

MOTIVE INC
Form DEF 14A
April 06, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

MOTIVE, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

MOTIVE, INC.

12515 Research Blvd., Bldg. 5

Austin, TX 78759

To our Stockholders:

I am pleased to invite you to attend the 2005 Annual Meeting of Stockholders of Motive, Inc. to be held on Friday, May 20, 2005, at 10:00 a.m., Central Time, at The Renaissance Hotel, 9721 Arboretum Blvd., Austin, TX 78759. Details regarding the business to be conducted at the annual meeting are more fully described in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement. Also enclosed in this mailing are three other documents: our Annual Report on Form 10-K (which includes our 2004 audited financial statements), a proxy card for you to record your vote, and a return envelope for your proxy card.

Your vote is important. Whether or not you plan to attend the annual meeting, I hope that you will vote as soon as possible by completing and mailing the enclosed proxy card. Voting by written proxy will ensure your representation at the annual meeting if you do not attend in person. Please review the instructions on the proxy card regarding voting by written proxy. Any stockholder attending the annual meeting may vote in person, even though he or she has already returned a proxy card.

We look forward to seeing you at the annual meeting.

Sincerely,

Scott Harmon

Chief Executive Officer and Chairman of the Board

of Directors

Austin, Texas

April 1, 2005

**WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE AND RETURN
THE ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE**

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IN THE ENCLOSED ENVELOPE.

MOTIVE, INC.

12515 Research Blvd., Bldg. 5

Austin, Texas 78759

(512) 339-8335

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TIME	10:00 a.m., Central Time, on Friday, May 20, 2005
PLACE	The Renaissance Hotel 9721 Arboretum Blvd. Austin, TX 78759
ITEMS OF BUSINESS	(1) Election of Class I directors; (2) Ratify and approve our Amended and Restated Equity Incentive Plan; and (3) Ratify the appointment of Ernst & Young, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005. Also, the annual meeting may involve consideration of such other business as may properly come before the annual meeting or any adjournments or postponements thereof.
RECORD DATE	You are entitled to vote at the annual meeting and any adjournments or postponements thereof if you were a stockholder at the close of business on Friday, March 25, 2005.
VOTING BY PROXY	Please submit your proxy card as soon as possible so that your shares can be voted at the annual meeting in accordance with your instructions. For specific instructions on voting, please refer to the instructions on the proxy card.

By Order of the Board of Directors

Scott Harmon

Chief Executive Officer and Chairman of the Board

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of Directors

This proxy statement and the accompanying proxy card are being distributed on or about April 15, 2005.

MOTIVE, INC.

**PROXY STATEMENT FOR
2005 ANNUAL MEETING OF STOCKHOLDERS**

The accompanying proxy is solicited by the Board of Directors of Motive, Inc., a Delaware corporation, for use at its Annual Meeting of Stockholders to be held on May 20, 2005 at 10:00 a.m., Central Time, at The Renaissance Hotel, 9721 Arboretum Blvd., Austin, TX 78759, or any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. This proxy statement and the enclosed proxy are being mailed to stockholders on or about April 15, 2005.

**QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS
AND THE ANNUAL MEETING**

Q: WHY AM I RECEIVING THESE MATERIALS?

A: Our Board of Directors is providing these proxy materials for you in connection with our annual meeting of stockholders, which will take place on May 20, 2005. Stockholders are invited to attend the annual meeting and are requested to vote on the proposals described in this proxy statement.

Q: WHAT PROPOSALS WILL BE VOTED ON AT THE ANNUAL MEETING?

A: The following three proposals are scheduled to be voted on at the annual meeting:

Proposal One: Election of our Class I directors;

Proposal Two: Ratification and approval of our Amended and Restated Equity Incentive Plan; and

Proposal Three: Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005.

Also, the annual meeting may involve consideration of such other business as may properly come before the meeting or any adjournments or postponements thereof.

Q: WHAT IS MOTIVE S VOTING RECOMMENDATION?

A: Our Board of Directors recommends that you vote your shares as follows:

FOR both nominees for election as Class I directors under Proposal One;

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FOR Proposal Two; and

FOR Proposal Three.

Q: WHO CAN VOTE AT THE ANNUAL MEETING?

A: Our Board of Directors has set March 25, 2005 as the record date for the annual meeting. All stockholders who owned shares of our common stock on March 25, 2005 may attend and vote at the annual meeting. Each of these stockholders is entitled to one vote for each share of common stock held on all matters to be voted on. On March 25, 2005, 26,073,732 shares of our common stock were outstanding.

Q: HOW MANY VOTES DOES MOTIVE NEED TO HOLD THE ANNUAL MEETING?

A: A majority of our outstanding shares as of the record date must be present at the annual meeting in order to hold the annual meeting and conduct business. This is called a quorum. Shares are counted as present at the annual meeting if you:

are present and vote in person at the annual meeting; or

have properly submitted a proxy card.

Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum. Broker non-votes occur when shares held by a broker on behalf of a beneficial owner are not

voted with respect to a particular proposal, which generally occurs when the broker has not received voting instructions from the beneficial owner and lacks the discretionary authority to vote the shares itself.

Q: WHAT SHARES THAT I OWN CAN BE VOTED?

A: All shares owned by you as of the close of business on March 25, 2005, the record date, may be voted by you if either (i) you held these shares directly in your name as the stockholder of record, or (ii) these shares were held for you as the beneficial owner through a broker, bank or other nominee.

Q: WHAT IS THE DIFFERENCE BETWEEN HOLDING SHARES AS A STOCKHOLDER OF RECORD AND AS A BENEFICIAL OWNER?

A: Most stockholders of Motive hold their shares through a broker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record:

If your shares are registered directly in your name with our transfer agent, Mellon Investor Services, you are considered the stockholder of record with respect to those shares, and these proxy materials are being sent directly to you by us. As the stockholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the annual meeting. We have enclosed a proxy card for you to use.

