

MOTIVE INC
Form 10-K
March 07, 2005
Table of Contents

Index to Financial Statements

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from to

Commission file number: 000-31409

MOTIVE, INC.

Edgar Filing: MOTIVE INC - Form 10-K

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	74-2834515 (I.R.S. Employer Identification No.)
12515 Research Boulevard, Building 5 Austin, Texas (Address of principal executive offices)	78759-2220 (Zip Code)

(512) 339-8335

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.001 par value

(Title of class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$172,429,508, based on the closing price as of June 30, 2004. Shares of Common Stock held by each executive officer, director, and stockholders known by the registrant to own more than 5% or more of the outstanding stock based on information known to us, have been excluded since such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Edgar Filing: MOTIVE INC - Form 10-K

As of February 28, 2005 there were 26,028,532 outstanding shares of the common stock of Motive, Inc.

DOCUMENTS INCORPORATED BY REFERENCE

Part III Portions of the registrant's definitive Proxy Statement to be issued in conjunction with its 2005 Annual Meeting of Stockholders currently scheduled to be held on May 20, 2005 are incorporated by reference into Part III of this report. Except as expressly incorporated by reference, the registrant's proxy statement shall not be deemed to be part of this report.

Table of Contents

Index to Financial Statements

MOTIVE, INC.

FORM 10-K

FOR FISCAL YEAR ENDED DECEMBER 31, 2004

TABLE OF CONTENTS

	Page
PART I	
ITEM 1. <u>Business</u>	3
ITEM 2. <u>Properties</u>	10
ITEM 3. <u>Legal Proceedings</u>	10
ITEM 4. <u>Submission of Matters to a Vote of Security Holders</u>	10
PART II	
ITEM 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	11
ITEM 6. <u>Selected Financial Data</u>	13
ITEM 7. <u>Management's Discussion and Analysis of Financial Condition And Results of Operation</u>	14
ITEM 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	37
ITEM 8. <u>Financial Statements and Supplemental Data</u>	38
ITEM 9. <u>Changes in and Disagreements with Accountants on Accounting And Financial Disclosures</u>	38
ITEM 9A. <u>Controls and Procedures</u>	38
ITEM 9B. <u>Other Information</u>	38
PART III	
ITEM 10. <u>Directors and Executive Officers of the Registrant</u>	39
ITEM 11. <u>Executive Compensation</u>	40
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management</u>	40
ITEM 13. <u>Certain Relationships and Related Transactions</u>	41
ITEM 14. <u>Principal Accounting Fees and Services</u>	41
PART IV	
ITEM 15. <u>Exhibits and Financial Statement Schedules</u>	41
<u>Signatures</u>	
<u>Exhibit Index</u>	

Table of Contents

Index to Financial Statements

CAUTIONARY STATEMENT

The statements contained in this Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts, and projections and the beliefs and assumptions of our management. Words such as we expect, anticipate, target, project, believe, goals, estimate, potential, predict, may, might, could, intend, variations of these types of words and are intended to identify these forward-looking statements. Readers are cautioned that these forward-looking statements are predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements.

Among the important factors that could cause actual results to differ materially from those indicated by our forward-looking statements are those discussed below in Management Discussion and Analysis of Financial Condition and Results of Operations Risk Factors that May Affect Future Results and elsewhere in this report. We undertake no obligation to revise or update publicly any forward-looking statement for any reason.

PART I

ITEM 1. BUSINESS

Market Overview

A large and increasing number of Internet users have high-speed *connectivity*, and many businesses are capitalizing on this fact by launching new, networked product and service offerings. While these offerings allow for increased revenue growth and the organizational speed and flexibility demanded by today's competitive landscape, there are risks and difficulties associated with deploying them. Specifically, businesses must be able to both maintain the ongoing health of a networked service, and reliably change the service in response to market dynamics and user needs. To address these challenges, we believe that providers of networked product and service offerings are demanding a new generation of intelligent management software that uses various levels of automation to allow networked products and services to manage themselves, requiring manual intervention only when necessary. At its core, intelligent management software applies logic to networks and systems to remove manual constraints and high labor costs that keep businesses from reaping the full economic opportunity that networked services provide.

