

STEC, INC.
Form DEF 14A
April 16, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

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 § 240.14a-12

STEC, 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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(4) Date filed:

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STEC, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MAY 27, 2010

TO THE SHAREHOLDERS OF STEC, INC.:

NOTICE IS HEREBY GIVEN that the 2010 Annual Meeting of Shareholders (the Annual Meeting) of STEC, Inc., a California corporation (the Company or STEC), will be held on Thursday, May 27, 2010, at 8:00 a.m. local time at the Irvine Marriott located at 18000 Von Karman Avenue, Irvine, California 92612, for the following purposes, as more fully described in the Proxy Statement accompanying this notice:

1. To elect Manouch Moshayedi, Mark Moshayedi, Rajat Bahri, F. Michael Ball, Christopher W. Colpitts, Kevin C. Daly, Ph.D. and Matthew L. Witte to serve on the Company's Board of Directors until the 2011 Annual Meeting of Shareholders and until their successors are duly elected and qualified or until their earlier resignation or removal;
2. To approve the 2010 Incentive Award Plan;
3. To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2010; and
4. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The foregoing matters are described in more detail in the enclosed Proxy Statement. The Board recommends a vote FOR each of the seven nominees for director named in the Proxy Statement, a vote FOR the approval of the 2010 Incentive Award Plan and a vote FOR the appointment of PricewaterhouseCoopers LLP as STEC's independent registered public accounting firm.

All shareholders of record at the close of business on April 1, 2010 are entitled to notice of and to vote at the Annual Meeting and any adjournment(s) or postponement(s) thereof. A list of record holders entitled to vote at the Annual Meeting will be available for examination by any shareholder, for any purpose germane to the Annual Meeting, at STEC's offices at 3001 Daimler Street, Santa Ana, California 92705-5812 during normal business hours for ten days prior to the Annual Meeting and at the Annual Meeting.

All shareholders are cordially invited to attend the Annual Meeting in person. Whether or not you plan to attend, your vote is very important regardless of the number of shares you own. Please read the enclosed Proxy Statement carefully, and then sign and return the enclosed proxy as promptly as possible in the envelope enclosed for your convenience. Should you receive more than one proxy because your shares are registered in different names and addresses, each proxy should be signed and returned to ensure that all of your shares will be voted. You may revoke your proxy at any time prior to the Annual Meeting. If you attend the Annual Meeting and vote by ballot, your proxy will be revoked automatically and only your vote at the Annual Meeting will be counted.

For admission to the Annual Meeting, each shareholder may be asked to present valid picture identification, such as a driver's license or passport, and proof of ownership of STEC's common stock as of the record date, such as the enclosed proxy card or a brokerage statement reflecting stock ownership as of the record date. Additional information on the documentation and procedures required for admission to the Annual Meeting can be found in the Proxy Statement under the heading "General Information Who can attend the meeting?"

By Order of the Board of Directors,

Manouch Moshayedi

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Chief Executive Officer and

Chairman of the Board of Directors

Santa Ana, California

April 16, 2010

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STEC, INC.

3001 Daimler Street

Santa Ana, California 92705-5812

(949) 476-1180

**PROXY STATEMENT FOR
ANNUAL MEETING OF SHAREHOLDERS**

TO BE HELD ON MAY 27, 2010

GENERAL INFORMATION

Your proxy is solicited on behalf of the Board of Directors (the Board) of STEC, Inc., a California corporation (the Company, STEC, we, us, and our), for use at the 2010 Annual Meeting of Shareholders (the Annual Meeting) to be held on May 27, 2010, at 8:00 a.m. local time, or at any continuation, adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting and any business properly brought before the Annual Meeting. The Annual Meeting will be held at the Irvine Marriott located at 18000 Von Karman Avenue, Irvine, California 92612.

Your vote at the Annual Meeting is important to us. Please vote your shares of STEC common stock by completing the enclosed proxy card and returning it to us in the enclosed envelope. This Proxy Statement has information about the Annual Meeting and was prepared by our management for the Board. We intend to mail this Proxy Statement and the accompanying proxy card on or about April 16, 2010 to all shareholders entitled to vote at the Annual Meeting. Directions to attend the meeting may be found on our Internet website at <http://www.stec-inc.com/proxy>.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR STEC'S ANNUAL SHAREHOLDER MEETING TO BE HELD ON MAY 27, 2010.

STEC'S Proxy Statement and the 2009 Annual Report are available at <http://www.stec-inc.com/proxy>.

Who can attend the meeting?

Attendance at the Annual Meeting is limited to STEC's shareholders of record or a beneficial owner as of April 1, 2010. Admission to the meeting will be on a first-come, first-served basis. Registration will begin at 7:45 a.m. and you should be prepared to present photo identification for admittance.

If you are the shareholder of record, that is, your shares are registered in your own name through our transfer agent, your name will be verified against the list of shareholders of record prior to your being admitted to the Annual Meeting.

If you hold your shares in street name, that is, your shares are held in the name of a brokerage firm, bank or other nominee, you should provide proof of beneficial ownership on the record date, such as a brokerage account statement showing that you owned STEC stock as of the record date, a copy of the voting instruction card provided by your broker, bank or other nominee, or other similar evidence of ownership as of the record date.

If you are a proxy holder for a shareholder of STEC who owned shares of STEC common stock as of the close of business on April 1, 2010, you must bring the executed proxy naming you as the proxy holder, signed by a shareholder of STEC who owned shares of STEC common stock as of the close of business on April 1, 2010 and valid personal photo identification (such as a driver's license or passport).

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If you do not provide the required documentation or comply with the other procedures outlined in this Proxy Statement, you will not be admitted to the Annual Meeting. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

Who can vote?

You can vote your shares of STEC common stock if you owned the shares at the close of business on the record date, April 1, 2010. As of the close of business on the record date, 50,336,326 shares of our common stock were issued and outstanding. You are entitled to one vote for each share of common stock. You may not cumulate votes in the election of directors. The enclosed proxy card shows the number of shares you can vote. All votes will be tabulated by the inspector of elections appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. A list of shareholders entitled to vote at the Annual Meeting will be available for inspection at STEC's executive offices during normal business hours for ten days prior to the Annual Meeting and at the Annual Meeting.

How do I vote?

If you are a shareholder of record, you may vote by following the instructions on the enclosed proxy card to vote on each proposal to be considered at the Annual Meeting. Sign and date the proxy card and mail it back to us in the enclosed envelope. Signing and returning the proxy card does not affect your right to vote in person at the Annual Meeting.

If your shares are held in street name (which means your shares are held by record by a broker, bank or other nominee), in lieu of a proxy card, you should receive a voting instruction form by mail from the brokerage firm, bank or other nominee that holds your shares. Shareholders whose shares are registered in the name of a brokerage firm or bank may be eligible to vote electronically through the Internet or by telephone. A large number of brokerage firms and banks are participating in the Broadridge Financial Solutions, Inc. (Broadridge) online and telephone program. This program provides eligible shareholders the opportunity to vote via the Internet or by telephone. Voting forms will provide instructions for shareholders whose brokerage firm or bank is participating in Broadridge's program.

If you are a shareholder of record, you may also vote your shares in person at the Annual Meeting. If your shares are held in street name and you wish to vote in person at the meeting, you must obtain a legal proxy issued in your name from your broker, bank or other nominee and bring it with you to the Annual Meeting. We recommend that you vote your shares in advance as described above so that your vote will be counted if you later decide not to attend the Annual Meeting.

How do I find electronic proxy materials?

This proxy statement and the Annual Report on Form 10-K are available at <http://www.stec-inc.com/proxy>.

What if I receive more than one proxy card or voting instruction form?

If you receive more than one proxy card or voting instruction form because your shares are held in multiple accounts or registered in different names or addresses, please be sure to complete, sign, date and return each proxy card or voting instruction form to ensure that all of your shares will be voted.

Can I revoke or change my vote after I return my proxy card?

If your shares are held in your name, you may revoke or change your vote at any time before the Annual Meeting by either filing with Mark Moshayedi, our Corporate Secretary, at our principal executive offices at 3001 Daimler Street, Santa Ana, California 92705-5812, a written notice (bearing a date later than the date of your original proxy) stating that your proxy is revoked or by signing, dating and returning to us a new proxy card.

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relating to the same shares and bearing a date later than the original proxy. We will honor the proxy card with the latest date. If you attend the Annual Meeting and vote by ballot, any proxy card that you submitted previously to vote the same shares will be revoked automatically and only your vote at the Annual Meeting will be counted.

If your shares are held in street name, you should contact your broker, bank or other nominee to obtain instructions if you wish to revoke or change your vote before the Annual Meeting. Please note that your vote in person at the Annual Meeting will not be effective unless you have obtained and present a proxy card issued in your name from your broker, bank or other nominee.

What constitutes a quorum?

For business to be conducted at the Annual Meeting, a quorum must be present. The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding and entitled to vote on the record date will constitute a quorum. Abstentions and broker non-votes (*i.e.*, shares held by a broker, bank or other nominee that are represented at the Annual Meeting, but with respect to which such broker, bank or other nominee is not instructed to vote on a particular proposal and such broker, bank or other nominee does not have discretionary voting power) will be counted for the purpose of determining whether a quorum is present for the transaction of business. If a quorum is not present, the Annual Meeting will be adjourned to a subsequent date for the purpose of obtaining a quorum.

What vote is required for each proposal?

For Proposal No. 1, the seven nominees receiving the highest number of affirmative votes will be elected as directors. Abstentions and broker non-votes will have no effect on the outcome of the election of nominees for director.

For Proposal No. 2, approval of the 2010 Incentive Award Plan requires the approval of (i) the affirmative vote of a majority of the shares of common stock present or represented by proxy and voting at the Annual Meeting, and (ii) the affirmative vote of a majority of the required quorum. For purposes of this proposal, abstentions and broker non-votes will not affect the outcome under clause (i), which recognizes only actual votes **FOR** or **AGAINST** the proposal. However, abstentions and broker non-votes may affect the outcome under clause (ii) if the number of affirmative votes, though a majority of the votes represented and cast, does not constitute a majority of the voting power required to constitute a quorum.

For Proposal No. 3, ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2010 requires the approval of (i) the affirmative vote of a majority of the shares of common stock present or represented by proxy and voting at the Annual Meeting, and (ii) the affirmative vote of a majority of the required quorum. For purposes of this proposal, abstentions and broker non-votes will not affect the outcome under clause (i), which recognizes only actual votes **FOR** or **AGAINST** the proposal. However, abstentions and broker non-votes may affect the outcome under clause (ii) if the number of affirmative votes, though a majority of the votes represented and cast, does not constitute a majority of the voting power required to constitute a quorum.

Brokers, banks and other nominees that have not received voting instructions from their clients do not have discretionary authority to vote on their clients' behalf on non-routine proposals, but may vote their clients' shares on other proposals. The ratification of the appointment of the independent registered public accounting firm for 2010 is a matter on which a broker or other nominee is generally empowered to vote. Accordingly, no broker non-votes are expected to exist in connection with Proposal No. 3.

Who will count the votes and how will my vote(s) be counted?

All votes will be tabulated by the inspector of election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

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If you are a stockholder of record and if the proxy card is properly signed, dated and returned, the proxy holders named on the proxy card will vote your shares as you instruct. If you sign, date and return the proxy card but do not vote on a proposal, the proxy holders will vote for you on that proposal. Unless you instruct otherwise, the proxy holders will vote **FOR** each of the director nominees, **FOR** Proposal No. 2, and **FOR** Proposal No. 3, and in the discretion of the proxy holders as to any other matters that may properly come before the Annual Meeting.