Beneficial Owner:

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker, banker or nominee who is considered the stockholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker, bank or nominee on how to vote and are also invited to attend the annual meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the annual meeting, unless you request, complete and deliver a legal proxy from your broker, bank or nominee. Your broker, bank or nominee has enclosed a voting instruction card for you to use in directing the broker, bank or nominee regarding how to vote your shares.

Q: HOW ARE VOTES COUNTED?

A: You may vote either **FOR** each nominee for election to the Board of Directors under Proposal One or to **WITHHOLD** your vote for that nominee. You may vote **FOR**, **AGAINST** or **ABSTAIN** on the other proposals. If you just sign your proxy card with no further instructions, your shares will be counted as a vote:

FOR both nominees for election as Class I Directors under Proposal One;

FOR Proposal Two; and

FOR Proposal Three.

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A plurality of the votes cast at the annual meeting is required to elect each nominee under Proposal One. Proposal Two and Proposal Three require that the number of shares cast in favor of them exceed the number of votes cast in opposition to them. Abstentions and broker non-votes will not be counted as votes cast in favor of or in opposition to a proposal.

Q: WHO WILL COUNT THE VOTE?

A: A representative of Mellon Investor Services, our transfer agent, will tabulate the votes and act as the inspector of election.

Q: HOW CAN I VOTE MY SHARES IN PERSON AT THE ANNUAL MEETING?

A: Shares held directly in your name as the stockholder of record may be voted in person at the annual meeting. If you choose to do so, please bring the enclosed proxy card and proof of identification to the annual meeting.

If you hold your shares in street name, you must request a legal proxy from your broker, bank or nominee in order to vote in person at the annual meeting.

Q: HOW CAN I VOTE MY SHARES WITHOUT ATTENDING THE ANNUAL MEETING?

A: If you hold shares directly as a stockholder of record, you may vote your shares without attending the annual meeting by completing, signing and returning the enclosed proxy card in the enclosed postage prepaid envelope. Please refer to the summary instructions included on your proxy card.

If you hold your shares in street name, your broker, bank or nominee will include a voting instruction card. You may vote your shares by marking and signing your proxy card and following the instructions provided by your broker, bank or nominee and mailing it in the enclosed envelope. Furthermore, the instructions provided by your broker, bank or nominee may also provide for voting using the telephone or over the Internet. If your broker, bank or nominee provides such an option and you wish to vote using the telephone or over the Internet, then follow the instructions provided by them. If you provide specific voting instructions, your shares will be voted as you have instructed.

Q: HOW CAN I CHANGE MY VOTE AFTER I RETURN MY PROXY?

A: You may change your vote at any time prior to the vote at the annual meeting. If you are a stockholder of record, you may change your vote by granting a new proxy bearing a later date (which automatically revokes the earlier proxy), by providing a written notice of revocation to the Corporate Secretary prior to your shares being voted, or by attending the annual meeting and voting in person. Attendance at the meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, bank or nominee, or, if you have obtained a legal proxy from your broker or nominee giving you the right to vote your shares, by attending the meeting and voting in person.

Q: WHERE CAN I FIND THE VOTING RESULTS OF THE ANNUAL MEETING?

A: The preliminary voting results will be announced at the annual meeting. The final results will be published in our first quarterly report on Form 10-Q filed after the date of the annual meeting.

Q: WHAT HAPPENS IF ADDITIONAL PROPOSALS ARE PRESENTED AT THE ANNUAL MEETING?

A: Other than the three proposals described in this proxy statement, we do not expect any matters to be presented for a vote at the annual meeting. If you grant a proxy, the persons named as proxy holders, Scott Harmon, our Chairman of the Board and Chief Executive Officer, Logan Wray, our Chief Operating Officer, and Paul Baker, our Chief Financial Officer, will have the discretion to vote your shares on any additional matters properly presented for a vote at the annual meeting.

Q: MAY I PROPOSE ACTIONS FOR CONSIDERATION AT NEXT YEAR'S ANNUAL MEETING OF STOCKHOLDERS OR NOMINATE INDIVIDUALS TO SERVE AS DIRECTORS?

A: You may submit proposals for consideration at future annual stockholder meetings, including director nominations, in accordance with the procedures set forth below.

STOCKHOLDER PROPOSALS: Stockholders may submit proposals to be considered for inclusion in our proxy statement for the next year's annual meeting. In order for a stockholder proposal to be raised during the next year's annual meeting, written notice must be received by us not later than the close of business on the 90th calendar day, nor earlier than the close of business on the 120th calendar day, prior to the first anniversary of the preceding year's annual meeting; *provided, however*, that in the event that the date of the annual meeting is advanced more than 30 calendar days prior to, or delayed more than 60 calendar days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the later of the 60th calendar day prior to such annual meeting or the 10th calendar day following the date on which we first make a public announcement of the date of such meeting. Such proposals must comply with the SEC's

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regulations regarding the inclusion of stockholder proposals in our sponsored proxy materials, and should contain such information as required under our bylaws.

NOMINATION OF DIRECTOR CANDIDATES: Our bylaws permit stockholders to nominate directors at a stockholder meeting. In order to make a director nomination at the next year's annual meeting, written notice must be received by us not later than the close of business on the 90th calendar day, nor earlier than the close of business on the 120th calendar day, prior to the first anniversary of the preceding year's annual meeting; *provided, however*, that in the event that the date of the annual meeting is advanced more than 30 calendar days prior to, or delayed more than 60 calendar days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the later of the 60th calendar day prior to such annual meeting or the 10th calendar day following the date on which we first make a public announcement of the date of such meeting. Your notice of nomination should contain such information as required under our bylaws and under Regulation 14A of the Securities Exchange Act. You may also propose director candidates for consideration by our nominating committee if you meet certain qualifications and follow the procedures described below under "Corporate Governance Principles and Board Matters" Director Nomination Procedures.