Company Overview

Motive, Inc. is a Delaware corporation formed in 1997. We are a leading supplier of management software for networked products and services. Our products build intelligent automation into networked products and services to expedite or eliminate various management tasks that both businesses and end-users must undertake in order to launch, maintain or update the products and services. Since our inception in 1997, more than one hundred businesses have used our software to design self-management into more than 200 different networked product and service offerings that they market and sell to their customers. Examples of these offerings include:

Residential dial-up and broadband Internet services;

Business broadband and networking services;

Home networking services;

Voice-over-IP services;

IP-TV services;

Table of Contents

Index to Financial Statements

Remote software maintenance; and

Business intelligence services.

Some of the key benefits that our customers derive from our built-in management approach include the ability to:

Activate broadband services without requiring an on-site technician at a residence or business;

Remotely diagnose and resolve problems without relying on traditional manual steps;

Remotely distribute value-added offerings such as product self-assessments, self-upgrades and real-time change-impact analyses;

Make call centers and support operations more efficient by speeding time-to-resolution;

Increase user productivity by automating requests for assistance across the Web and phone channels;

Use data from multiple network sources to evaluate customer usage patterns;

Generate snapshots of application environments on request; and

Evaluate how an application is operating within its networked environment.

Motive Products and Services

Our products and services automate different types of management tasks required to maintain the ongoing health of a networked product or service and to reliably manage its change. They are either used internally by providers' operations employees or by end-users of a networked service. These products fall into two categories – broadband related products and corporate enterprise related products. See Management's Discussion and Analysis of Financial Condition and Results of Operation – Revenue and Note 15 to the consolidated financial statements for financial information about these two product categories. The chart below summarizes some of the key features and benefits of our products:

Product Name	Key Features/Capabilities	Key Benefits
<i>Broadband Related Products</i>		
Motive Broadband Manager for Activation	Automates pre-qualification, activation, provisioning and value-added services delivery	Reduces the costs of acquiring new broadband subscribers

Edgar Filing: MOTIVE INC - Form 10-K

	Provides automated self-management of residential broadband service	Increases revenue for service providers delivering enhanced services
		Reduces the volume of technical support requests from subscribers
		Reduces subscriber attrition by increasing customer satisfaction
Motive Broadband Installation OnDemand	Subscription-based, managed service offering as an alternative to purchasing and deploying Motive Broadband Manager for Activation	Same as above
		Requires minimal IT infrastructure and labor costs
Motive Broadband Manager for Support	Performs automated troubleshooting and resolution of problems	Reduces the volume of technical support requests from subscribers
	Proactively detects service problems and guides subscribers through the resolution process	Reduces subscriber attrition through increased customer satisfaction
Motive Broadband Self-Service OnDemand	Subscription-based, managed service offering as an alternative to purchasing and deploying Motive Broadband Manager for Support	Same as above
		Requires minimal IT infrastructure and labor costs

