Company in writing, the aggregate principal amount of **One Million U.S. Dollars (US \$1,000,000)** together with accrued unpaid interest on the unpaid principal amount hereof, upon the terms and conditions hereinafter set forth.

1. **Payment Terms.** The Company promises to pay to Holder the balance of Principal, together with accrued unpaid interest, on **December 31, 2005**, unless this Note is earlier prepaid as herein provided or earlier converted into Series C preferred stock, par value US \$0.01 per share, of the Company (the "**Series C Preferred Stock**") pursuant to Section 3 hereof. All payments hereunder shall be made in lawful money of the United States of America. Payment shall be credited first to the accrued interest then due and payable and the remainder to Principal.

2. **Interest.** Interest on the outstanding portion of Principal of this Note shall accrue at a rate of **ten percent (10%) per annum**. All computations of interest shall be made on the basis of a 365-day year for actual days elapsed. Such interest shall be paid in arrears on the last business day of each successive one year anniversary of the date of this Note.

3. **Conversion of this Note.**

(a) **Conversion.** This Note shall be convertible into shares of Series C Preferred Stock at any time by the Holder at the Note Conversion Rate (hereinafter defined) as hereinafter provided. The conversion price will be US \$4.00 per share of Series C Preferred Stock (the "Note Conversion Rate"). The number of shares of Series C Preferred Stock to which the Holder shall be entitled upon such conversion shall be equal to the product of: the aggregate principal amount outstanding under this Note at the time of such conversion, together with accrued unpaid interest, divided by the Note Conversion Rate.

(b) **Conversion Calculations: No Fractional Shares.** Conversion calculations pursuant to this Section 3 shall be rounded to the nearest whole share of Series C Preferred Stock, and no fractional shares shall be issuable by the Company upon conversion of this Note. Conversion of this Note shall be deemed payment in full of this Note and this Note shall thereupon be cancelled.

4. **Subordination.** The indebtedness evidenced hereby is subordinate in right of payment to all existing and future bank indebtedness, including lease and equipment finance obligations, as well as all other indebtedness designated as superior to that contemplated herein. The indebtedness represented hereby is senior in right of payment to all classes and series of the Company's capital stock. The indebtedness represented hereby is pari passu with any and all convertible debt securities issued by the Company.

5. Redemption. This Note may be redeemed by the Company at any time by payment of the entire principal and interest outstanding under this Note in cash to Holder.

6. Representations and Warranties of the Company. The Company represents and warrants to Holder as follows:

(a) The execution and delivery by the Company of this Note (i) are within the Company's corporate power and authority, and (ii) have been duly authorized by all necessary corporate action.

(b) This Note is a legally binding obligation of the Company, enforceable against the Company in accordance with the terms hereof, except to the extent that (i) such enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and (ii) the availability of the remedy of specific performance or in injunctive or other equitable relief is subject to the discretion of the court before which any proceeding therefore may be brought.

7. Representations, Warranties and Covenants of Holder. Holder represents and warrants to the Company, and agrees, as follows:

(a) This Note and any Series C Preferred Stock issuable upon conversion of this Note and any shares of Common Stock, par value \$0.01 per share, of the Company issued upon conversion of the Series C Preferred Stock (the "Common Stock" and, together with this Note and the Series C Preferred Stock, the "Securities") are being acquired by Holder for its own account for investment and not with a view to, or for sale in connection with, any distribution thereof.

(b) Holder is an "accredited investor" within the meaning of Rule 501 under the Securities Act.

(c) Holder has sufficient knowledge and experience in financial and business matters and is capable of evaluating the risks and merits of Holder's investment in the Company; Holder has been provided all necessary and appropriate information about the Company to make an informed investment decision with respect to this Note; has been provided the opportunity to make all necessary and appropriate inquiries of the Company regarding Company's business and associated risks, and Company has complied with all such requests; and Holder is able financially to bear the risk of losing Holder's full investment in this Note.

(d) Holder understands that none of the Securities have been registered under the Securities Act or registered or qualified under any the securities laws of any state or other jurisdiction, are "restricted securities," and cannot be resold or otherwise transferred unless they are registered under the Securities Act, and registered or qualified under any other applicable securities laws, or an exemption from such registration and qualification is available. Prior to any proposed transfer of any Securities, Holder shall, among other things, give written notice to the Company of its intention to effect such transfer, identifying the transferee and describing the manner of the proposed transfer and, if requested by the Company, accompanied by (i) investment representations by the transferee similar to those made by Holder in this Section 7 and (ii) an opinion of counsel satisfactory to the Company to the effect that the proposed transfer may be effected without registration under the Securities Act and without registration or qualification under applicable state or other securities laws. Each certificate for any Securities shall bear the following legend:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAW. THE SHARES MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF (I) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SHARES UNDER SUCH ACT AND ANY APPLICABLE STATE SECURITIES LAW, (II) A "NO ACTION" LETTER OF THE SECURITIES AND EXCHANGE COMMISSION WITH RESPECT TO SUCH SALE OR OFFER, OR (III) AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE CORPORATION THAT REGISTRATION UNDER SUCH ACT AND ANY APPLICABLE STATE SECURITIES LAW IS NOT REQUIRED WITH RESPECT TO SUCH SALE OR OFFER.

8. Use of Proceeds. The proceeds received by the Company from the sale of this Note shall be used by the Company for working capital or other general corporate purposes.