If you are a street name holder of shares and do not provide voting instructions to your broker or other nominee, your shares will be considered broker non-votes. Broker non-votes occur when a nominee holding shares for a beneficial owner has not received voting instructions from the beneficial owner and does not have discretionary authority to vote the shares. The effect of a broker non-vote is that your shares will not be voted on any proposal on which your broker or other nominee does not have discretionary authority to vote.

Brokers generally have discretionary authority to vote on the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm. Brokers, however, do not have discretionary authority to vote on the election of directors or the approval of the 2010 Incentive Award Plan.

In their discretion, the proxy holders named in the proxy are authorized to vote on any other matters that may properly come before the Annual Meeting and at any continuation, postponement or adjournment thereof. The Board knows of no other items of business that will be presented for consideration at the Annual Meeting other than those described in this proxy statement.

What if other matters arise at the Annual Meeting?

The matters described in this Proxy Statement are the only matters we know will be voted on at the Annual Meeting. If other matters are properly presented at the meeting, the proxy holders will vote your shares as they deem appropriate.

Who pays for this proxy solicitation?

The Company will bear the entire cost of solicitation, including the preparation, assembly, printing and mailing of this Proxy Statement, the proxy and any additional solicitation materials furnished to the shareholders. Copies of solicitation materials will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward this solicitation material to such beneficial owners. The Company may reimburse such persons for their costs in forwarding the solicitation materials to such beneficial owners. The original solicitation of proxies by mail may be supplemented by a solicitation by telephone or other means by directors, officers or employees of the Company. In addition, STEC has retained MacKenzie Partners, Inc. to assist in connection with the solicitation of proxies from shareholders whose shares are held in nominee name by various brokerage firms. We estimate the cost of this solicitation to be \$20,000, plus out-of-pocket costs and expenses.

Who may I contact if I have questions or need assistance voting my shares?

If you have any questions or need assistance in voting your shares, you may contact our proxy solicitors:

MACKENZIE PARTNERS, INC.

105 Madison Avenue

New York, New York 10016

(212) 929-5500 (Call Collect)

or

Call Toll-Free (800) 322-2885

Email: proxy@mackenziepartners.com

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Our Board currently consists of seven persons. Based upon the recommendation of our Nominating and Corporate Governance Committee, the Board has nominated six of the current directors for re-election, and one new director nominee for election, at the Annual Meeting, to serve for a one-year term and until their respective successors have been duly elected and qualified. Dan Moses will not be standing for re-election to the Board at the Annual Meeting. Kevin C. Daly, Ph.D. was initially recommended to the Nominating and Corporate Governance Committee as a potential director nominee by a third-party search firm.

Holders of proxies solicited by this Proxy Statement will vote the proxies received by them as directed on the proxy card or, if no direction is made, the proxy holders will vote **FOR** the election of the seven director nominees named below. Proxies cannot be voted for more than the seven named director nominees.

Each director nominee for election has consented to being named in this Proxy Statement as a nominee for election as a director and has agreed to serve as a director if elected, and we have no reason to believe that any director nominee will be unavailable to serve. If any director nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxy holders will vote for a director nominee designated by the present Board to fill the vacancy.

The names of the director nominees, and certain information about them, are set forth below.

Name	Age	Director Since	Position
Manouch Moshayedi (1)	51	1990	Chief Executive Officer and Chairman of the Board
Mark Moshayedi (1)	48	1992	President, Chief Operating Officer, Chief Technical Officer, Secretary and Director
Rajat Bahri (2)	45	2005	Director
F. Michael Ball (2)	54	2000	Director
Christopher W. Colpitts	42	2009	Director
Kevin C. Daly, Ph.D.	65	N/A	Director Nominee
Matthew L. Witte (2)	52	2009	Director

(1) Member of the Equity Awards Committee

(2) Member of the Audit, Compensation and Nominating and Corporate Governance Committees

Manouch Moshayedi, a co-founder of STEC, has served as our President or Chief Executive Officer and Chairman of the Board since our inception in March 1990. From March 1990 to September 1994, Mr. Moshayedi also served as our Chief Financial Officer. Mr. Moshayedi's distinguished career as a senior executive, including as our President, Chief Executive Officer and Chief Financial Officer, provides the Board with demonstrated leadership capabilities and expertise in management and finance. As our co-founder and Chief Executive Officer, Mr. Moshayedi brings in-depth knowledge, experience and understanding of all facets of our business. The strengths and benefits of Mr. Moshayedi's leadership are reflected in STEC's transformation into a leading provider of enterprise-class Flash solid-state drives (SSDs). Mr. Moshayedi co-founded STEC as a small computer memory company in Santa Ana nearly two decades ago. Since then, under Mr. Moshayedi's continued leadership, STEC has grown into a global engineering and manufacturing company that is a leading provider of SSDs worldwide with 2009 revenue of \$354 million and locations in California, Malaysia, Taiwan, Japan, China, the United Kingdom, Austria, Germany and Italy. Mr. Moshayedi is the brother of Mark Moshayedi, who is an executive officer and director.

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Mark Moshayedi has served as a director since March 1992 and our Chief Operating Officer, Chief Technical Officer and Secretary since January 1995 and our President since March 2007. From June 1994 to December 1994, Mr. Moshayedi served as our President of Research and Development. From April 1992 to June 1994, Mr. Moshayedi served as our Senior Vice President. From March 1992 to March 2007, Mr. Moshayedi held various positions with the Company, including Chief Operating Officer, Chief Technical Officer and Secretary. With over fifteen years of senior management experience at our Company, Mr. Moshayedi brings to the Board proven management skills and knowledge of all aspects of our business. In particular, he contributes expertise in business operations, sales and marketing and product development. As one of our longest standing directors, Mr. Moshayedi provides continuity to the Board in addition to a deep understanding of the strategic and operational issues we face. Mr. Moshayedi's tireless dedication to the Company, experienced leadership skills and drive for innovation and excellence position him well to serve as our President, Chief Operating Officer, Chief Technical Officer, Secretary and as a director. Mr. Moshayedi is the brother of Manouch Moshayedi, who is an executive officer and director.

Rajat Bahri joined STEC as a director and member of our Audit, Compensation and Nominating and Corporate Governance Committees in November 2005. Since January 2005, Mr. Bahri has been Chief Financial Officer of Trimble Navigation Limited, a publicly-traded company that provides advanced positioning product solutions. Prior to joining Trimble, Mr. Bahri served for more than 15 years in various capacities within the financial organization of several subsidiaries of Kraft Foods, Inc. and General Foods Corporation. Most recently, he served as the Chief Financial Officer for Kraft Canada, Inc. From June 2000 to June 2001, Mr. Bahri served as Chief Financial Officer of Kraft Pizza Company. From 1997 to 2000, Mr. Bahri was Operations Controller for Kraft Jacobs Suchard Europe. Mr. Bahri has extensive financial and senior executive management experience with which he contributes to the Board a wealth of knowledge and insight, especially on matters relating to finance and accounting. Mr. Bahri gained his finance and accounting expertise while serving as Chief Financial Officer for Trimble Navigation Limited, where he was responsible for worldwide financial, tax, investor and treasury activities, and during his tenure with Kraft Foods, Inc. and General Foods Corporation. With this experience, Mr. Bahri possesses the financial acumen requisite to serve as a financial expert on our Audit Committee. As Chief Financial Officer of Trimble Navigation Limited, Mr. Bahri has significant exposure to many of the complex issues facing public companies.

F. Michael Ball joined STEC as a director and member of our Audit and Compensation Committees in October 2000. Mr. Ball was appointed as a member of our Nominating and Corporate Governance Committee in February 2004. Mr. Ball has also previously served on the board of directors of Intralase Corp., a publicly-traded medical device company, from July 2006 until April 2007. Since February 2006, Mr. Ball has been President of Allergan, Inc., a publicly-traded pharmaceutical company. From October 2003 to January 2006, Mr. Ball was Executive Vice President and President, Pharmaceuticals, of Allergan, Inc. From April 1996 to September 2003, Mr. Ball was Corporate Vice President and President, North America Region of Allergan, Inc. With his distinguished career at Allergan, Inc., Mr. Ball brings to the Board demonstrated leadership capabilities and a track record of success. He also provides the Board with expertise in business operations and management. With his experience as an executive officer of a large public company, Mr. Ball has significant exposure to many of the complex issues facing large public companies, including on the operational, financial and corporate governance fronts.

Christopher W. Colpitts joined STEC as a director in March 2009. Since May 2006, Mr. Colpitts has been the Managing Director and Global Head of Technology Investment Banking at Deutsche Bank. Prior to this, he spent nine years at Lehman Brothers, most recently as Managing Director and Global Head of Electronics Investment Banking. With his distinguished career in investment banking, Mr. Colpitts contributes to the Board extensive knowledge regarding business strategy, operations and the technology sector. He also provides the Board with valuable financial and investment expertise. His broad experience identifying profitable business opportunities, valuing businesses and advising on financial strategy provides the Board with key insights into effective business operations.

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Kevin C. Daly, Ph.D. has served as Chief Executive Officer of MAXxess Systems, Inc., a provider of electronic security systems, since November 2005. From August 2007 to 2009, Dr. Daly also served as Chief Executive Officer of iStor Networks, Inc., a manufacturer of network storage systems. From 2002 to 2005, Dr. Daly was Chief Executive Officer of Avamar Technologies, Inc., a developer of storage deduplication technology. Avamar was subsequently acquired by EMC Corporation in 2006. Prior to serving as the Chief Executive Officer of Avamar, Dr. Daly was Chief Executive Officer of ATL Products, Inc., a provider of tape automation systems. ATL Products completed an IPO in 1997 and was subsequently acquired by Quantum Corporation. Dr. Daly was Chief Technical Officer of Quantum Corporation's Storage Solutions Group from October 2001 to July 2002. Dr. Daly served as a member of the Boards of Directors of Danka Business Systems, PLC, a provider of comprehensive document solutions, from 2002 to 2008 and iStor Networks, Inc. from 2002 to 2009. Dr. Daly is currently a member of the Boards of Directors of Iteris, Inc., a provider of traffic management solutions, and Project Tomorrow, a national education non-profit group based in Irvine, California. Having served as a senior officer of several companies, including companies involved in the storage systems technology industry, Dr. Daly offers to the Board a wealth of management and leadership experience as well as a deep understanding of our industry.

Matthew L. Witte joined STEC as a director and member of our Audit, Compensation and Nominating and Corporate Governance Committees in January 2009. Mr. Witte is a founding partner of Marwit Capital, LLC, a private equity firm with which he has been affiliated since January 1994. In addition, Mr. Witte is currently one of two Managing Partners of the firm's current fund, Marwit Capital Partners II, L.P., where he is responsible for the fund's management and final investment decisions. Mr. Witte brings to the Board extensive investing, management and entrepreneurial experience, making him a key member of our Board. Mr. Witte's expertise in finance and investment strategy make him a valuable contributor to discussions and deliberations involving many of the strategic, financial and operational issues we face. Mr. Witte is adept at identifying and evaluating business opportunities that can contribute to the growth of our Company. In addition, Mr. Witte has considerable directorial and governance experience and, in February of 2009, he was recognized as Director of the Year for Early Stage Companies by the Forum for Corporate Directors.

Recommendation of the Board of Directors

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE ELECTION OF THE DIRECTOR NOMINEES NAMED ABOVE.