Table of Contents

Index to Financial Statements

<u>Product Name</u>	<u>Key Features/Capabilities</u>	<u>Key Benefits</u>
Motive Customer Service Manager	Digitally connects subscribers with support personnel, providing context on support issues	Streamlines and reduces cost of call center operations
	Provides remote service tools to automate the resolution of problems	Improves customer satisfaction and reduces customer attrition by resolving problems faster and more easily
	Provides management tools to drive work processes and report on performance metrics	Enables service operations to scale with new products and subscriber growth
	Integrates with existing systems and infrastructure including call tracking, network diagnostics, call handling and voice response	
<i>Corporate Enterprise Related Products</i>		
Motive Desktop Manager	Provides automated self-management of desktop environments	Improves customer productivity and satisfaction
	Provides protection and restoration of network and browser settings and Windows applications	Increases revenue for service providers by enabling fee-based remote desktop service offerings
	Provides self-service diagnostics, troubleshooting from desktop computer users and health checks	Reduces technical support requests volume
Motive Triage and Resolution	Provides fast answers to common user questions	Reduces mean time to resolution of problems for call centers
	Provides automated self-management for complex enterprise IT environments	Improves mean time to resolution for mission critical applications
	Enables application teams to capture and automate key application information for downstream operations personnel	Reduces management overhead for applications
	Provides snapshot and comparison capabilities against a gold standard image	Reduces manual effort and errors in the triage and diagnostics processes
	Provides a guided triage and diagnostics experience for level one technicians	Extends existing investments in service management systems
	Integrates with other service management applications to create a seamless problem management process	
Motive Remote Service Manager	Automates problem resolution and delivers proactive, value-add services	Streamlines and reduces cost of service operations
	Provides two-way, permission-based connection between service providers and technology assets of an end customer	Increases revenue for the service provider by enabling fee-based remote service offerings
	Automates collection of ecosystem information as context to aid problem resolution and proactive services	Enables service operations to scale with new product and service offerings
	Integrates with existing business systems and infrastructure such as call tracking and help desk systems	Improves customer productivity and satisfaction

Table of Contents

Index to Financial Statements

<u>Product Name</u>	<u>Key Features/Capabilities</u>	<u>Key Benefits</u>
Motive Profile	Automates the configuration management of complex enterprise application environments	Increases application availability and performance
	Provides software vendors (ISVs) with permission-based visibility into customer deployment environments	Eliminates repetitive questions about customer deployments and configurations
	Automatically identifies changes by comparing current profiles to a baseline model or last known good state	Improves analyst productivity and efficiency
Motive Profile OnDemand	Integrates with existing support portals	On-demand hosted deployment model lowers costs and mitigates risk while rapidly delivering return on investment
	Subscription-based, hosted service offering as an alternative to purchasing and deploying Motive Profile	Same as above Requires minimal IT infrastructure and labor costs

Customers

Our customer base is comprised of telecommunications providers, cable service providers, Internet service providers, hardware vendors, independent software vendors and corporate enterprises, across various industries. Our customers either deploy our software in their environment, or, to a lesser extent, use our hosting and operations infrastructure to deploy and support our software.

Licensing

We license our software to customers under non-exclusive license agreements on a fixed term or perpetual basis. In 2004, 79% of the licenses that we entered into were for a fixed term, as opposed to perpetual. The term of our licenses is typically three years. Our license agreements generally restrict the use of our software to a specific customer product or service as well as the usage of a particular Motive product or service. We believe that licensing our products in this manner allows our customers to license only the software they need and allows us the opportunity to expand our agreements and execute renewal agreements over time.

We experience seasonality in our revenue, with the fourth quarter of the year typically having the highest revenue for the year. We believe that this seasonality results primarily from customer budgeting cycles and our sales compensation model, and we expect this seasonality to continue.

Services

Our products are complemented by a set of professional and managed services that primarily assist our customers in rapidly deploying our solutions; optimizing business processes; and measuring the financial impact of our products.

Edgar Filing: MOTIVE INC - Form 10-K

Deployment Services. Customers utilize our deployment services to install, configure and deploy Motive solutions on a global, regional and industry-specific level. Our proven methodology includes pre-project preparation, planning, requirements definition, installation and configuration, testing and transitioning into a production environment. Deployment services are typically provided on our customers' premises and managed by two to four consultants who complete the entire process from initiation to full production often within three to four months. Larger implementations can take four to six months and may involve additional consultants.

Education Services. Our education services are designed to enable customer independence in ongoing maintenance and administration of our solutions. Drawing on industry-standard instructional principles and real-

Table of Contents

Index to Financial Statements

world experience, our training organization delivers a comprehensive series of training programs spanning all aspects of our solutions. These programs can be delivered at the customer's business, via the Internet or at our state-of-the-art training facilities in Austin, Texas.