Q: WHO BEARS THE COST OF SOLICITING PROXIES

A: The cost of soliciting proxies will be borne by us. We may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. Proxies may also be solicited by certain of our directors, officers and regular employees, without additional compensation, personally or by telephone or facsimile.

PROPOSALS TO BE VOTED ON

PROPOSAL ONE:

ELECTION OF DIRECTORS

Our Board of Directors is currently composed of six directors, divided into three classes as follows: two Class I directors (Virginia Gambale and Scott Harmon), two Class II directors (David Sikora and Harvey White) and two Class III directors (Michael Maples, Sr. and Tom Meredith). Directors are generally elected for three-year terms that are staggered such that approximately one-third of the directors are elected each year. Each director will hold office until the election and qualification of his or her successor or upon earlier resignation or removal. Additional directorships resulting from an increase in the number of directors will be distributed among the three classes, so that as nearly as possible each class will consist of an equal number of directors.

The term of the current Class I directors will expire on the date of the upcoming 2005 Annual Meeting of Stockholders. Accordingly, two persons are to be elected at the meeting to serve as Class I directors of the Board of Directors. The nominees for election by the stockholders to those two positions are the current Class I members of the Board of Directors Virginia Gambale and Scott Harmon. If elected, the nominees will serve as Class I directors until the election and qualification of his or her successor at our Annual Meeting of Stockholders in 2008 or upon earlier resignation or removal.

Nominees for Class I Directors With Terms Expiring In 2008

Virginia Gambale, 45, has served as one of our directors since her appointment to that position in July 2004. Ms. Gambale is currently the general partner of Azimuth Partners, LLC, providing strategic advisory services for growth companies and investment funds. From January 1997 to December 1999, Ms. Gambale served as chief information officer for Bankers Trust and Deutsche Bank. Ms. Gambale was also a general partner of ABS Ventures from January 2000 through January 2002, and a general partner of DB Capital Venture Partners from January 2002 through July 2003. Ms. Gambale received a Bachelor of Science in Computer Science and Business from New York Institute of Technology, and also attended the Hartt Conservatory, University of Hartford and SUNY Purchase School of Performing Arts.

Scott L. Harmon, 46, co-founded our company in April 1997 and has served as Chief Executive Officer since June 1997, as Chairman of the Board since November 2003 and as a director since April 1997. He also served as President from our inception in April 1997 to January 2003. From November 1996 to May 1997, Mr. Harmon was a Venture Partner of Austin Ventures, a venture capital firm. From March 1992 to November 1996, Mr. Harmon was employed by Tivoli Systems Inc., a systems management software company, where he held several marketing positions including Vice President and General Manager of the Applications Management Business Unit and Vice President of Marketing and Strategy. Mr. Harmon received a Bachelor of Science degree in Computer Science from Iowa State University.

Required Vote and Recommendation

A plurality of the votes cast at the annual meeting is required to elect each nominee. Accordingly, abstentions and broker non-votes will have no effect on the election of directors. Shares represented by proxies will be voted for the election of the nominees named above unless authority to do so is specifically withheld. If any nominee declines to serve or becomes unavailable for any reason, or if a vacancy occurs before the election (although we know of no reason to anticipate that this will occur), the proxies may be voted for such substitute nominees as the Board of Directors may designate.

The Board of Directors recommends a vote FOR the nominees named above.

Other Motive Directors Not Currently Being Elected:

Class II Directors With Terms Expiring in 2006:

David Sikora, 43, has served as a director of our company since January 2000. In July 2002, Mr. Sikora was named President and Chief Executive Officer of Pervasive Software Inc., a data infrastructure software company, where he has been a member of the board since January 2002. In January 2000, Mr. Sikora co-founded Question Technologies, Inc., an Internet relationship management software company, where he served as Chairman and Chief Executive Officer until its acquisition by us in November 2001. From January 2000 to April 2000, he served as our co-president. From July 1998 to January 2000, he served as President and Chief Executive Officer of Ventix Systems, Inc., an enterprise software company which we acquired in January 2000. Mr. Sikora received a Bachelor of Science degree in Electrical Engineering Technology from the University of Houston and a Masters in Business Administration from Harvard Graduate School of Business Administration.

Harvey White, 71, has served as one of our directors since his appointment to that position in July 2004. Since June 2004, Mr. White has served as chairman of (SHW)2, a business development and consulting firm. From September 1998 through June 2004, Mr. White served as chairman and CEO of Leap Wireless International, Inc. Prior to that, Mr. White was a co-founder of QUALCOMM, Incorporated where he held various positions including director, president, and chief operating officer. Mr. White attended West Virginia Wesleyan College and Marshall University where he received a Bachelor of Arts degree in Economics.

Class III Directors With Terms Expiring in 2007:

Michael J. Maples, Sr., 62, has served as a director of our company since June 1997. Mr. Maples currently manages private investments and ranches. From April 1988 to July 1995, Mr. Maples held various management positions at Microsoft Corporation, the most recent of which was Executive Vice President of the Worldwide Products Group and a member of the Office of the President. He also serves as a director of Multimedia Games, Inc., a provider of interactive networked gaming systems, and Lexmark International, Inc., a laser and inkjet printer company. Mr. Maples received a Bachelor of Science degree in Electrical Engineering from the University of Oklahoma and a Masters in Business Administration from Oklahoma City University.