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COMPENSATION OF NON-EMPLOYEE DIRECTORS

Overview

The Compensation Committee recommends to the Board the form and amount of compensation for non-employee directors. We do not provide compensation to the employee members of our Board for their service on the Board or for attendance at meetings of committees of the Board on which they serve. Therefore, Manouch Moshayedi and Mark Moshayedi were not paid for their service as directors in 2009. All compensation paid to Messrs. Manouch and Mark Moshayedi during the year ended December 31, 2009 is reported in the Summary Compensation Table in the Executive Compensation and Related Information section of this Proxy Statement.

Our compensation for our non-employee directors for 2009 was comprised of both cash compensation, in the form of meeting fees, and equity compensation, in the form of option grants. Each of these components is described in more detail below.

Meeting Fees

During fiscal year 2009, non-employee members of our Board received the compensation described below for their service on the Board and its committees.

Board Meetings: Each non-employee director received \$5,000 for attendance in person at each regular meeting of our Board.

Audit Committee Meetings: The chair of the Audit Committee received \$2,000 for each regular meeting over which he presided in person and the remaining members of the Audit Committee each received \$1,000 for each regular meeting attended in person.

Compensation Committee Meetings: The chair of the Compensation Committee received \$2,000 for each regular meeting over which he presided in person and the remaining members of the Compensation Committee each received \$1,000 for each regular meeting attended in person.

Nominating and Corporate Governance Committee Meetings: Members of the Nominating and Corporate Governance Committee each received \$1,000 for each regular meeting attended in person.

In addition to the meeting fees, our non-employee Board members are reimbursed for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of the Board and committees of the Board.

In February 2010, the Compensation Committee recommended, and our Board approved and adopted, changes in the compensation paid to our non-employee directors for their service on the Board and its committees. In order to achieve what it believed to be a more optimal mix of cash and equity compensation, the Compensation Committee recommended a decrease in the equity compensation paid to non-employee directors while increasing the cash compensation. Specifically, each non-employee director will receive \$15,000 for attendance in person at each regular meeting of the Board; the chairs of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee will each receive \$2,000 for each regular meeting over which they preside in person; and non-chair members of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee will each receive \$1,000 for each regular meeting attended in person. In addition, non-employee directors will receive certain annual stock option grants, as described in greater detail below in the section entitled Equity Compensation.

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Equity Compensation

Non-employee Board members are eligible to receive options, restricted stock units and other stock-based awards, as determined by a majority of the disinterested members of the Board. Under the Automatic Option Grant Program of our 2000 Stock Incentive Plan, which expired on February 28, 2010, non-employee Board members received, upon their initial election or appointment to the Board, an automatic option grant to purchase 30,000 shares of common stock. The options have an exercise price equal to the fair market value of the option shares on the grant date and a term of ten years measured from the grant date, subject to earlier termination following the optionee's cessation of service on the Board. The options are immediately exercisable for all of the option shares; however, we may repurchase, at the exercise price paid per share, any shares purchased under the option that are not vested at the time of the optionee's cessation of Board service. The shares subject to options granted upon an initial election vest in a series of five successive equal annual installments upon the optionee's completion of each year of Board service over the five-year period measured from the date of grant. However, the shares immediately vest in full upon certain changes in control or ownership of STEC or upon the optionee's death or disability while serving as a member of the Board.

Pursuant to a pre-existing policy adopted by the Board, at the 2009 annual meeting of shareholders on May 27, 2009, each of our non-employee directors re-elected to the Board received a stock option grant to purchase 30,000 shares of common stock under our 2000 Stock Incentive Plan. Each stock option has an exercise price per share equal to the fair market value of the common stock as measured by the closing price of the common stock as reported on the Nasdaq Stock Market on the date of the annual meeting, which was \$16.62. The stock options will vest and become exercisable in a series of four successive equal annual installments upon the non-employee director's completion of each year of Board service over the four-year period measured from the date of grant. The stock options will have a term of ten years measured from the grant date, subject to earlier termination following the non-employee director's cessation of service on the Board. The stock options will immediately vest in full upon certain changes in control or ownership of STEC.

Pursuant to the 2010 Incentive Award Plan (the "2010 Plan"), which the Board has adopted and is subject to shareholder approval at the Annual Meeting, a non-employee director will receive, upon his or her initial election or appointment to the Board, an automatic option grant to purchase 30,000 shares of STEC common stock and automatic option grants to purchase 15,000 shares of STEC common stock per year for each year of service on the Board thereafter. The option grant will have an exercise price equal to the fair market value of the option shares on the grant date and will have a term of ten years measured from the grant date, subject to earlier termination following the optionee's cessation of service on the Board. The shares subject to each automatic option grant vest in a series of four successive equal annual installments upon the optionee's completion of each year of Board service over the four-year period measured from the date of grant. See Proposal No. 2: Approval Of The 2010 Incentive Award Plan, for additional information regarding the terms of the 2010 Plan.

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Director Compensation Table

The following table sets forth information regarding the compensation to persons who served as non-employee directors during the year ended December 31, 2009. We do not provide compensation to the employee members of our Board for their service on the Board or for attendance at meetings of committees of the Board on which they serve. Accordingly, the information presented shall be with respect to our non-employee directors.

Name	Fees Earned or Paid in Cash (\$)	Option Awards \$(2)(3)	Total (\$)
Rajat Bahri	\$ 36,000	\$ 296,400	\$ 332,400
F. Michael Ball	\$ 36,000	\$ 296,400	\$ 332,400
Christopher W. Colpitts (1)	\$ 24,000	\$ 390,600	\$ 414,600
Dan Moses	\$ 20,000	\$ 296,400	\$ 316,400
Matthew L. Witte	\$ 34,000	\$ 369,600	\$ 403,600
James J. Peterson (1)	\$ 0	\$ 0	\$ 0

- (1) Mr. James J. Peterson resigned from the Board effective as of March 5, 2009. Mr. Peterson did not receive any compensation for his service on the Board during 2009. Mr. Christopher W. Colpitts was appointed to succeed Mr. Peterson effective as of March 5, 2009.
- (2) The amounts shown equal the grant date fair value of the option awards computed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718, Compensation Stock Compensation. The assumptions used to calculate the grant date fair value are set forth in Note 11 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 23, 2010.
- (3) The following table sets forth the number of vested and unvested options held by each of our non-employee directors as of December 31, 2009. None of our non-employee directors held any unvested stock awards as of December 31, 2009.

Name	Options Outstanding at 12/31/2009
Rajat Bahri	90,000
F. Michael Ball	200,000
Christopher W. Colpitts	60,000
Dan Moses	130,000
Matthew L. Witte	60,000
James J. Peterson	0

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The following table sets forth certain information regarding our executive officers and directors as of April 1, 2010.

Name	Age	Position
Manouch Moshayedi (1)	51	Chief Executive Officer and Chairman of the Board
Mark Moshayedi (1)	48	President, Chief Operating Officer, Chief Technical Officer, Secretary and Director
Raymond Cook	49	Chief Financial Officer
Rajat Bahri (2)	45	Director
F. Michael Ball (2)	54	Director
Christopher W. Colpitts	42	Director
Dan Moses (3)	42	Director
Matthew L. Witte (2)	52	Director

(1) Member of the Equity Awards Committee

(2) Member of the Audit, Compensation and Nominating and Corporate Governance Committees

(3) Mr. Moses will not be standing for re-election to the Board at the Annual Meeting.

Manouch Moshayedi. See Proposal No. 1: Election of Directors for Mr. Moshayedi's biography.

Mark Moshayedi. See Proposal No. 1: Election of Directors for Mr. Moshayedi's biography.

Raymond Cook has served as our Chief Financial Officer since November 2008. From May 2005 to November 2008, Mr. Cook was the Vice President of Finance and Corporate Controller at Mindspeed Technologies, Inc., a publicly-traded semiconductor networking solutions provider. Mr. Cook also served as interim Chief Financial Officer for Mindspeed from April 2008 to July 2008. From July 2003 to May 2005, Mr. Cook served as Mindspeed's Executive Director Controller. From April 1999 to July 2003, Mr. Cook was the Executive Director, Accounting/External Reporting for Conexant Systems, Inc., a provider of solutions for imaging, video, audio, and Internet connectivity applications.

Rajat Bahri. See Proposal No. 1: Election of Directors for Mr. Bahri's biography.

F. Michael Ball. See Proposal No. 1: Election of Directors for Mr. Ball's biography.

Christopher W. Colpitts. See Proposal No. 1: Election of Directors for Mr. Colpitts' biography.

Dan Moses served as our Chief Financial Officer from August 1994 and Executive Vice President from August 2006 until his retirement from those positions in November 2008. Mr. Moses remained employed with STEC from November 2008 to January 2009 to assist in the transition of his successor. Mr. Moses has served as a director since March 2000 and will not be standing for re-election at the Annual Meeting. From October 1992 to August 1994, Mr. Moses served as our Controller. Before joining STEC, Mr. Moses was a Senior Auditor with PricewaterhouseCoopers LLP from June 1990 to October 1992.

Matthew L. Witte. See Proposal No. 1: Election of Directors for Mr. Witte's biography.

Relationships Among Executive Officers and Directors

Our executive officers are elected by the Board on an annual basis and serve until the next annual meeting of shareholders and until their successors have been duly elected and qualified. Except as otherwise disclosed in their respective biographies, there are no family relationships

among any of the directors or executive officers of STEC.

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CORPORATE GOVERNANCE

Director Independence

In determining whether or not a director or director nominee is independent, STEC uses the standards for director independence pursuant to Nasdaq listing standards. Our Board concluded that Rajat Bahri, F. Michael Ball, Christopher W. Colpitts, Kevin C. Daly, Ph.D. and Matthew L. Witte, all of whom are current non-employee directors or director nominees, are independent directors under Nasdaq rules. In determining that each of the non-employee directors and director nominee is independent, our Board considered, among other things, the types and amounts of the commercial dealings, if any, between us and the companies and organizations with which the non-employee directors and director nominee are affiliated. In making its determination, our Board considered the fact that Mr. Colpitts is the Managing Director and Global Head of Technology Investment Banking at Deutsche Bank. STEC engages a different division of Deutsche Bank to provide cash management services. The fees paid to Deutsche Bank for cash management services do not benefit the investment banking division or Mr. Colpitts. On August 3, 2009, Deutsche Bank Securities Inc. acted as an underwriter in the offering by STEC's shareholders of 10,350,000 shares of common stock. See the discussion under Certain Relationships and Related Transactions Related Persons Transactions Deutsche Bank Securities. Our Board determined that these relationships would not interfere with the exercise of independent judgment by Mr. Colpitts in carrying out his responsibilities as a director. Manouch Moshayedi and Mark Moshayedi did not qualify as independent directors because they are employees of STEC. Dan Moses did not qualify as an independent director because he was previously an employee of STEC.

In addition, our Board has also determined that:

all directors who serve on the Audit, Compensation, and Nominating and Corporate Governance Committees are independent under Nasdaq rules, and

all members of the Audit Committee meet the additional criteria for independence of Audit Committee members set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended.

The independent directors meet regularly in executive sessions without the presence of the non-independent directors or members of our management at least twice per year and from time to time as they deem necessary or appropriate.

Board of Directors

Our Board is currently comprised of seven members. Each director currently serves until the next annual meeting of shareholders or until his successor is duly elected and qualified. At each annual meeting of shareholders, the directors' successors will be elected to serve until the next annual meeting of shareholders. In addition, our bylaws provide that the authorized number of directors will be between four and seven, with the exact number to be determined by a majority of our Board or shareholders.