Support Services. Our support organization employs a set of highly skilled support engineers to help customers solve problems and answer questions on a 24x7 basis. Our goal is to ensure customer satisfaction each time we receive a call for support by providing ongoing communication regarding problem status through problem resolution and defining an escalation process when further management assistance is needed. Our support plans include both basic and premium options to meet the needs of our entire customer base—whether related to a small installation or a large-scale deployment.

Business Optimization Services. Our business optimization services are designed to align our customers' business processes with Motive solutions, dramatically improving the effectiveness of our products in an organization. Based on best practices gained through multiple deployments worldwide, business optimization services maximize a customer's ability to achieve business goals, while lowering the overall cost of utilizing our technology. Specific services include usability testing of customer user interfaces, optimization of contact center processes, service data analytics, monitoring and measuring results, and internal marketing of our technology solutions.

Managed Services. Our managed services offerings are an important part of our overall strategy to help ensure customers get maximum value from their Motive products. These services provide customers flexibility in deploying and running their Motive solutions by offering various levels of hosting, complete solution outsourcing or remote management of our solutions. Our state-of-the-art data center features dedicated staff and advanced technology infrastructure, high system availability, proactive monitoring and disaster recovery capabilities necessary to operate mission-critical services. Our managed services offerings allow our customers to realize the benefits of our solution with reduced project risk, complexity and time to market, while simultaneously achieving increased operational efficiency, service and maintenance levels. Our services also include a wide range of production support, including 24x7 technical assistance and problem resolution and customer-specific services, as well as availability, performance and transaction monitoring.

As of December 31, 2004, we had 121 employees in our services organizations. These employees are based primarily in Austin, Texas, but also reside in other locations throughout the United States, Europe and Asia.

Strategic Alliances

We form strategic alliances with leading hardware and software providers as well as with the systems integrators who deploy technology to enhance our solutions, accelerate the use of our solutions in key markets, or increase the value our customers receive from our products.

In 2004, we established relationships with several companies, including Alcatel, BEA and Siebel Systems. A short summary of each of these relationships follows:

Alcatel is permitted to re-sell, customize, deploy and support Motive's core broadband management products on a global basis as part of Alcatel's DSL Subscriber Care solution. We expect our relationship with Alcatel to allow us to enter new markets with reduced internal sales and marketing costs.

Edgar Filing: MOTIVE INC - Form 10-K

We are working with BEA to develop a configuration management solution for BEA application environments that will include BEA application models. We expect this collaboration to ensure that our solutions built around these models will have direct applicability to BEA customers.

We are working with Siebel to develop a configuration management solution for Siebel application environments that will include Siebel application models. We expect this collaboration to ensure that our solutions built around these models will have direct applicability to Siebel customers.

Table of Contents

Index to Financial Statements

Sales and Marketing

We employ skilled sales professionals and engineers to help customers understand the full value of our solutions. We use this team to sell products primarily through a direct sales model. We generate leads from a variety of sources, including marketing programs and inside sales activities. Initial sales activities typically include a demonstration of our product capabilities, a customer-specific technical and financial analysis and information regarding deployment capabilities.

We develop and execute a variety of marketing programs to build market awareness about us, our solutions and their value to potential customers. A broad mix of programs is used to accomplish these goals, including market research, product and strategy updates with industry analysts, business and trade press tours, direct mail and relationship marketing programs, Internet marketing, seminars, industry-specific trade shows, speaking engagements and co-operative marketing with customers and partners. Our marketing organization also produces materials in support of sales to prospective customers that include Internet web sites, programs and materials, brochures, data sheets, white papers, presentations, demonstrations and other marketing tools.

As of December 31, 2004, our sales and marketing organizations consisted of 82 employees located in a variety of locations in the United States, as well as Canada, the United Kingdom, Germany, Switzerland, France, Spain and Japan.