Tom Meredith, 54, has served as a director of our company since May 2003. Mr. Meredith is a General Partner of Meritage Capital, LLC, a fund of hedge funds, which commenced operations in April 2003, as well as Chairman and CEO of MFI Capital, the Meredith family's private investment firm since 2001. Mr. Meredith also serves as a director for Motorola, Inc., a provider of wireless, broadband and automotive communication technologies and embedded electronic products, FreeMarkets, Inc., a supply management software company, as well as for several privately held companies. From November 1992 until September 2001, Mr. Meredith served as Chief Financial Officer and in various other capacities at Dell, Inc. He received a Bachelor of Arts degree in Political Science from St. Francis University, a Juris Doctor degree from Duquesne University and a Master of Law degree from Georgetown University.

PROPOSAL TWO:

RATIFICATION AND APPROVAL OF AMENDED AND RESTATED EQUITY INCENTIVE PLAN

Our stockholders are being asked to ratify and approve our Amended and Restated Equity Incentive Plan (the "EIP Plan") for purposes of Treasury Regulation Sections 1.162-27. The EIP Plan was initially adopted by our Board of Directors on November 21, 2003, and approved by our stockholders in December 2003, which was prior to our initial public offering of common stock in 2004. In January 2005, our Board of Directors amended certain provisions of the EIP Plan relating to automatic option grants to members of the Board of Directors. Despite the pre-initial public offering stockholder approval, our Board of Directors believes that stockholder ratification of the EIP Plan is good corporate practice and it may be necessary to avoid application of the deductibility limits imposed by Internal Revenue Code ("Code") Section 162(m) for compensation that may be earned by our executive officers with respect to stock options awarded under the EIP Plan subsequent to the meeting.

Treasury Regulation Section 1.162-27(f)(1) and (2) generally provides that, in the case of a corporation that effects an initial public offering of its securities, the \$1 million limitation on tax deductibility of certain compensation paid to the corporation's chief executive officer or any of the corporation's four highest compensated officers (other than the chief executive officer), as of the end of the corporation's taxable year (all such persons being the "Covered Individuals"), mandated by Code Section 162(m) does not apply to any remuneration (a) paid pursuant to a plan during the period prior to the initial public offering, or (b) paid subsequent to the initial public offering and until the earliest to occur of:

the expiration of the plan;

the material modification of the plan;

the exhaustion of all shares reserved under the plan before the initial public offering; or

the annual stockholders' meeting that occurs after the close of the third calendar year following the calendar year in which the initial public offering occurred.

Treasury Regulation Section 1.162-27(f)(3) generally provides that compensation received pursuant to the exercise of a stock option, or substantial vesting of restricted property, granted or awarded under a plan described in the immediately preceding sentence will not be subject to the \$1 million limitation on deductibility if the grant occurs before the earliest of the events listed in the immediately preceding sentence.

The EIP Plan expires in June 2014. The share reserve under the EIP Plan prior to our initial public offering has not been exhausted. Although we do not believe that the amendment to the EIP Plan relating to automatic grants to directors would be a material modification of the EIP Plan within the meaning of the Treasury Regulation, there is a possibility that, if our stockholders do not ratify the EIP Plan at the meeting, stock option grants awarded under the EIP Plan after the meeting that otherwise meet the requirements for exemption under Code Section 162(m) of compensation earned upon exercise of the option or right would be subject to the deductibility limits imposed by Code Section 162(m) on compensation paid to our Covered Individuals.

Our Board of Directors believes that avoiding the application of the Code Section 162(m) deductibility limits will allow us to continue to utilize equity incentives to attract and retain the services of key individuals essential to our long-term growth and financial success and to continue to ensure that any compensation deemed paid by us in connection with disqualifying dispositions of incentive stock option shares or the exercise of non-statutory options (in each case granted after the meeting and otherwise in compliance with the requirements of Code Section 162(m)) will qualify as performance-based compensation for purposes of Code Section 162(m) and will not have to be taken into account for purposes of the \$1 million limitation per Covered Individual on the deductibility of compensation paid to our executive officers. We rely significantly on equity

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incentives (such as stock option grants) to attract and retain key employees and believe that such equity incentives are necessary for us to remain competitive in the marketplace for executive talent and other key employees.

The following is a summary of the principal features of the EIP Plan. However, this summary does not set forth a complete description of all provisions of the EIP Plan, a copy of which is attached hereto as Appendix B.

Equity Incentive Programs

The EIP Plan consists of three separate equity incentive programs: (a) the Discretionary Option Grant Program, (b) the Stock Issuance Program and (c) the Automatic Option Grant Program for non-employee Board members. The principal features of each program are described below. The Compensation Committee of the Board of Directors will administer the Discretionary Option Grant and Stock Issuance Programs. The Board of Directors has also appointed a secondary committee of one Board member (Scott Harmon) to have separate but concurrent authority with the Compensation Committee to make option grants under the Discretionary Option Grant Program and issue stock under the Stock Issuance Program to individuals other than our executive officers and non-employee Board members. All grants under the Automatic Option Grant Program will be made in strict compliance with the express provisions of such program. Neither the Compensation Committee nor any secondary committee will exercise any administrative discretion under the Automatic Option Grant Program.

The term Plan Administrator, as used in this summary, will mean the Compensation Committee and any secondary committee, to the extent that each such entity is acting within the scope of its administrative jurisdiction under the EIP Plan.

Share Reserve

An aggregate of 1,397,665 shares of our common stock were initially authorized for issuance over the term of the EIP Plan, including those reserved for issuance at the time that the EIP Plan was adopted under our predecessor 1997 Stock Option Plan. In addition, on the first day of each calendar year during the term of the EIP Plan, the number of shares of common stock available for issuance under the EIP Plan will automatically increase by an amount equal to the lesser of (1) 4% of the total number of shares of common stock that are then outstanding; (2) 1.25 million shares; or (3) a lesser number determined by our Board. At its meeting in January of 2005, our Board determined that the number of shares of common stock available for issuance under the EIP Plan would increase by the lesser number of one million shares. In general, if options or shares awarded under the Equity Incentive Plan or options awarded under the 1997 Stock Option/Stock Issuance Plan are forfeited, then those options or shares will again become available for awards under the EIP Plan. No participant in the EIP Plan may receive option grants or direct stock issuances for more than 1,250,000 shares of common stock in the aggregate per calendar year.