Board Meetings

Our Board held eight meetings in 2009 and also acted at various times by unanimous written consent without a meeting. Members of our Board and its committees also consulted informally with management from time to time during 2009. All of our directors attended or participated in 75% or more of the aggregate of the total number of meetings of our Board during 2009 and the total number of meetings held by all committees of our Board on which each such director served, during the period for which each such director served.

Policy Regarding Attendance of Directors at the Annual Meeting of Shareholders

Although we do not have a policy with regard to attendance by members of the Board at our annual meeting of shareholders, it is customary for all members of the Board to attend. Manouch Moshayedi, Mark Moshayedi, F. Michael Ball, Dan Moses and Matthew Witte were present for our 2009 annual meeting held on May 27, 2009.

Table of Contents**Board Committees**

Our Board has four standing committees: the Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Equity Awards Committee. The Audit Committee, Compensation Committee and the Nominating and Corporate Governance Committee have written charters approved by the Board. A copy of each charter can be found under the Corporate Governance tab of the Investor Relations section of our website at <http://www.stec-inc.com>. The current members of each committee are identified in the following table. Except as noted below the current members were also the members of the committees during fiscal 2009.

Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee	Equity Awards Committee
Manouch Moshayedi				Chair
Mark Moshayedi				X
F. Michael Ball	X	Chair	X	
Rajat Bahri	Chair	X	X	
Christopher Colpitts (1)				
Matthew Witte	X	X	Chair	

(1) Mr. Colpitts served as a member of the Compensation Committee and Nominating and Corporate Governance Committee from May 2009 until February 2010.

Audit Committee The Audit Committee is responsible for reviewing financial information which will be provided to shareholders and others, the systems of internal controls which management and our Board have established, the performance and selection of our independent registered public accounting firm, our audit and financial reporting processes, and our accounting practices. The Audit Committee operates under a written charter adopted by our Board, and the Audit Committee reviews and confirms the adequacy of such charter on an annual basis. Our Audit Committee met in February 2010 in connection with the audit of our 2009 financial statements. During 2009, our Audit Committee held eight meetings and also acted at various times by unanimous written consent without a meeting. The Board has determined that Mr. Bahri is an audit committee financial expert as defined in Item 407(d)(5) of Regulation S-K and that each member of the Audit Committee satisfies the financial sophistication requirements of the Nasdaq listing standards.

Compensation Committee The Compensation Committee is responsible for the design, review, recommendation and approval of compensation arrangements for our directors, executive officers and key employees. The Compensation Committee will also be responsible for the administration of the 2010 Plan, if approved, including the approval of grants under such plan to our employees, consultants and directors. During 2009, our Compensation Committee held seven meetings and also acted at various times by unanimous written consent without a meeting. Our Chief Executive Officer makes recommendations to the Compensation Committee regarding our other executive officers compensation based on his evaluation of the performance of each other executive officer.

The Compensation Committee has the sole authority to retain consultants and advisors as it may deem appropriate in its discretion and to approve related fees and other retention terms. The Compensation Committee engaged Radford Surveys + Consulting, an Aon Consulting Company (Radford), beginning in 2008 as its independent compensation consultant. Radford was retained to conduct a review and analysis of our executive compensation program and to provide advice and recommendations on competitive market practices and the appropriateness and merit of specific compensation decisions. Radford participates in meetings with the Compensation Committee and also communicates with the Chair of the Compensation Committee outside of meetings. Radford has not provided any other services to us nor have they received any compensation other than with respect to the services provided to the Compensation Committee.

For additional information on the role of the Compensation Committee and Radford, see Compensation Discussion and Analysis Role of the Compensation Committee, Executive Officers and the Consultant.

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Nominating and Corporate Governance Committee The Nominating and Corporate Governance Committee is responsible for overseeing, reviewing and making periodic recommendations concerning STEC's corporate governance policies and for recommending to the Board candidates for election to the Board. During 2009, our Nominating and Corporate Governance Committee held five meetings. The Nominating and Corporate Governance Committee recommended to the Board the nomination of directors for the 2010 Annual Meeting. In evaluating a potential candidate for membership on the Board, the Nominating and Corporate Governance Committee considers, among other factors, that STEC should have a sufficient number of directors to reflect a diversity of perspectives, backgrounds and experiences. The assessment of potential candidates includes an examination of the individual's achievement in their professional careers, educational background, financial acumen, past experience as a director, diversity, board experience, wisdom, integrity, demonstrated character and judgment, analytical abilities, understanding of the business environment (including knowledge of the memory and/or technology industries), skills and experience in the context of the needs of the Board and willingness to devote adequate time to Board duties. Based on the composition of the Board and our Company's needs, the Nominating and Corporate Governance Committee will also consider whether the candidate qualifies as an independent director under the Nasdaq listing standards. Other than the foregoing, there are no stated minimum criteria for director nominees, although the Nominating and Corporate Governance Committee may also consider such other factors as it may deem are in the best interests of our shareholders and us. Evaluations of candidates generally involve a review of background materials, internal discussions and interviews with selected candidates as appropriate. Upon selection of a qualified candidate, the Nominating and Corporate Governance Committee would recommend the candidate for consideration by the Board. In addition, in accordance with the authority granted to it under the committee charter, in February 2010 the Nominating and Corporate Governance Committee retained a global executive search firm to assist with the identification of candidates to serve on the Board.

The Nominating and Corporate Governance Committee will also consider recommendations for nominees to the Board submitted by shareholders. There are no differences in the manner in which the Nominating and Corporate Governance Committee evaluates nominees for director based on whether the nominee is recommended by a shareholder. Shareholders who wish the Nominating and Corporate Governance Committee to consider their recommendations for nominees for the position of director should submit the candidate's name, appropriate biographical information, a brief description of such candidate's qualifications and such candidate's written consent to nomination to the Nominating and Corporate Governance Committee in care of Mark Moshayedi, Corporate Secretary, at the following address: STEC, Inc., 3001 Daimler Street, Santa Ana, California 92705-5812.

Equity Awards Committee The Equity Awards Committee has separate but concurrent jurisdiction with the Compensation Committee to make option grants, restricted stock unit and other stock-based awards under the 2010 Plan, if approved, as under the now-expired 2000 Stock Incentive Plan, to eligible individuals other than executive officers and the non-employee members of our Board. The Equity Awards Committee held no meetings in 2009, but acted at various times by unanimous written consent without a meeting. The Equity Awards Committee does not operate under a formal written charter.

Our Board may establish other committees to facilitate the management of our business.

Board Leadership Structure

Our Board believes the positions of Chief Executive Officer and Chairman of the Board should be combined to provide unified leadership and direction. Our Board reserves the right to adopt a different policy should circumstances change. The Chief Executive Officer/Chairman works closely with the entire Board and has regular substantive communications with Mr. Matthew L. Witte, the Chair of the Nominating and Corporate Governance Committee.

Our Board believes that it is currently in STEC's best interest to have Mr. Manouch Moshayedi serve as Chairman and Chief Executive Officer for the following reasons. The Chief Executive Officer serves as a bridge

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between management and the Board, ensuring that both groups act with a common purpose. Mr. Moshayedi's wealth of knowledge regarding our operations and industries and the markets in which we compete positions him to best identify matters for Board review and deliberation. Additionally, the combined role of Chairman and Chief Executive Officer facilitates centralized Board leadership in one person so there is no ambiguity about accountability. This structure also eliminates conflict between two leaders and minimizes the likelihood of two spokespersons sending different messages. We believe that our current leadership structure enhances the Chief Executive Officer/Chairman's ability to provide insight and direction on important strategic initiatives simultaneously to both management and the independent directors.

Risk Oversight

Our Board oversees our risk management process that is designed to support the achievement of organizational objectives and to improve long-term organizational performance and enhance shareholder value. Management is responsible for establishing our business strategy, identifying and assessing the related risks and establishing appropriate risk management practices. Our Board reviews our business strategy and management's assessment of the related risks and discusses with management the appropriate level of risk for the Company. While our Board has the ultimate oversight responsibility for the risk management process, various committees of the Board also have the authority and obligation to discuss with management, and assist the Board with, our policies regarding risk assessment and exposure and our management and oversight of risk. For example, the Audit Committee focuses on financial risk exposures, while the Compensation Committee reviews risks related to our compensation plans, policies and programs.

During the first quarter of 2010, we reviewed our compensation policies and practices to determine whether any risks arising from our compensation policies and practices for employees are reasonably likely to have a material adverse effect on STEC. The review included an assessment of the various incentive and other compensation programs and practices throughout STEC and the processes for implementing these programs. We believe that our compensation policies and practices for employees do not present any risk that is reasonably likely to have a material adverse effect on STEC.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to our employees (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) and directors. A copy of our Code of Business Conduct and Ethics can be found under the Corporate Governance tab of the Investor Relations section of our website at <http://www.stec-inc.com>. The information on our website is not incorporated by reference in this Proxy Statement. We may post amendments to or waivers of the provisions of the Code of Business Conduct and Ethics, if any, made with respect to any of our directors and executive officers on that website.

Shareholder Communications with the Board of Directors

Shareholders can contact our Board through written communication sent by certified mail to the Board of Directors, c/o Corporate Secretary, STEC, Inc., 3001 Daimler Street, Santa Ana, California 92705-5812. Our Corporate Secretary will forward all correspondence to the Board, except for junk mail, mass mailings, product complaints or inquiries, job inquiries, surveys, business solicitations or advertisements, or patently offensive or otherwise inappropriate material. Our Corporate Secretary may forward certain correspondence, such as product-related inquiries, elsewhere within STEC for review and possible response. From time to time our Board may change the process by which shareholders may communicate with the Board. Such changes will be posted to our website at <http://www.stec-inc.com>.

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Corporate Governance Documentation; How to Obtain Copies

STEC is committed to having high standards of corporate governance. Current copies of the following materials related to STEC's corporate standards and practices are available publicly under the Corporate Governance tab of the Investor Relations section of our website at <http://www.stec-inc.com>:

Corporate Governance Guidelines

Audit Committee Charter

Compensation Committee Charter

Nominating and Corporate Governance Committee Charter

Code of Business Conduct and Ethics

Information on Board and Committee membership and biographies of Board members

Compensation Committee Interlocks and Insider Participation

During fiscal year 2009, Messrs. Bahri, Ball, Colpitts and Witte served as members of our Compensation Committee. None of these members of the Compensation Committee has at any time been an officer or employee of STEC.

Except as indicated below, during fiscal year 2009, no executive officer had an interlock relationship, as the term is defined by the Securities and Exchange Commission.

Manouch Moshayedi and Mark Moshayedi each have a one-third ownership interest in MDC Land Corporation, MDC Land LLC, and QualCenter, Inc., all of which are privately-held entities. In addition, Manouch Moshayedi and Mark Moshayedi are both a director, executive officer and/or manager of each of these companies.

STEC occupies two leased facilities of approximately 24,500 and 48,600 square feet, in Santa Ana, California, in which our executive offices, sales and marketing and research and development operations are located. STEC leases both facilities from MDC Land LLC. In addition, QualCenter, Inc. leases a facility in Houston, Texas from MDC Land LLC. MDC Land LLC has no operations other than its leasing transactions with us.

24,500 square foot facility. The lease for the 24,500 square foot facility expires in July 2017. Beginning August 1, 2007, the monthly base rent was adjusted to approximately \$20,000 based on the change in the Consumer Price Index. For the remainder of the lease, base rent shall be adjusted every two years based on the change in the Consumer Price Index. The monthly base rent was approximately \$20,000 per month during 2009. STEC believes its lease of the 24,500 square foot facility with MDC Land LLC is on terms no less favorable to it than could be obtained from an unaffiliated third party.