Research and Development

We invest in research and development through both internal development and technology acquisition. This development consists primarily of adding new competitive features to established products, as well as the creation of additional products. We leverage our strategic partner and customer relationships to identify and develop new innovative solutions.

As of December 31, 2004, we have received eight issued patents for our technology innovations over the course of many generations of product development, and we have an additional 15 patent applications currently being reviewed by the United States Patent and Trademark Office. As of December 31, 2004, we had 105 employees in our research and development organization.

Competition

The market for management automation is competitive, rapidly evolving and subject to frequent technological change. Our current and potential competitors in the market vary in size, in industries they serve, in the scope of the products and services that they offer or may offer in the future. Many of our current and potential competitors have greater financial, marketing and infrastructure resources than we have. As a result, they may be able to respond more quickly to changes in customer requirements. They may also be able to devote greater resources to sales and marketing and research and development than we can. Competition may also result in changes to pricing policies by us or our competitors, which could adversely affect our business, prospects, future quarterly and annual operating results and financial condition. We may not be able to compete successfully against current and future competitors.

Edgar Filing: MOTIVE INC - Form 10-K

Companies that offer competitive products, may develop competitive products or may adopt a similar business model to ours include the following:

providers of traditional enterprise systems management platforms and point products such as Tivoli (a division of IBM), BMC Software, Inc., HP OpenView (a division of Hewlett-Packard), Computer Associates, and Micromuse. While none of these companies currently offer technology management products that directly compete with our products, they are beginning to incorporate aspects of management automation and technology self-management concepts in their marketing messages and may in the future deliver competitive products;

Table of Contents

Index to Financial Statements

providers of technical support automation software for PCs and devices, such as SupportSoft, Inc., Control-F1 and Axeda Systems;

providers of Internet infrastructure and platform companies that may add management automation functionality to their products such as IBM, Microsoft Corp., SAP and Oracle Corp.;

hardware providers for broadband networks attempting to differentiate their products with proprietary management software such as 2Wire and Efficient Networks;

providers of application management software such as Altiris, Relicore Inc., Collation, Troux, Mercury Interactive and Cendura;

providers of point broadband installation solutions such as Fine Point Technologies, Inc. and C-Cor; and

internal development groups of our current and prospective customers who may choose to develop their own management software.

We believe the principal competitive factors in our industry are:

product features and functionality;

proven financial and customer results;

time to market with new products that respond to changing customer requirements;

availability of professional services to rapidly develop and deploy a complete solution;

flexible deployment options including remote-managed and hosted environments;

ability to handle large volumes of end users and transactions; and

price.

Intellectual Property and Other Proprietary Rights

Our success heavily depends on our proprietary technology. We rely on a combination of copyright, trade secret, trademark and patent laws, confidentiality procedures, contractual provisions and other similar measures to protect our proprietary information and intellectual property rights. As part of our confidentiality procedures, we enter into proprietary information and invention agreements with our employees and

Edgar Filing: MOTIVE INC - Form 10-K

non-disclosure agreements with certain of our consultants, customers, prospective customers and service providers. We also enter into license agreements with respect to our technology, documentation and other proprietary information.

The unauthorized reproduction or other misappropriation of our proprietary technology could enable third parties to benefit from our technology without paying us for it. In addition, the steps we have taken to protect our proprietary rights and intellectual property may not be adequate to deter misappropriation. We may not be able to detect unauthorized use of our proprietary information or take appropriate steps to enforce our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our software or technology that we consider proprietary and third parties may attempt to develop similar technology independently.