As of March 25, 2005, 1,664,466 shares of common stock authorized under the EIP Plan were subject to outstanding options, 2,600 shares of common stock authorized under the EIP Plan had been issued, and 947,791 shares of common stock remained available for future awards. The shares of common stock issuable under the EIP Plan may be drawn from shares of our authorized but unissued shares of common stock or from shares of common stock reacquired by us, including shares repurchased on the open market.

In the event any change is made to the outstanding shares of common stock by reason of any recapitalization, stock dividend, stock split, combination of shares, exchange of shares or other change in corporate structure effected without our receipt of consideration, appropriate adjustments will be made to: (a) the maximum number and/or class of securities issuable under the EIP Plan, (b) the maximum number and/or class of securities by which the share reserve may increase annually under the automatic share increase reserve provisions, (c) the number and/or class of securities for which any one person may be granted options or direct stock issuances per calendar year, (d) the number and/or class of securities for which automatic option grants are to be subsequently granted to eligible directors and (e) the number and/or class of securities and the exercise price per share in effect under each outstanding option (including any options reserved for issuance under the predecessor 1997 Employee Stock Option Plan, which was incorporated into the EIP Plan).

Eligibility

Officers and employees, non-employee Board members and independent consultants in the service of us or our subsidiaries (whether now existing or subsequently established) are eligible to participate in the Discretionary Option Grant and Stock Issuance Programs. Participation in the Automatic Option Grant Program is limited to non-employee members of our Board of Directors.

As of March 25, 2005, seven executive officers, five non-employee Board members and approximately 350 other employees and consultants were eligible to participate in the Discretionary Option Grant and Stock Issuance Programs and our five non-employee Board members were also eligible to participate in the Automatic Option Grant Program.

Valuation

The fair market value per share of common stock on any relevant date under the EIP Plan is deemed to be equal to the closing sales price per share on that date as quoted on the NASDAQ Stock Market. On March 25, 2005, the fair market value per share determined on such basis was \$10.02.

Discretionary Option Grant Program

The Plan Administrator has complete discretion under the Discretionary Option Grant Program to determine which eligible individuals are to receive option grants, the time or times when those grants are to be made, the number of shares subject to each such grant, the status of any granted option as either an incentive stock option or a non-statutory option under the federal tax laws, the vesting schedule (if any) to be in effect for the option grant and the maximum term for which any granted option is to remain outstanding.

Each granted option will have an exercise price per share determined by the Plan Administrator and may be less than, equal to or greater than the fair market value of the shares on the grant date; except that options intended to be incentive stock options and non-qualified options intended to qualify as performance based compensation under Code section 162(m) must have an exercise price of not less than fair market value on the date of grant. In addition, in order to avoid treatment of non-statutory options as non-qualified deferred compensation, within the meaning of Code section 409A, all such options must have an exercise price of not less than fair market value on the date of grant. No granted option will have a term in excess of ten years, and the option will generally become exercisable in one or more installments over a specified period of service measured from the grant date. However, one or more options may be structured so that they will be immediately exercisable for any or all of the option shares. The shares acquired under immediately exercisable options will be subject to repurchase by us, at the exercise price paid per share, if the optionee ceases service with us prior to vesting in those shares.

Upon cessation of service, the optionee will have a limited period of time in which to exercise any outstanding option to the extent exercisable for vested shares. The Plan Administrator will have complete discretion to extend the period following the optionee's cessation of service during which his or her outstanding options may be exercised and/or to accelerate the exercisability or vesting of such options in whole or in part. Such discretion may be exercised at any time while the options remain outstanding, whether before or after the optionee's actual cessation of service.

The Plan Administrator also has the authority to effect the cancellation of outstanding options under the Discretionary Option Grant Program (and outstanding options incorporated from the predecessor 1997 Employee Stock Option Plan, which was incorporated into the EIP Plan) that

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have exercise prices in excess of the then-current market price of our common stock and to issue replacement options with an exercise price per share based on the market price of our common stock at the time of the new grant.

Stock Issuance Program

Shares of our common stock will be issued under the Stock Issuance Program at a price per share equal to the fair market value of the shares on the issuance date unless otherwise determined by the Plan Administrator. Shares will be issued for such valid consideration as the Plan Administrator deems appropriate, including cash and promissory notes. The shares may also be issued as a bonus for past services without any cash outlay required of the recipient. The shares issued may be fully vested upon issuance or may vest upon the completion of a designated service period or the attainment of pre-established performance goals. The Plan Administrator will, however, have the discretionary authority at any time to accelerate the vesting of any and all unvested shares outstanding under the Stock Issuance Program.

Automatic Option Grant Program

Under the Automatic Option Grant Program, each non-employee director who first becomes a non-employee board member will be granted an option to purchase 60,000 shares of our common stock on the date such individual joins the board. These options will become vested as follows: 33% of the option shares become vested upon the completion of 12 months of service and an additional 8.33% of the option shares become vested upon the completion of each quarter of service thereafter. In addition, at each annual meeting of stockholders, each individual who will continue to be a director after such annual meeting will receive an additional option to purchase 20,000 shares of common stock. These options will vest at a rate of 8.33% upon the completion of each quarter of service after the grant date. Each director who received an initial option grant under the automatic option grant program will first be eligible to receive an annual option grant under the automatic option grant program in the calendar year following the year in which he or she received the initial option grant. There will be no limit on the number of such 20,000 share option grants any one eligible non-employee Board member may receive over his or her period of continued Board service.