48,600 square foot facility. The lease for the 48,600 square foot facility expires in July 2017. Beginning August 1, 2007, the monthly base rent was adjusted to approximately \$34,000 based on the change in the Consumer Price Index. For the remainder of the lease, base rent shall be adjusted every two years based on the change in the Consumer Price Index. The monthly base rent was approximately \$34,000 per month during 2009. STEC believes its lease of the 48,600 square foot facility with MDC Land LLC is on terms no less favorable to it than could be obtained from an unaffiliated third party.

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Total outstanding remaining lease payments due on or after January 1, 2010 under both the 24,500 and 48,600 square foot facilities at current lease rates is approximately \$4,868,000. Total base rents in 2009 for both the 24,500 and 48,600 square foot facilities were approximately \$640,000.

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Forward Looking Statements

This proxy statement contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements relate to expectations concerning matters that are not historical facts. These forward-looking statements include, but are not limited to, statements related to risks associated with our compensation programs. Readers are cautioned that these forward-looking statements are based on current expectations and are subject to risks, uncertainties, and assumptions that are difficult to predict. We undertake no obligation to revise or update any forward-looking statements for any reason. Forward-looking statements should be evaluated together with the many uncertainties that affect our business, particularly those mentioned in the risk factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009 and in our periodic reports on Form 10-Q and Form 8-K.

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PROPOSAL NO. 2

APPROVAL OF THE 2010 INCENTIVE AWARD PLAN

We are asking you to approve the STEC, Inc. 2010 Incentive Award Plan (the 2010 Plan). Our Board has adopted, subject to shareholder approval, the 2010 Plan for members of our Board, the employees and consultants of STEC and its subsidiaries and affiliates. The Board approved the 2010 Plan on March 26, 2010, subject to approval by our shareholders. The 2010 Plan is intended to replace the 2000 Stock Incentive Plan. The 2000 Stock Incentive Plan expired pursuant to its terms on February 28, 2010, and no further shares may be issued under the 2000 Stock Incentive Plan. The 2010 Plan will become effective if the 2010 Plan is approved by the affirmative vote of a majority of the votes cast with respect to the proposal by the shares present in person or represented by proxy and entitled to vote thereon at the Annual Meeting. A majority of votes cast means that the number of votes FOR the approval of the 2010 Plan must exceed the number of votes AGAINST the approval of the 2010 Plan.

The principal features of the 2010 Plan are summarized below for the convenience and information of our shareholders. This description is qualified in its entirety by reference to the 2010 Plan, which is attached to this Proxy Statement as Appendix A.

Introduction

Shareholder Approval Requirement

Shareholder approval of the 2010 Plan is necessary in order for STEC to (1) meet the shareholder approval requirements of Nasdaq, (2) take tax deductions for certain compensation resulting from awards granted thereunder qualifying as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and (3) grant incentive stock options thereunder.

Highlights of the 2010 Plan

The 2010 Plan authorizes the Compensation Committee of the Board (or, if the Board determines, another committee of the Board) to provide equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalents, deferred stock, stock payments, performance awards and other incentive awards structured by the Compensation Committee within parameters set forth in the 2010 Plan, for the purpose of providing STEC's directors, officers, employees and consultants equity compensation, incentives and rewards for superior performance. Some of the key features of the 2010 Plan that reflect STEC's commitment to effective management of incentive compensation are as follows:

Limitations on Grants. Subject to adjustment for equity restructurings and certain other corporate transactions as described below, the issuance of rights and certain other events described in the 2010 Plan, in addition to the share limitations described below under *Limitation on Awards and Shares Available*, the number of shares that may be issued or transferred by STEC upon the exercise of incentive stock options may not exceed 4,600,000 in the aggregate.

No Repricing or Replacement of Options or Stock Appreciation Rights. The 2010 Plan prohibits, without shareholder approval: (i) the amendment of options or stock appreciation rights to reduce the exercise price, and (ii) the replacement of an option or stock appreciation right with cash or any other award when the price per share of the option or stock appreciation right exceeds the fair market value of the underlying shares.

No In-the-Money Option or Stock Appreciation Right Grants. The 2010 Plan prohibits the grant of options or stock appreciation rights with an exercise or base price less than the fair market value of STEC common stock, generally the closing price of STEC common stock, on the date of grant.

Section 162(m) Qualification. The 2010 Plan is designed to allow awards made under the 2010 Plan, including incentive bonuses, to qualify as performance-based compensation under Section 162(m) of the Code.

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Independent Administration. The Compensation Committee of the Board, which consists of only independent directors, will administer the 2010 Plan if it is approved by shareholders.

Administration

The 2010 Plan will be administered by the Compensation Committee. The Compensation Committee may delegate to a committee of one or more members of the Board or one or more of STEC's officers the authority to grant or amend awards to participants other than STEC's senior executives who are subject to Section 16 of the Exchange Act or employees who are covered employees within the meaning of Section 162(m) of the Code, and the regulations thereunder. Unless otherwise determined by the Board, the Compensation Committee shall consist solely of two or more non-employee directors appointed by and holding office at the pleasure of the Board, each of whom is an outside director within the meaning of Section 162(m) of the Code, a Non-Employee Director, and an independent director under the rules of Nasdaq (or other principal securities market on which shares of STEC common stock are traded).

The Compensation Committee will have the authority to administer the 2010 Plan, including the power to determine eligibility, the types and sizes of awards, the price and timing of awards and the acceleration or waiver of any vesting restriction, as well as the authority to delegate such administrative responsibilities.

Eligibility

Persons eligible to participate in the 2010 Plan include all non-employee members of the Board, consisting of seven directors following the 2010 Annual Meeting, the approximately 780 employees of STEC and its subsidiaries and affiliates, and consultants, as determined by the Compensation Committee.

Limitation on Awards and Shares Available

An aggregate of 4,600,000 shares of STEC common stock are available for grant pursuant to the 2010 Plan. Any shares that are subject to awards of options or stock appreciation rights under the 2010 Plan will be counted against this limit as one (1) share for every one (1) share granted. Any shares that are subject to awards other than options or stock appreciation rights under the 2010 Plan (full value awards) will be counted against this limit as 1.32 shares for every one (1) share granted. The shares of STEC common stock covered by the 2010 Plan may be treasury shares, authorized but unissued shares, or shares purchased in the open market.

If any shares subject to an award under the 2010 Plan are forfeited or expire or an award under the 2010 Plan is settled for cash, then any shares subject to such award may, to the extent of such forfeiture, expiration or cash settlement, be used again for new grants under the 2010 Plan. However, any shares tendered or withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any award, any shares subject to a stock appreciation right that are not issued in connection with the stock settlement of the stock appreciation right on its exercise, and any shares purchased on the open market with the cash proceeds from the exercise of options may not be used again for new grants.

Awards granted under the 2010 Plan upon the assumption of, or in substitution for, outstanding equity awards previously granted by an entity in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock (but not awards made in connection with the cancellation and repricing of an option or stock appreciation right) (Substitute Awards) will not reduce the shares authorized for grant under the 2010 Plan. Additionally, in the event that a company acquired by STEC or any of its subsidiaries or affiliates or with which STEC or any of its subsidiaries or affiliates combines has shares available under a pre-existing plan approved by shareholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan may be used for awards under the 2010 Plan and will not reduce the shares authorized for grant under the 2010 Plan, absent the acquisition or combination, and will only be made to individuals who were not employed by or providing services to STEC or any of its subsidiaries or affiliates immediately prior to such acquisition or combination.

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Any shares that again become available for grant will be added back as (i) one (1) share if such shares were subject to an option or stock appreciation right granted under the 2010 Plan, and (ii) as 1.32 shares if such shares were subject to full value awards granted under the 2010 Plan.

The maximum number of shares of STEC common stock that may be subject to one or more awards granted to any one participant pursuant to the 2010 Plan during any calendar year is 1,000,000 and the maximum amount that may be paid in cash to any one participant during any calendar year with respect to any awards payable in cash is \$2,000,000.

Awards

The 2010 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, dividend equivalents, stock payments, deferred stock units, performance awards and other incentive awards. Except with respect to automatic grants of nonqualified stock options to new non-employee directors (as discussed further below), no determination has been made as to the types or amounts of awards that will be granted to specific individuals pursuant to the 2010 Plan. See the Summary Compensation Table and Grants of Plan-Based Awards Table provided elsewhere in this Proxy Statement for information on awards granted under the 2000 Stock Incentive Plan (as amended and restated through April 17, 2006) to STEC's named executive officers identified in those tables.

Stock options, including incentive stock options, as defined under Section 422 of the Code, and nonqualified stock options may be granted pursuant to the 2010 Plan. The option exercise price of all stock options granted pursuant to the 2010 Plan will not be less than 100% of the fair market value of STEC common stock on the date of grant. Stock options may be exercised as determined by the Compensation Committee, but in no event may a stock option have a term extending beyond the tenth anniversary of the date of grant. Incentive stock options granted to any person who owns, as of the date of grant, stock possessing more than ten percent of the total combined voting power of all classes of STEC stock, however, shall have an exercise price that is not less than 110% of the fair market value of STEC common stock on the date of grant and may not have a term extending beyond the fifth anniversary of the date of grant. The aggregate fair market value of the shares with respect to which options intended to be incentive stock options are exercisable for the first time by an employee in any calendar year may not exceed \$100,000, or such other amount as the Code provides. Under the 2010 Plan, an individual who first becomes a non-employee director will automatically be granted a nonqualified stock option to purchase 30,000 shares of STEC common stock. In addition, beginning with the annual meeting of shareholders that occurs after each non-employee director's first anniversary of election to our Board, such non-employee director will automatically be granted a nonqualified stock option to purchase 15,000 shares of STEC common stock immediately following each annual meeting of shareholders. The exercise price per share will equal 100% of the fair market value of STEC common stock on the date of grant. Each nonqualified stock option granted to non-employee directors will vest in equal annual installments over four years from the date of grant, and the shares underlying each nonqualified stock option granted to initial non-employee directors will automatically vest in full upon such non-employee director's death or disability.

Restricted stock may be granted pursuant to the 2010 Plan. A restricted stock award is the grant of shares of STEC common stock at a price determined by the Compensation Committee, that is nontransferable and may be subject to substantial risk of forfeiture until specific conditions are met. Conditions may be based on continuing service to STEC or any of its subsidiaries or affiliates or achieving performance goals. During the period of restriction, all shares of restricted stock will be subject to restrictions and vesting requirements, as provided by the Compensation Committee. The restrictions will lapse in accordance with a schedule or other conditions determined by the Compensation Committee. Restricted stock may not be sold or encumbered until all restrictions are terminated or expire.

The other types of equity awards that may be granted under the 2010 Plan include performance awards, dividend equivalents, deferred stock units, stock payments, restricted stock units, stock appreciation rights and other incentive awards.

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Performance awards may be granted in the form of cash bonus awards, stock bonus awards, performance awards or incentive awards that are paid in cash, shares or a combination of both. The value of performance awards may be linked to any one or more of the performance criteria listed below, or other specific criteria determined by the Compensation Committee, in each case on a specified date or dates or over any period or periods determined by the Compensation Committee. Performance awards granted in the form of a cash bonus may be payable upon the attainment of pre-established performance goals based on established performance criteria. The goals are established and evaluated by the Compensation Committee and may relate to performance over any periods as determined by the Compensation Committee. The Compensation Committee will determine whether performance awards are intended to be performance-based compensation within the meaning of Section 162(m) of the Code. Following is a brief discussion of the requirements for awards to be treated as performance-based compensation within the meaning of Section 162(m) of the Code.