9. No Waiver in Certain Circumstances. No course of dealing of Holder nor any failure or delay by Holder to exercise any right, power or privilege under this Note shall operate as a waiver hereunder and any single or partial exercise of any such right, power or privilege shall not preclude any later exercise thereof or any exercise of any other right, power or privilege hereunder.

10. Certain Waivers by the Company. Except as expressly provided otherwise in this Note, the Company and every endorser or guarantor, if any, of this Note waive presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note, and assent to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral available to Holder, if any, and to the addition or release of any other party or person primarily or secondarily liable.

11. No Unlawful Interest. Notwithstanding anything herein to the contrary, payment of any interest or other amount hereunder shall not be required if such payment would be unlawful. In any such event, this Note shall automatically be deemed amended so that interest charges and all other payments required hereunder, individually and in the aggregate, shall be equal to but not greater than the maximum permitted by law.

12. Security Interest. The Company's obligations under this Note are secured by a grant of a security interest to Holder in all tangible and intangible assets of Company for which Company retains sole title as of the date of this Note (the "Collateral"). The Collateral includes all equipment, fixtures, intellectual property (including patents), cash and cash equivalents, software, personal property, and receivables. Notwithstanding anything to the contrary herein all (a) leases and other contracts, (b) licenses (including to software and intellectual property), (c) the Company's rights under such leases, other contracts and licenses and (d) any property that is the subject of such leases, other contracts and licenses, shall not constitute Collateral pursuant to this Note. In the case Company fails to materially perform its repayment obligations under this Note, and such default is continuing ("Default"), the Holder may exercise, without further notice, all rights and remedies under this Note or are otherwise available at law. In the case of such Default, the Holder will give the Company not less than 30 business days prior written notice of its intended disposition of the collateral, provided, however, if Company cures such Default prior to expiration of such notice period, Default will be not deemed to have occurred and Holder shall have no rights to the Collateral. For the purpose of enforcing any and all rights and remedies under this Agreement, the Holder may (i) require the Company to, upon Holder's reasonable request, assemble all or any part of the Collateral as directed by the Holder and make it available at the Company's headquarters, (ii) to the extent permitted by applicable law, enter, without breach of the peace, any premise where any such Collateral is or may be located and, reasonably seize and remove such Collateral from such premises, (iii) direct the Company to reasonably provide relevant information from the Company's books and records relating to the Collateral, and (iv) prior to the disposition of any of the Collateral, store or transfer the Collateral, process, repair or recondition such Collateral or otherwise prepare it for disposition in any manner and to the extent the Holder deems reasonably appropriate. Notwithstanding anything to the contrary herein, the Security Interest granted hereby is expressly limited the amount of any unpaid Principal, Premium and accrued unpaid interest under this Note and Holder shall exercise the foregoing rights in such a fashion so as to minimize disruption to Company and its business operations and only to the extent necessary to recover such unpaid Principal, Premium and accrued unpaid interest. The Holder and the Company shall work in good faith to effectuate the intent of the previous sentence. The security interest provided hereby shall expire upon the payment in full of all Principal, Premium and accrued unpaid interest or the occurrence of the Conversion Date. Holder will execute any documents or instruments the Company may reasonably request to evidence such expiration.

13. Miscellaneous. No modification, rescission, waiver, forbearance, release or amendment of any provision of this Note shall be made, except by a written agreement duly executed by the Company and Holder. This Note may not be assigned by Holder without the prior written consent of the Company. The Company and Holder each hereby submits to personal jurisdiction in the State of Maryland, consents to the jurisdiction of any competent state or federal district court sitting in the City or County of Montgomery County, Maryland, and waives any and all rights to raise lack of personal jurisdiction as a defense in any action, suit or proceeding in connection with this Note or any related matter. Service of Process may be effectuated by Company by providing such Service to Holder by Certified Mail, and in the case such Service is undeliverable by providing such Service to the Maryland Department of Assessments and Taxation. This Note shall be governed by, and construed and interpreted in accordance with, the laws of the State of Maryland, without reference to conflicts of law provisions of such state.

[Remainder of this page intentionally left blank]

CERTIFICATIONS

I, Kamran Amjadi, certify that:

- 1) I have reviewed this quarterly report on Form 10-QSB of E-centives, Inc.;
- 2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 11, 2005

By: /s/ Kamran Amjadi

Kamran Amjadi
Chief Executive Officer

I, Tracy L. Slavin, certify that:

- 1) I have reviewed this quarterly report on Form 10-QSB of E-centives, Inc.;
- 2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 11, 2005

By: /s/ Tracy L. Slavin

Tracy L. Slavin
Chief Financial Officer

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the Quarterly Report of E–centives, Inc. (the “Company”) on Form 10–QSB for the fiscal quarter ended September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002, that to the undersigned’s knowledge:

(a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;

and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated this 11th day of November, 2005

E–CENTIVES, INC.

/s/ Kamran Amjadi

Kamran Amjadi
Chief Executive Officer

* A signed original of this written statement required by Section 906 has been provided to E–centives, Inc. and will be retained by E–centives, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of E-centives, Inc. (the "Company") on Form 10-QSB for the fiscal quarter ended September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the undersigned's knowledge:

(a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;

and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated this 11th day of November, 2005

E-CENTIVES, INC.

/s/ Tracy L. Slavin

Tracy L. Slavin
Chief Financial Officer

* A signed original of this written statement required by Section 906 has been provided to E-centives, Inc. and will be retained by E-centives, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.