Each automatic grant will have an exercise price per share equal to the fair market value per share of common stock on the grant date and will have a maximum term of ten years, subject to earlier termination following the optionee's cessation of Board service. Each outstanding automatic option grant will automatically accelerate and become immediately exercisable for any or all of the option shares as fully-vested shares upon certain changes in control or ownership of Motive or upon the optionee's death or disability while a Board member. Following the optionee's cessation of Board service for any reason, each option will remain exercisable for a 12-month period and may be exercised during that time for any or all shares in which the optionee is vested at the time of such cessation of Board service.

General Provisions

Accelerated Vesting

In the event that we are acquired by merger or asset sale, each outstanding, unvested option under the Discretionary Option Grant Program that is not to be assumed or replaced by the successor corporation or otherwise continued in effect will automatically vest in full, and all unvested shares outstanding under the Discretionary Option Grant Program will immediately vest, except to the extent our repurchase rights with respect to those shares are to be assigned to the successor corporation or otherwise continued in effect. The options granted to non-employee directors under the Automatic Option Grant Program will automatically accelerate and become exercisable in full upon any acquisition or change in control transaction. In addition, all options held by our employees are subject to immediate and full acceleration of vesting upon the occurrence of both of the following: (a) a Change in Control of the company (as such term is defined in our EIP Plan), and (b) an involuntary termination of employment within 12 months following the effective date of such Change in Control. The acceleration of vesting in the event of a change in the ownership or control of Motive may be seen as an anti-takeover provision and may have the effect of discouraging a merger proposal, a takeover attempt or other efforts to gain control of us.

Special Tax Election

The Plan Administrator may provide one or more holders of non-statutory options under the EIP Plan with the right to have us withhold a portion of the shares otherwise issuable to such individuals in satisfaction of the withholding taxes to which such individuals become subject in connection with the exercise of those options or the vesting of those shares. Alternatively, the Plan Administrator may allow such individuals to deliver previously acquired shares of common stock in payment of such withholding tax liability.

Amendment and Termination

The Board of Directors may amend or modify the EIP Plan at any time, subject to any required stockholder approval pursuant to applicable laws and regulations. Unless sooner terminated by the Board, the EIP Plan will terminate on the earliest of (a) June 25, 2014, (b) the date on which all shares available for issuance under the EIP Plan have been issued as fully-vested shares or (c) the termination of all outstanding options in connection with certain changes in control or ownership of Motive.

Federal Income Tax Consequences

Option Grants

Options granted under the EIP Plan may be either incentive stock options, which satisfy the requirements of Section 422 of the Code, or non-statutory options, which are not intended to meet such requirements. The federal income tax treatment for the two types of options differs as follows:

Incentive Options. No taxable income is recognized by the optionee at the time of the option grant, and no taxable income is generally recognized at the time the option is exercised. However, the optionee would have a tax preference equal to the excess of the fair market value of such shares on the option exercise date over the exercise price paid for the shares, which may result in liability for alternative minimum tax purposes. The optionee will, however, recognize taxable income in the year in which the purchased shares are sold or otherwise disposed. For federal tax purposes, dispositions are divided into two categories: qualifying and disqualifying. A qualifying disposition occurs if the sale or other disposition is made after the optionee has held the shares for more than two years after the option grant date and more than one year after the exercise date. If either of these two holding periods is not satisfied, then a disqualifying disposition will result.

If the optionee makes a disqualifying disposition of the purchased shares, we will be entitled to an income tax deduction, for the taxable year in which such disposition occurs, equal to the lesser of (a) the excess of the fair market value of such shares on the option exercise date over the exercise price paid for the shares, or (b) the amount realized on the disposition over the exercise price paid for the shares. If the optionee makes a qualifying disposition, we will not be entitled to any income tax deduction.

Non-Statutory Options. No taxable income is recognized by an optionee upon the grant of a non-statutory option. The optionee will generally recognize ordinary income, in the year in which the option is exercised, equal to the excess of the fair market value of the purchased shares on the exercise date over the exercise price paid for the shares, and the optionee will be required to satisfy the tax withholding requirements applicable to such income. If the shares acquired upon exercise of the non-statutory option are unvested and subject to repurchase by us in the event of the optionee's termination of service prior to vesting in those shares, then the optionee will not recognize any taxable income at the time

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of exercise but will have to report as ordinary income, as and when our repurchase right lapses, an amount equal to the excess of (a) the fair market value of the shares on the date the repurchase right lapses over (b) the exercise price paid for the shares. The optionee may, however, elect under Section 83(b) of the Code to include as ordinary income in the year of exercise of the option an amount equal to the excess of (a) the fair market value of the purchased shares on the exercise date over (b) the exercise price paid for such shares. If the Section 83(b) election is made, the optionee will not recognize any additional income as and when the repurchase right lapses.

We will be entitled to an income tax deduction equal to the amount of ordinary income recognized by the optionee with respect to the exercised non-statutory option. The deduction will generally be allowed for the taxable year in which such ordinary income is recognized by the optionee.

Direct Stock Issuances

The tax principles applicable to direct stock issuances under the EIP Plan will be substantially the same as those summarized above for the exercise of non-statutory option grants.

Deductibility of Executive Compensation

We believe that any compensation deemed paid by us in connection with disqualifying dispositions of incentive stock option shares or the exercise of non-statutory options subject to awards made prior to the meeting (or subsequent to stockholder ratification and approval of this Proposal at the meeting) with exercise prices not less than the fair market value of the option shares on the grant date will qualify as performance-based compensation for purposes of Code Section 162(m) and will not have to be taken into account for purposes of the \$1 million limitation per Covered Individual on the deductibility of compensation paid to our executive officers.