We currently hold a trademark registration in the United States for the Motive name, our logo and certain marks associated with our product suite. We also hold a trademark registration of, or have pending applications for the trademark registration of, the Motive name, our logo and for certain marks associated with our product suite in certain countries in North America, South America, Europe, Asia and Australia. In addition, as of December 31, 2004, we have eight patents issued and 15 pending patent applications for technology related to our product suite. Our patents have expiration dates ranging from 2018 to 2020. It is possible that our patents, copyrights or registered trademarks could be challenged and invalidated. In addition, existing patent, copyright and trademark laws afford only limited protections. Effective protection of intellectual property rights may be

Table of Contents

Index to Financial Statements

unavailable or limited in certain countries, because the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States. Monitoring unauthorized use of our patents and trademarks is difficult and expensive, particularly given the global nature and reach of the Internet. Furthermore, it is possible that our competitors will adopt product or service names similar to ours, impeding our ability to protect our intellectual property and possibly leading to customer confusion. Although we are not aware that our products, patents, trademarks, copyrights or other proprietary rights infringe the proprietary rights of third parties, any infringement claims, with or without merit, brought by such third parties could be time-consuming and expensive to defend.

Employees

As of December 31, 2004, we had 351 total employees. Our future success will depend on our continuing ability to attract, train and retain highly qualified technical, sales and managerial personnel. Our employees are not represented by a collective bargaining agreement and we have never experienced a strike or similar work stoppage. We consider our relations with our employees to be good.

Other Information

We are subject to the informational requirements of the Securities Exchange Act of 1934 (the Exchange Act). As a result, we file periodic reports, proxy statements, and other information with the Securities and Exchange Commission (the SEC). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 450 Fifth Street, NW, Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website at <http://www.sec.gov> that contains reports, proxy, and information statements and other information regarding issuers that file electronically. You can access financial and other information on the investor relations portion of our website at www.motive.com. We have made all reports and amendments to reports that we have filed with the SEC available on our website. The content on any website referred to in this report is not incorporated by reference into this report unless expressly noted otherwise.

ITEM 2. PROPERTIES

Our principal administrative, sales and marketing and research and development facility is located in Austin, Texas and consists of approximately 117,300 square feet of office space under a lease that expires December 2012. We also maintain offices for sales and support personnel in Pleasanton, California; Denver, Colorado; Atlanta, Georgia; Boston, Massachusetts; Minneapolis, Minnesota; Toronto, Canada; Paris, France; Zurich, Switzerland; Munich, Germany; London, England; and Tokyo, Japan. We believe that our facilities are adequate for our current needs and that suitable additional or substitute space will be available as needed to accommodate foreseeable expansion of our operations.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may be involved in litigation relating to claims arising out of our ordinary course of business. United Parcel Service General Services Co. (UPS) has alleged that we have breached various provisions of a License Agreement for OEM Partners, dated as of May 23, 2000 (the License Agreement), pursuant to which we agreed to license and support software to be used by UPS, in exchange for the payment by UPS of license and maintenance fees. UPS is seeking a refund of fees totaling \$5,181,670. The terms of the License Agreement call for binding arbitration to resolve any dispute between the parties. UPS has served us with a demand for arbitration, the arbitration process is in its

discovery phase, and a date for the arbitration has been set for July of 2005. We believe that we have valid defenses to the claims of UPS and intend to defend the matter vigorously, although we cannot predict its final outcome.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our stockholders during the quarter ended December 31, 2004.

Table of Contents**Index to Financial Statements****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market of Common Stock**

Our common stock has been listed on the NASDAQ National Market under the symbol **MOTV** since June 25, 2004. Before that date, there was no public market for shares of our common stock. The following table presents, for the periods indicated, the high and low sales prices per share of our common stock as reported on the NASDAQ National Market:

Year ended 2004	High	Low
June 25-June 30	\$ 10.74	\$ 9.75
Third Quarter	\$ 12.10	\$ 7.42
Fourth Quarter	\$ 15.39	\$ 9.86

Holders of Record

As of February 28, there were approximately 392 holders of record (not including beneficial holders of stock held in street name) of the common stock.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock since our inception, and do not intend to do so in the foreseeable future. We currently expect that we will retain any future earnings to fund the operation and expansion of our business. In addition, our line of credit with Silicon Valley Bank prohibits us from declaring or paying dividends without the bank's consent.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding the securities authorized for issuance under our equity compensation plans can be found under Item 12 of this report.