The Compensation Committee may grant awards to employees who are or may be covered employees, as defined in Section 162(m) of the Code, that are intended to be performance-based compensation within the meaning of Section 162(m) of the Code in order to preserve the deductibility of these awards for federal income tax purposes. Under the 2010 Plan, these performance-based awards may be either equity awards or performance bonus awards. Participants are only entitled to receive payment for a Section 162(m) performance-based award for any given performance period to the extent that pre-established performance goals set by the Board for the period are satisfied. These pre-established performance goals must be based on one or more of the following performance criteria:

net earnings (either before or after interest, taxes, depreciation and amortization),

gross or net sales or revenue,

net income (either before or after taxes),

adjusted net income,

operating earnings or profit,

cash flow (including, but not limited to, operating cash flow and free cash flow),

return on assets,

return on capital,

return on shareholders' equity,

total stockholder return,

return on sales,

gross or net profit or operating margin,

costs,

funds from operations,

expenses,

working capital,

earnings per share,

adjusted earnings per share,

price per share of STEC common stock,

regulatory body approval for commercialization of a product,

implementation or completion of critical projects,

market share, and

economic value,

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any of which may be measured with respect to us, or any subsidiary, affiliate or other business unit of STEC s, either in absolute terms, terms of growth or as compared to any incremental increase, as compared to results of a peer group or to market performance indicators or indices. The Compensation Committee will define in an objective fashion the manner of calculating the performance criteria it selects to use for such awards. With regard to a particular performance period, the Compensation Committee will have the discretion to select the length of the performance period, the type of performance-based awards to be granted, and the goals that will be used to measure the performance for the period. In determining the actual size of an individual performance-based award for a performance period, the Compensation Committee may reduce or eliminate (but not increase) the initial award. Generally, a participant will have to be employed by or providing services to STEC or any of its subsidiaries or affiliates as of the last day of the performance period to be eligible for a performance-based award payment for any period.

The Compensation Committee may, in its sole discretion, provide that one or more objectively determinable adjustments shall be made to one or more of the Performance Goals. Such adjustments may include one or more of the following:

items related to a change in accounting principle,

items relating to financing activities,

expenses for restructuring or productivity initiatives,

other non-operating items,

items related to acquisitions,

items attributable to the business operations of any entity acquired by STEC during the performance period,

items related to the disposal of a business or segment of a business,

items related to discontinued operations that do not qualify as a segment of a business under applicable accounting standards,

items attributable to any stock dividend, stock split, combination or exchange of stock occurring during the performance period,

other items of significant income or expense which are determined to be appropriate adjustments,

items relating to unusual or extraordinary corporate transactions, events or developments,

items related to amortization of acquired intangible assets,

items that are outside the scope of STEC s core, on-going business activities,

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items related to acquired in-process research and development,

items relating to changes in tax laws,

items relating to major licensing or partnership arrangements,

items relating to asset impairment charges,

items relating to gains or losses for litigation, arbitration and contractual settlements, or

items relating to any other unusual or nonrecurring events or changes in applicable laws, accounting principles or business conditions. For all awards intended to qualify as performance-based compensation, such determinations will be made by the Compensation Committee within the time prescribed by, and otherwise in compliance with, Section 162(m) of the Code.

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Dividend equivalents may be granted pursuant to the 2010 Plan, except that no dividend equivalents may be payable with respect to options or stock appreciation rights pursuant to the 2010 Plan. A dividend equivalent is the right to receive the equivalent value of dividends paid on shares. Dividend equivalents that are granted by the Compensation Committee are credited as of dividend payment dates during the period between the date dividend equivalents are granted and the date the dividend equivalents terminate or expire, as determined by the Compensation Committee. Such dividend equivalents will be converted to cash or additional shares of our common stock by such formula, at such time and subject to such limitations as may be determined by the Compensation Committee.

Stock payments are payments in the form of shares of our common stock or an option or other right to purchase shares, as part of a bonus, deferred compensation or other arrangement. The number or value of shares of any stock payment will be determined by the Compensation Committee and may be based on achieving one or more of the performance criteria listed above, or other specific criteria determined by the Compensation Committee. Stock payments may, but are not required to, be made in lieu of base salary, bonus, fees or other cash compensation otherwise payable to any individual who is eligible to receive awards.

Deferred stock is a right to receive shares of our common stock. The number of shares of deferred stock will be determined by the Compensation Committee and may be based on achieving one or more of the performance criteria listed above, or other specific criteria determined by the Compensation Committee, in each case on a specified date or dates or over any period or periods determined by the Compensation Committee. Except as otherwise determined by the Compensation Committee, shares underlying a deferred stock award which is subject to a vesting schedule or other conditions set by the Compensation Committee will not be issued until those conditions have been satisfied.

Restricted stock units may be granted pursuant to the 2010 Plan. A restricted stock unit award provides for the issuance of STEC common stock at a future date upon the satisfaction of specific conditions set forth in the applicable award agreement. The Compensation Committee will specify the dates on which the restricted stock units will become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate, including conditions based on achieving performance goals or other specific criteria, including service to STEC or any of its subsidiaries or affiliates. The Compensation Committee will specify, or permit the restricted stock unit holder to elect, the conditions and dates upon which the shares underlying the restricted stock units will be issued, which dates may not be earlier than the date as of which the restricted stock units vest and which conditions and dates will be subject to compliance with Section 409A of the Code. Restricted stock units may be paid in cash, shares, or both, as determined by the Compensation Committee. On the distribution dates, STEC will transfer to the participant one unrestricted, fully transferable share of STEC common stock (or the fair market value of one such share in cash) for each restricted stock unit scheduled to be paid out on such date and not previously forfeited.

Stock appreciation rights entitle a holder, upon exercise of all or a portion of the stock appreciation right, to receive from us an amount determined by multiplying the difference obtained by subtracting the exercise price per share of the stock appreciation right from the fair market value on the date of exercise of the stock appreciation right by the number of shares with respect to which the stock appreciation right has been exercised, subject to any limitations imposed by the Compensation Committee. The exercise price per share subject to a stock appreciation right will be set by the Compensation Committee, but may not be less than 100% of the fair market value on the date the stock appreciation right is granted. The Compensation Committee determines the period during which the right to exercise the stock appreciation right vests in the holder. No portion of a stock appreciation right which is unexercisable at the time the holder's employment with us terminates will thereafter become exercisable, except as may be otherwise provided by the Compensation Committee. Stock appreciation rights may be exercised as determined by the Compensation Committee, but in no event may a stock appreciation right have a term extending beyond the tenth anniversary of the date of grant. Payment of the stock appreciation right may be in cash, shares, or a combination of both, as determined by the Compensation Committee.

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Other incentive awards may cover shares of STEC common stock, the right to purchase shares of STEC common stock or have a value derived from the value of, or an exercise or conversion privilege at a price related to, or that are otherwise payable in or based on, shares of STEC common stock, shareholder value or shareholder return. The Compensation Committee will specify the dates on which the other incentive awards will become fully vested, and may specify such conditions to vesting as it deems appropriate, including conditions based on achieving performance goals or other specific criteria, including service to STEC or any of its subsidiaries or affiliates. Payment of the other incentive award may be in cash, shares, or a combination of both, as determined by the Compensation Committee.

Payment Methods. The Compensation Committee will determine the methods by which payments by any award holder with respect to any awards granted under the 2010 Plan may be paid, the form of payment, including, without limitation: (1) cash or check; (2) shares of our common stock issuable pursuant to the award or held for such period of time as may be required by the Compensation Committee in order to avoid adverse accounting consequences and having a fair market value on the date of delivery equal to the aggregate payments required; (3) other property acceptable to the Compensation Committee (including through the delivery of a notice that the award holder has placed a market sell order with a broker with respect to shares of our common stock then issuable upon exercise or vesting of an award, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to us in satisfaction of the aggregate payments required; *provided* that payment of such proceeds is then made to us upon settlement of such sale); or (4) other form of legal consideration acceptable to the Compensation Committee. However, no participant who is a member of the Board or an executive officer of STEC within the meaning of Section 13(k) of the Exchange Act will be permitted to make payment with respect to any awards granted under the 2010 Plan, or continue any extension of credit with respect to such payment in any method which would violate the prohibitions on loans made or arranged by STEC as set forth in Section 13(k) of the Exchange Act. Only whole shares of common stock may be purchased or issued pursuant to an award. No fractional Shares shall be issued and the Compensation Committee shall determine, in its sole discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding down.

Vesting and Exercise of an Award. The applicable award agreement governing an award will contain the period during which the right to exercise the award in whole or in part vests, including the events or conditions upon which the vesting of an award will occur or may accelerate. No portion of an award which is not vested at the holder's termination of service with us will subsequently become vested, except as may be otherwise provided by the Compensation Committee in the agreement relating to the award or by action following the grant of the award.

Generally, an option or stock appreciation right may only be exercised while such person remains an employee, consultant or non-employee director of us or one of our subsidiaries or affiliates or for a specified period of time (up to the remainder of the award term) following the holder's termination of service with us or one of our subsidiaries or affiliates. An award may be exercised for any vested portion of the shares subject to such award until the award expires. Upon the grant of an award or following the grant of an award, the Compensation Committee may provide that the period during which the award will vest or become exercisable will accelerate, in whole or in part, upon the occurrence of one or more specified events, including, a change in control or a holder's termination of employment or service with us or otherwise. Except with respect to up to ten percent (10%) of the shares of STEC common stock available for issuance under the plan, an award other than an option or stock appreciation right will become vested over a period of not less than three years or, in the case of vesting based on the attainment of one or more of the performance criteria listed above, over a period of not less than one year.

Transferability. No award under the 2010 Plan may be transferred other than by will or the laws of descent and distribution or, subject to the consent of the Compensation Committee, pursuant to a domestic relations order, unless and until such award has been exercised or the shares underlying such award have been issued and all restrictions applicable to such shares have lapsed. No award shall be liable for the debts or contracts of the

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holder or his successors in interest or shall be subject to disposition by any legal or equitable proceedings. During the lifetime of the holder of an award granted under the 2010 Plan, only such holder may exercise such award unless it has been disposed of pursuant to a domestic relations order. After the holder's death, any exercisable portion of an award may be exercised by his personal representative or any person empowered to do so under such holder's will or the then applicable laws of descent and distribution until such portion becomes unexercisable under the 2010 Plan or the applicable award agreement. Notwithstanding the foregoing, the Compensation Committee may permit an award holder to transfer an award other than an incentive stock option to any family member of the holder, as defined under the instructions to use of the Form S-8 Registration Statement under the Securities Act, subject to certain terms and conditions. Further, an award holder may, in a manner determined by the Compensation Committee, designate a beneficiary to exercise the holder's right and to receive any distribution with respect to any award upon the holder's death, subject to certain terms and conditions.