Accordingly, all compensation deemed paid with respect to those options will be deductible by us without limitation under Code Section 162(m). However, if this Proposal is not ratified and approved by stockholders at the meeting, then any compensation deemed paid by us in connection with disqualifying dispositions of incentive stock option shares or the exercise of non-statutory options subject to awards made under the EIP Plan to our executive officers after the meeting would be subject to the deductibility limits imposed by Code Section 162(m).

We believe that any compensation deemed paid by us in connection with direct stock issuances made prior to the meeting will qualify for treatment as performance-based compensation for purposes of Code Section 162(m) and will not have to be taken into account for purposes of the \$1 million limitation per Covered Individual on the deductibility of compensation paid to our executive officers. Accordingly, all compensation deemed paid with respect to those issuances will be deductible by Motive without limitation under Code Section 162(m). However, regardless of stockholder ratification and approval of this Proposal at the meeting, any compensation deemed paid by us in connection with direct stock issuances after the meeting will have to be taken into account for purposes of such \$1 million limitation unless and to the extent that such direct stock issuances otherwise qualify as performance-based compensation for purposes of Code Section 162(m).

Code Section 409A.

Code Section 409A imposes new constraints on nonqualified deferred compensation, and some awards under the EIP Plan may be subject to these new rules. Failure to comply with the new rules under Section 409A may result in the early taxation of deferred compensation, including some EIP Plan benefits, and the imposition of a 20% penalty. The new Section 409A is effective with respect to amounts deferred after December 31, 2004, but may also apply to amounts deferred earlier under arrangements that are materially modified after October 3, 2004. Nothing in the amendment to the EIP Plan is intended to enlarge or modify those awards granted under the plan prior to December 31, 2004. In IRS Notice 2005-1, the Treasury Department has provided interim guidance on transition issues and the meaning of various provisions of new Section 409A and is expected to provide additional guidance later in calendar year 2005. We intend to design awards granted under the EIP Plan in a manner that will satisfy the requirements of the new Section 409A to avoid the imposition of excise tax thereunder, but anticipate that we may be required to amend the EIP Plan (and, potentially, outstanding award agreements) before December 31, 2005, to make changes necessary to comply with future guidance.

Accounting Treatment

We have elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), in accounting for our employee stock options. Under APB 25, if the exercise price of an

employee's stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized. Option grants with exercise prices less than the fair market value of the shares on the grant date will result in a direct compensation expense in an amount equal to the excess of such fair market value over the exercise price. The expense must be amortized against our earnings over the period that the option shares vest. Although Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), allows us to continue to follow the present APB 25 guidelines, we are required to disclose, as if we had adopted SFAS 123, pro forma net income (loss) and net income (loss) per share as if the fair value of options at the time of grant was treated as compensation expense. In addition, the number of outstanding options may be a factor in determining our earnings per share on a diluted basis.

Direct stock issuances under the EIP Plan that do not contain performance criteria governing when the options will vest will result in a direct charge to our reported earnings in an amount equal to the excess of the fair market value of the issued shares on the issue date over the cash and other property paid in consideration for the shares and will be expensed immediately against our earnings on the issue date. Direct stock issuances that performance criteria will result in a direct charge to our reported earnings based upon the excess of the fair market value of the issued shares (measured initially as of the issue date and then subsequently on the date of achievement of each performance target) over the cash and other property paid in consideration for the shares and will be amortized against our earnings over the period that the performance targets are achieved. Accordingly, the expense for performance-based direct stock issuances will include any appreciation in the value of the issued shares over the period between the issue date and the date of achievement of each performance target.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, (SFAS 123R). SFAS 123R addresses the accounting for share-based payments to employees, including grants of employee stock options. Under the new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic value method in accordance with APB No. 25, *Accounting for Stock Issued to Employees*. Instead, companies will be required to account for such transactions using a fair-value method and recognize the expense in the consolidated statement of operations. SFAS 123R will be effective for periods beginning after June 15, 2005 and allows, but does not require, companies to restate the full fiscal year of 2005 and prior years presented to reflect the impact of expensing share-based payments under SFAS 123R. We have not yet determined which fair-value method and transitional provision we will follow. However, we expect that the adoption of SFAS 123R will have a significant impact on our results of operations, but not on our overall financial position.

Required Vote and Recommendation

The ratification and approval of the EIP Plan requires that the number of shares cast in favor of the ratification exceed the number of votes cast in opposition to the ratification. Abstentions and broker non-votes will not be counted as votes cast in favor of or in opposition to the ratification. Shares represented by proxies will be voted for the ratification and approval of the EIP Plan, unless authority to do so is specifically withheld. Should such stockholder ratification not be obtained, then we could be subject to the deductibility limits imposed by Code Section 162(m) with respect to stock option grants awarded to our executive officers under the EIP Plan after the meeting.

**The Board of Directors recommends a vote FOR the ratification and approval of our
Amended and Restated Equity Incentive Plan**

PROPOSAL THREE:

RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2005

The audit committee of our Board of Directors has selected Ernst & Young LLP as our independent registered public accounting firm to audit our consolidated financial statements for the fiscal year ending December 31, 2005, and our stockholders are being asked to ratify this selection. Ernst & Young LLP has been our independent registered public accounting firm since March 2000 and, upon recommendation of the audit committee, their reappointment as independent registered public accounting firm for the fiscal year ending December 31, 2005 has been approved by our Board of Directors.

Although we are not required to seek stockholder approval of this appointment, we believe it is sound corporate practice to do so. If our stockholders do not ratify this appointment, our audit committee will investigate the reasons for that stockholder rejection and will reconsider the appointment. Even if our stockholders do ratify the decision to use Ernst & Young LLP as independent registered public accounting firm for the fiscal year ending December 31, 2005, our audit committee may, in its discretion, direct the appointment of different independent registered public accounting firm at any time during the year if it determines that such a change would be in our best interests and those of our stockholders.