Sales of Unregistered Securities

Edgar Filing: MOTIVE INC - Form 10-K

During the fiscal year ended December 31, 2004, we issued and sold the following unregistered securities:

1. Prior to our initial public offering in June 2004, we granted options to purchase 48,064 shares of common stock to employees and directors under our stock plans at an exercise price of \$8.00 per share. These options typically vest over a four-year period.
2. We issued 595,006 shares of common stock pursuant to the exercise of stock options and warrants at exercise prices ranging from \$0.004 to \$12.00 per share.

The sales of the above securities were considered to be exempt from registration under the Securities Act of 1933, as amended, in reliance on Section 4(2) of the Securities Act, or Regulation D promulgated thereunder, or Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions by an issuer not involving a public offering or transactions under compensatory benefit plans and contracts relating to compensation provided under Rule 701. The recipients of securities in each of these transactions represented their intention to acquire the securities for investment only and not with a view to or for sale with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in these transactions. All recipients had adequate access, through their relationship with us, to information about us.

Table of Contents**Index to Financial Statements****Use of Proceeds from Sales of Registered Securities**

The Securities and Exchange Commission declared our registration statement effective on June 24, 2004, which we filed on Form S-1 (Registration No. 333-111030) under the Securities Act of 1933 in connection with the initial public offering of our common stock. The managing underwriters of the offering were J.P. Morgan Securities, Inc., acting as sole book-runner and co-lead manager, Thomas Weisel Partners LLC, acting as co-lead manager, and Friedman, Billings, Ramsey & Co., Inc., Needham & Company, Inc. and America's Growth Capital, LLC, acting as co-managers.

On June 30, 2004, we completed our initial public offering in which we sold 5,000,000 shares of our common stock at \$10 per share, for an aggregate public offering price of \$50 million. We currently have approximately \$25.3 million of the offering proceeds available for working capital and general corporate purposes. Since the date of our quarterly report on Form 10-Q for the quarter ended September 30, 2004, we applied approximately \$100,000 of offering proceeds to cover additional offering related costs and expenses. In addition, in December 2004 we used approximately \$6.0 million of the offering proceeds to repay in full outstanding term loans.

Issuer Purchases of Equity Securities

The following table provides information with respect to any purchase made by or on behalf of the Company or any affiliated purchaser of shares of the Company's common stock during the quarter ended December 31, 2004:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of	Maximum Number (or
			Shares Purchased as	Approximate Dollar Value)
			Part of Publicly	of Shares that May Yet Be
			Announced Plans	Purchased under the Plans
			or Programs	or Programs
October 2004	620(1)	\$ 6.51	N/A	N/A
November 2004	5(1)	\$ 6.51	N/A	N/A
December 2004	0	N/A	N/A	N/A

(1) Options issued to employees are subject to a time-based vesting schedule. Options can be exercised prior to vesting but the shares purchased as a result of such exercise are subject to repurchase by the Company upon termination of employment at a price per share equal to the original exercise price. All shares purchased were acquired in this manner.

Table of Contents**Index to Financial Statements****ITEM 6. SELECTED FINANCIAL DATA**

The following table presents our selected consolidated financial data. The selected consolidated statement of operations data for the years ended December 31, 2002, 2003 and 2004 and the selected consolidated balance sheet data at December 31, 2003 and 2004, are derived from the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected consolidated statement of operations data for the years ended December 31, 2000 and 2001 and the selected consolidated balance sheet data at December 31, 2000, 2001 and 2002 are derived from audited consolidated financial statements, including the notes thereto, not included in this Annual Report on Form 10-K. The historical results are not necessarily indicative of results to be expected in any future period. You should read the data presented below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2000(1)	2001(2)	2002	2003(3)	2004
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Revenue:					
License fees	\$ 18,669	\$ 39,431	\$ 44,659	\$ 42,957	\$ 56,172
Services:					