Adjustment Provisions

Certain transactions with STEC's shareholders not involving STEC's receipt of consideration, such as a stock split, spin-off, stock dividend or certain recapitalizations may affect the share price of STEC common stock (which transactions are referred to collectively as equity restructurings). In the event that an equity restructuring occurs, STEC's Board will equitably adjust the class of shares issuable and the maximum number and kind of shares of STEC common stock subject to the 2010 Plan, and will equitably adjust outstanding awards as to the class, number of shares and price per share of STEC common stock. Other types of transactions may also affect STEC common stock, such as a dividend or other distribution, reorganization, merger, or other changes in corporate structure. In the event that there is such a transaction, which is not an equity restructuring, and STEC's Board determines that an adjustment to the 2010 Plan and any outstanding awards would be appropriate to prevent any dilution or enlargement of benefits under the 2010 Plan, STEC's Board will equitably adjust the 2010 Plan as to the class of shares issuable and the maximum number of shares of STEC's common stock subject to the 2010 Plan, as well as the maximum number of shares that may be issued to an employee during any calendar year, and will adjust any outstanding awards as to the class, number of shares, and price per share of STEC's common stock in such manner as it may deem equitable. In the event of a change in control, each outstanding award granted under the 2010 Plan will be assumed or an equivalent award substituted by the successor corporation or a parent or subsidiary thereof. In the event an award is assumed or an equivalent award is substituted and within eighteen (18) months following the change in control a holder experiences a termination of service by STEC (or a successor corporation or a parent or subsidiary thereof) without cause, by the holder for good reason (each, as defined in the proposed 2010 Plan) or due to the holder's death or disability, the holder will become fully vested in the assumed or substituted award. In the event that the successor corporation or a parent or subsidiary thereof refuses to assume or substitute any award, all such awards will fully vest and become exercisable.

Amendment and Termination

The Board or the Compensation Committee may terminate, amend, or modify the 2010 Plan at any time; however, except to the extent permitted by the 2010 Plan in connection with certain changes in capital structure, shareholder approval will be obtained for any amendment to (i) increase the number of shares available under the 2010 Plan, (ii) reduce the per share exercise price of the shares subject to any option or stock appreciation right below the per share exercise price as of the date the option or stock appreciation right was granted, and (iii) cancel any option or stock appreciation right in exchange for cash or another award when the option or stock appreciation right price per share exceeds the fair market value of the underlying shares.

In no event may an award be granted pursuant to the 2010 Plan on or after the tenth anniversary of the date the shareholders approve the 2010 Plan.

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Material U.S. Federal Income Tax Consequences

The following is a general summary under current law of the material federal income tax consequences to an employee, consultant or non-employee director granted an award under the 2010 Plan. This summary deals with the general federal income tax principles that apply and is provided only for general information. Some kinds of taxes, such as state, local and foreign income taxes and federal employment taxes, are not discussed. Tax laws are complex and subject to change and may vary depending on individual circumstances and from locality to locality. **The summary does not discuss all aspects of federal income taxation that may be relevant in light of a holder's personal circumstances. This summarized tax information is not tax advice and a holder of an award should rely on the advice of his or her legal and tax advisors.**

With respect to nonqualified stock options, STEC is generally entitled to deduct and the optionee recognizes taxable income in an amount equal to the difference between the option exercise price and the fair market value of the shares at the time of exercise. A participant receiving incentive stock options will not recognize taxable income upon grant. Additionally, if applicable holding period requirements are met, the participant will not recognize taxable income at the time of exercise. However, the excess of the fair market value of STEC common stock received over the option price is an item of tax preference income potentially subject to the alternative minimum tax. If stock acquired upon exercise of an incentive stock option is held for a minimum of two years from the date of grant and one year from the date of exercise, the gain or loss (in an amount equal to the difference between the fair market value on the date of sale and the exercise price) upon disposition of the stock will be treated as a long-term capital gain or loss, and STEC will not be entitled to any deduction. If the holding period requirements are not met, the incentive stock option will be treated as one that does not meet the requirements of the Code for incentive stock options and the tax consequences described for nonqualified stock options will apply.

The current federal income tax consequences of other awards authorized under the 2010 Plan generally follow certain basic patterns: stock appreciation rights are taxed and deductible in substantially the same manner as nonqualified stock options; nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value over the price paid, if any, only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant through a Section 83(b) election); restricted stock units, stock-based performance awards, dividend equivalents and other types of awards are generally subject to tax at the time of payment. Compensation otherwise effectively deferred is taxed when paid. In each of the foregoing cases, STEC will generally have a corresponding deduction at the time the participant recognizes income, subject to Section 162(m) of the Code with respect to covered employees.

Section 162(m) of the Code. Section 162(m) of the Code denies a deduction to any publicly held corporation for compensation paid to certain covered employees in a taxable year to the extent that compensation to such covered employee exceeds \$1 million. It is possible that compensation attributable to awards under the 2010 Plan, when combined with all other types of compensation received by a covered employee from us, may cause this limitation to be exceeded in any particular year.

Certain kinds of compensation, including qualified performance-based compensation, are disregarded for purposes of the deduction limitation. In accordance with Treasury Regulations issued under Section 162(m), compensation attributable to stock awards will generally qualify as performance-based compensation if (1) the award is granted by a compensation committee composed solely of two or more outside directors, (2) the plan contains a per-employee limitation on the number of awards which may be granted during a specified period, (3) the plan is approved by the shareholders, and (4) under the terms of the award, the amount of compensation an employee could receive is based solely on an increase in the value of the stock after the date of the grant (which requires that the exercise price of the option is not less than the fair market value of the stock on the date of grant), and for awards other than options, established performance criteria that must be met before the award actually will vest or be paid.

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The 2010 Plan is designed to meet the requirements of Section 162(m); however, full value awards granted under the 2010 Plan will only be treated as qualified performance-based compensation under Section 162(m) if the full value awards and the procedures associated with them comply with all other requirements of Section 162(m). There can be no assurance that compensation attributable to awards granted under the 2010 Plan will be treated as qualified performance-based compensation under Section 162(m) and thus be deductible to us.

Section 409A of the Code. Certain awards under the 2010 Plan may be considered nonqualified deferred compensation subject to Section 409A of the Code, which imposes additional requirements on the payment of deferred compensation. Generally, if at any time during a taxable year a nonqualified deferred compensation plan fails to meet the requirements of Section 409A, or is not operated in accordance with those requirements, all amounts deferred under the nonqualified deferred compensation plan for the current taxable year and all preceding taxable years, by or for any participant with respect to whom the failure relates, are includible in the gross income of the participant for the taxable year to the extent not subject to a substantial risk of forfeiture and not previously included in gross income. If a deferred amount is required to be included in income under Section 409A, the amount will be subject to income tax at regular income tax rates plus an additional 20 percent tax, as well as potential premium interest tax.

New Plan Benefits

As of the date of this proxy statement, no awards had been granted pursuant to the 2010 Plan. Except with respect to automatic grants of nonqualified stock options to new non-employee directors, awards are subject to the discretion of the Compensation Committee. Therefore, it is not possible to determine the benefits that will be received in the future by participants in the 2010 Plan or the benefits that would have been received by such participants if the 2010 Plan had been in effect in the year ended December 31, 2009.

Vote Required

Adoption of the 2010 Plan requires approval of (i) the affirmative vote of a majority of the shares of common stock present or represented by proxy and voting at the Annual Meeting, and (ii) the affirmative vote of a majority of the required quorum. For purposes of this proposal, abstentions and broker non-votes will not affect the outcome under clause (i), which recognizes only actual votes **FOR** or **AGAINST** the proposal. However, abstentions and broker non-votes may affect the outcome under clause (ii) if the number of affirmative votes, though a majority of the votes represented and cast, does not constitute a majority of the voting power required to constitute a quorum.

Recommendation of the Board of Directors

**OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE
SHAREHOLDERS VOTE FOR THE APPROVAL OF THE 2010 INCENTIVE AWARD PLAN.**

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PROPOSAL NO. 3

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected PricewaterhouseCoopers LLP as STEC's independent registered public accounting firm for the fiscal year ending December 31, 2010. Shareholder ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm is not required by our bylaws or otherwise. However, the Board is submitting the selection of PricewaterhouseCoopers LLP to our shareholders for ratification as a matter of good corporate practice. If ratification of this selection is not approved, our Audit Committee will review its future selection of independent registered public accounting firms; however, the Audit Committee may select PricewaterhouseCoopers LLP, notwithstanding the failure of the shareholders to ratify its selection. In addition, even if the selection is ratified, our Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it believes that such a change would be in the best interests of us and our shareholders.

Representatives of PricewaterhouseCoopers LLP are expected to be present at the 2010 Annual Meeting and will have the opportunity to make a statement if they desire to do so. They are also expected to be available to respond to appropriate questions. Unless marked to the contrary, proxies received will be voted **FOR** ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2010.

Recommendation of the Board of Directors

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2010.

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The following table sets forth information regarding the beneficial ownership of the shares of our common stock as of April 1, 2010, the record date, except as noted in the footnotes below, by:

Each person whom we know to be the beneficial owner of 5% or more of our outstanding common stock;

Each named executive officer;

Each of our directors and director nominees; and

All of our current executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage of ownership of that person, shares of common stock subject to options held by that person that are currently exercisable or that will become exercisable within 60 days after April 1, 2010, are deemed outstanding even if they have not actually been exercised. Those shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person. As of April 1, 2010, 50,336,326 shares of our common stock were issued and outstanding. Unless otherwise indicated in the footnotes below, and subject to community property laws where applicable, each of the named persons have sole voting and sole investment power with respect to the shares shown as beneficially owned. Unless otherwise indicated in the footnotes below, the address of each individual or entity listed below is c/o 3001 Daimler Street, Santa Ana, California 92705-5812.

Name of Beneficial Owner	Beneficial Ownership of Shares	
	Number	Percentage
Named Executive Officers:		
Manouch Moshayedi (1)	3,274,481	6.5%
Mark Moshayedi (2)	4,121,300	8.2%
Raymond Cook (3)	25,000	*
Directors and Director Nominees: (4)		
Dan Moses (5)	82,500	*
F. Michael Ball (6)	162,500	*
Rajat Bahri (7)	52,500	*
Christopher W. Colpitts (8)	13,500	*
Kevin C. Daly, Ph.D.	0	*
Matthew L. Witte (9)	13,500	*
Current Directors, Director Nominees and Executive Officers as a Group (nine persons) (10)	7,745,281	15.4%
5% Holders Not Listed Above:		
Mike Moshayedi (11)	3,000,050	6.0%
Coatue Management, LLC (12)	3,763,221	7.5%

* Less than one percent

- (1) Consists of (i) 3,186,981 shares held by Manouch Moshayedi, as a trustee for the M. and S. Moshayedi Revocable Trust, dated 11/16/95 for the benefit of Manouch Moshayedi's family and (ii) 87,500 shares subject to options, all of which are presently exercisable or will become exercisable within 60 days of April 1, 2010. Manouch Moshayedi has sole voting and investment power with respect to the shares held by the M. and S. Moshayedi Revocable Trust. Manouch Moshayedi disclaims beneficial ownership, except to the extent of his pecuniary interest therein, if any, of the shares held by the M. and S. Moshayedi Revocable Trust.