Representatives of Ernst & Young LLP are expected to be present at the annual meeting and will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

Required Vote and Recommendation

Ratification of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005 requires that the number of shares cast in favor of the ratification exceed the number of votes cast in opposition to the ratification. Abstentions and broker non-votes will not be counted as votes cast in favor of or in opposition to the ratification. Shares represented by proxies will be voted for the ratification of Ernst & Young LLP as our independent registered public accountants for the fiscal year ending December 31, 2005, unless authority to do so is specifically withheld.

The Board of Directors recommends a vote FOR the ratification of the selection of Ernst &

Young LLP as independent registered public accounting firm for the fiscal year ending

December 31, 2005

CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

General

Our Board of Directors and management remain committed to good corporate governance to ensure that we are managed for the long-term benefit of our stockholders. We have in place a variety of policies and practices to promote good corporate governance. A majority of our Board of Directors is independent in accordance with the rules of NASDAQ, and all members of the audit committee, compensation committee, and nominating committee also meet the NASDAQ guidelines for independence. Compensation of our chief executive officer is approved by our compensation committee, which evaluates our CEO's performance in light of preset corporate goals and objectives. In addition, we have:

established disclosure control policies and procedures in accordance with the requirements of the Sarbanes-Oxley Act;

established a procedure for receipt and treatment of anonymous and confidential complaints or concerns regarding audit or accounting matters; and

established a Code of Business Conduct and Ethics applicable to our directors, officers and employees.

Copies of our Code of Business Conduct and Ethics and committee charters can be found on the investor relations portion of our website at www.motive.com.

Board Meetings and Committees

During the fiscal year ended December 31, 2004, our Board of Directors held eight meetings. Each incumbent director attended or participated in at least 75% of the aggregate of (i) the total number of meetings of our Board of Directors held during such director's tenure on our Board of Directors, and (ii) the total number of meetings held during such director's tenure on our Board of Directors by all committees of the Board of Directors on which each such director served. Our Board of Directors and committees of the Board of Directors also approved certain matters by unanimous written consent. Although we do not have a formal policy regarding attendance by board members at our annual meeting of stockholders, we encourage each of our directors to attend. Our Board of Directors has a compensation committee, an audit committee and a nominating committee. Each of these committees is described as follows:

Audit Committee. The audit committee was established on January 23, 2004. On that date, our Board of Directors adopted an audit committee charter, a copy of which is attached to this proxy statement as Appendix A and can be accessed electronically at the investor relations portion of our website at www.motive.com. The report of the audit committee for fiscal year 2004 is included in this proxy statement. During the period from January through September of 2004, the audit committee consisted of Tom Meredith, David Sikora, and Michael LaVigna. From September through the end of 2004, the audit committee consisted of Tom Meredith, David Sikora and Harvey White. The members of the audit committee who served during fiscal year 2004 are independent as defined under NASDAQ Marketplace Rule 4200(a)(15), and met the independence requirements of Rule 10A-3(b)(i) of the Securities Exchange Act of 1934, as well as the requirements of NASDAQ Marketplace Rule 4350(d)(2). Mr. Meredith serves as chairman of the audit committee and the Board of Directors has determined that Mr. Meredith qualifies as a financial expert as defined by the rules of the Securities Exchange Commission. The audit committee met three times during fiscal year 2004. The audit committee is responsible for the oversight of the quality and integrity of our financial statements, our compliance with legal and regulatory requirements, the qualifications and independence of our independent auditors, the performance of our internal audit function and independent registered public accounting firm and other significant financial matters. In discharging its duties, the audit committee is expected to:

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have the sole authority to appoint, retain, compensate, evaluate and terminate our independent registered public accounting firm;

review and approve the scope of our annual audit;

review and pre-approve the engagement of our independent registered public accounting firm to perform audit and non-audit services and the related fees;

review the integrity of our financial reporting process;

review our financial statements and disclosures and Securities and Exchange Commission filings; and

review disclosures from our independent registered public accounting firm regarding Independence Standards Board Standard No. 1.

Compensation Committee. The compensation committee was established on January 23, 2004. On that date, our Board of Directors adopted a compensation committee charter, a copy of which can be accessed electronically at the investor relations portion of our website at www.motive.com. The report of the compensation committee for fiscal year 2004 is included in this proxy statement. During the period from January through September of 2004, the compensation committee consisted of Tom Meredith and John Thornton. From September through the end of 2004, the compensation committee consisted of Virginia Gambale and Tom Meredith. Ms. Gambale is the chairperson for the compensation committee. The Board of Directors has determined that each of the members of the compensation committee is a *non-employee director*, as defined in Rule 16b-3 promulgated under the Exchange Act, and an *outside director*, as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986. The members of the compensation committee who served during fiscal year 2004 are *independent* as defined under NASDAQ Marketplace Rule 4200(a)(15). The compensation committee met once during fiscal year 2004. The compensation committee is responsible for:

overseeing our overall compensation and benefits policies;

overseeing and setting salaries, incentives and other forms of compensation for our executive officers; and

evaluating the performance of executive officers, and reviewing our management succession plan.

Nominating Committee. The nominating committee was established on January 23, 2004. On that date, the Board of Directors adopted a nominating committee charter, a copy of which can be accessed electronically at the investor relations portion of our website at www.motive.com. During the period from January through September of 2004, the nominating committee consisted of Michael LaVigna and David Sikora. From September through the end of 2004, the nominating committee consisted of David Sikora and Tom Meredith. Mr. Sikora is the chairman of the nominating committee. The members of the nominating committee who served during fiscal year 2004 are *independent* as defined under NASDAQ Marketplace Rule 4200(a)(15). The nominating committee did not meet during fiscal year 2004. The nominating committee is expected to:

identify, evaluate and recommend nominees for the Board of Directors and for board committees;