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- (2) Consists of (i) 3,739,885 shares held by Mark Moshayedi and Semira Moshayedi, as trustees for the M. and S. Moshayedi Revocable Trust, dated 9/25/98 for the benefit of Mark and Semira Moshayedi's family, and (ii) 381,415 shares subject to options, all of which are presently exercisable or will become exercisable within 60 days of April 1, 2010. Mark Moshayedi has shared voting and dispositive power with respect to the shares held by the M. and S. Moshayedi Revocable Trust. Mark Moshayedi disclaims beneficial ownership, except to the extent of his pecuniary interest therein, if any, of the shares held by the M. and S. Moshayedi Revocable Trust.
- (3) Includes 25,000 shares subject to options, all of which are presently exercisable or will become exercisable within 60 days after April 1, 2010.
- (4) Does not include information concerning Manouch Moshayedi and Mark Moshayedi, each of whom is an executive officer and director, which information is provided above.
- (5) Includes 82,500 shares subject to options, all of which are presently exercisable or will become exercisable within 60 days after April 1, 2010.
- (6) Includes 162,500 shares subject to options, all of which are presently exercisable or will become exercisable within 60 days after April 1, 2010.
- (7) Includes 52,500 shares subject to options, all of which are presently exercisable or will become exercisable within 60 days after April 1, 2010.
- (8) Includes 13,500 shares subject to options, all of which are presently exercisable or will become exercisable within 60 days after April 1, 2010.
- (9) Includes 13,500 shares subject to options, all of which are presently exercisable or will become exercisable within 60 days after April 1, 2010.
- (10) Includes 818,415 shares subject to options, all of which are presently exercisable or will become exercisable within 60 days after April 1, 2010.
- (11) According to a Schedule 13G/A filed jointly with the SEC on February 17, 2010 by Mike Moshayedi, Parto Moshayedi and the M. and P. Moshayedi Revocable Trust, dated 12/30/96, indicating that as of December 31, 2009, included in the number of shares that Mike Moshayedi beneficially owns are 3,000,050 shares held by Mike Moshayedi and Parto Moshayedi, as trustees for the M. and P. Moshayedi Revocable Trust, dated 12/30/96 for the benefit of Mike Moshayedi and Parto Moshayedi's family. Mike Moshayedi has shared voting and dispositive power with respect to 3,000,050 shares held by the M. and P. Moshayedi Revocable Trust. Mike Moshayedi has no power to vote or direct the vote or dispose or direct the disposition of any shares of common stock held by his spouse. Mike Moshayedi disclaims beneficial ownership, except to the extent of his pecuniary interest therein, if any, of the shares held by the M. and P. Moshayedi Revocable Trust and his spouse. The address of Mike Moshayedi is 1964 Blair Street, Santa Ana, CA 92705.
- (12) According to a Schedule 13G/A filed jointly with the SEC on March 5, 2010 by Coatue Management, LLC, a Delaware limited liability company, Coatue Offshore Master Fund, Ltd., a Cayman Islands exempted company, and Philippe Laffont, a citizen of France. Coatue Management, LLC, Coatue Offshore Master Fund, Ltd. and Mr. Laffont each have shared voting and dispositive power with respect to all 3,763,221 shares. The address for Coatue Management, LLC and Mr. Laffont is 9 West 57th Street, New York, NY 10019. The address for Coatue Offshore Master Fund, Ltd. is c/o Morgan Stanley Fund Services (Cayman) Ltd., P.O. Box 2681, Century Yard, 4th Floor, Cricket Square, Hutchins Drive, George Town, Grand Cayman KY1-1111, Cayman Islands.

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EXECUTIVE COMPENSATION AND RELATED INFORMATION

Compensation Discussion and Analysis

This section explains our 2009 compensation program as it relates to the following executives, which are collectively referred to as the named executive officers :

Name	Position
Manouch Moshayedi	Chief Executive Officer and Chairman of the Board
Raymond Cook	Chief Financial Officer
Mark Moshayedi	President, Chief Operating Officer, Chief Technical Officer and Secretary

General Philosophy and Objectives

Our executive compensation program is intended to:

attract, motivate and retain talented executive officers to improve our financial position;

hold executives accountable for the performance of the functions for which they are responsible, aligned with our overall business priorities;

set compensation levels considering each executive's specific responsibilities, individual and company performance including overall profitability and execution of key strategic objectives; and

align the interests of executive officers and shareholders by rewarding both near-term and long-term sustainable performance.

Our compensation decisions with respect to executive officer total annual compensation is affected by (i) the executive's performance, (ii) the executive's level of responsibility and function within STEC, (iii) the executive's experience in the position, (iv) the overall performance and profitability of STEC, (v) our effective execution of our strategic initiatives, and (vi) our assessment of the competitive marketplace for executive officers in comparable positions, including businesses of similar size and complexity within the technology market. Our Compensation Committee regularly reviews the elements of our executive officer compensation program and makes changes thereto when it believes necessary or in the best interest of STEC.

To assist in understanding market practices, the Compensation Committee assesses industry norms, particularly with reference to information provided by Radford. The Compensation Committee's philosophy is that in order to attract and retain the best executive talent, STEC's target range for target direct compensation (consisting of base salary, target cash incentive compensation and equity compensation) should be generally between the 50th and 75th percentile of the market. While the Compensation Committee reviews market data to determine where each executive officer's target direct compensation falls relative to the 50th to 75th percentile range, this is only one factor used by the Compensation Committee in making compensation determinations. The Compensation Committee does not attempt to target individual components of compensation at any specific percentile of the market. The Compensation Committee believes that an effective executive compensation program should permit the flexibility to award compensation that may be above industry norms when STEC's performance exceeds expectations, and if STEC's performance is below expectations, total direct compensation may be reduced to below industry norms. Accordingly, the compensation of each of our executive officers is driven in part by our financial results, and reflects our growing commitment toward a pay-for-performance compensation philosophy. In making compensation determinations, the Compensation Committee also considers the fact that two of the Company's named executive officers are significant shareholders of STEC. The Compensation Committee believes that this should not unduly impact these executives' compensation packages. The Compensation Committee primarily evaluates these executives' compensation based upon how they perform, contribute and fulfill their responsibilities to STEC and add value for STEC's shareholders.

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Role of Compensation Committee, Executive Officers and the Consultant

Role and Authority. Our Compensation Committee administers the compensation program for our executive officers and establishes the overall compensation philosophy for executive officers. The role of the Compensation Committee is to review and approve the base salaries, bonuses and other cash compensation or perquisites of the executive officers and to administer and approve awards under our cash and stock incentive plans. The Compensation Committee also reviews and recommends to the Board for approval, or approves as appropriate, new cash or stock incentive plans and any changes to or modifications of existing cash or stock incentive plans. The Compensation Committee also periodically reviews and recommends to the Board for consideration and approval any changes in director compensation for our non-employee directors. The current members of our Compensation Committee are Rajat Bahri, F. Michael Ball and Matthew L. Witte, each of whom is an independent, non-employee director as such term is defined in Rule 16b-3 under the Securities and Exchange Act of 1934, as amended, and each of whom also meets applicable federal securities and Nasdaq listing requirements to qualify as an independent director. In addition, our Compensation Committee is also comprised exclusively of outside directors in accordance with Section 162(m) of the Internal Revenue Code.

Role of Executive Officers in Compensation Decisions. The Compensation Committee periodically meets with members of senior management to discuss and review our compensation program, practices and packages for executives, other employees and directors. The Compensation Committee annually evaluates the performance of our Chief Executive Officer and determines and approves his total compensation based on this evaluation in light of the philosophy and objectives of our executive compensation program. Our Chief Executive Officer makes compensation recommendations to the Compensation Committee with respect to our other executive officers. Our Chief Executive Officer is not involved with determining his own pay. Executive officers are generally not present at the time of compensation deliberations held by the Compensation Committee. The Compensation Committee considers, but is not bound to and does not always accept, any of management's recommendations with respect to executive compensation.

Delegation. In fulfilling its responsibilities, the Compensation Committee may delegate any or all of its responsibilities to a subcommittee of the Compensation Committee and, to the extent not expressly reserved to the Compensation Committee by the Board or by applicable law, rule or regulation, to any other committee of directors appointed by it, which may or may not be composed of members of the Compensation Committee. The Board may also delegate to two or more of our directors the authority to make option grants or other stock-based awards under our stock incentive plan to eligible individuals who are not executive officers or board members, provided that the Compensation Committee or Board sets guidelines on the authority of such directors to make grants. Our Board has established the Equity Awards Committee, consisting of Manouch Moshayedi and Mark Moshayedi, with limited authority to make option grants and other stock-based awards under our stock incentive plan to eligible individuals other than executive officers and non-employee board members. The Equity Awards Committee may not grant more than 20,000 options or 5,000 shares of other stock-based awards to any one individual, nor grant more than 100,000 options and 20,000 shares of other stock-based awards in the aggregate in any one month.

Use of Consultants. The Compensation Committee has the authority to engage its own independent advisors, including compensation consultants, to assist in carrying out its responsibilities. The Compensation Committee engaged Radford beginning in 2008 as its independent compensation consultant. Radford was retained to conduct a review and analysis of our executive compensation program and to provide advice and recommendations on competitive market practices and the appropriateness and merit of specific compensation decisions. Radford participates in meetings with the Compensation Committee and also communicates with the chair of the Compensation Committee outside of meetings. Radford has not provided any other services to us nor have they received any compensation other than with respect to the services provided to the Compensation Committee.

Comparative Market Information. The Compensation Committee recognizes that comparable market information may not be directly applicable to us given that several of our executive officers are founders and

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beneficial holders of a significant equity position in STEC. Therefore, while compensation paid to our executive officers are compared with those of their counterparts in the market, the market compensation levels are used only as a guide and point of reference for determining our executives' compensation. In addition, while the Compensation Committee reviews each element of our executives' compensation relative to the market to determine the reasonableness of our executives' compensation, it generally does not set each element of compensation by reference to any specific percentile or benchmark. The Compensation Committee's philosophy is that in order to attract and retain the best executive talent, STEC's target range for target direct compensation should be generally within the 50th and 75th percentile of the market.

For purposes of evaluating competitive market practices, in January 2009, Radford provided an analysis of our named executive officers' 2008 compensation level as compared to a survey consisting of 72 high technology and 14 semiconductor companies with revenues from \$200 million to \$400 million headquartered in technology hubs reflective of cost of living pressures. While STEC's revenues for 2008 were at the lower end of the stated \$200 million to \$400 million range of comparable peer companies, the Compensation Committee determined that a long-term strategy of setting target direct compensation in the 50th to 75th percentile range was appropriate to incentivize exceptional performance and the completion of key company strategic initiatives. These strategic initiatives included: (1) a move towards a new high-growth market segment involving solid-state technologies in which the primary peer competitors are much larger than STEC with revenues generally ranging from approximately \$5 billion to over \$100 billion annually, (2) the global expansion of STEC's sales efforts into Asia and Europe and (3) the transition of STEC's entire worldwide manufacturing operations to Malaysia. STEC's revenue for full-year 2009 was \$354.2 million.

The results of Radford's January 2009 survey comparing the named executive officers' 2008 compensation levels to the market, as presented to the Compensation Committee at its March 2009 meetings, are shown in the table below:

Name	Base Salary	Target Total Cash (1)	Equity Compensation (2)	Target Direct Compensation	Market Percentile Achieved
Manouch Moshayedi	\$ 515,000	\$ 772,500	\$ 749,200	\$ 1,521,700	Approx. 25 th Percentile
Raymond Cook	\$ 235,000	\$ 305,500	\$ 118,900	\$ 424,400	Below 25 th Percentile
Mark Moshayedi	\$ 455,000	\$ 568,800	\$ 388,100	\$ 956,900	Approx. 50 th Percentile

- (1) Represent the executive's base salary plus target cash incentive award.
- (2) Amounts shown are the value of equity awards as set forth in Radford's survey based upon STEC's 30-day average stock price of \$4.29 (December 18, 2008 – January 15, 2009) and the Company's Black-Scholes assumptions. The grant date fair values for the 2008 equity awards under FASB ASC 718 are set forth in the Summary Compensation Table.

Considering these as well as other factors, the Compensation Committee increased our named executive officers' target cash compensation levels and granted equity awards in order to bring the named executive officers' target direct compensation levels closer to the 50th to 75th percentile range, as discussed more fully below.

Elements of Compensation

Our executive compensation program consists of a mix of the following elements: (i) base salary, (ii) annual cash incentives, (iii) long-term incentive compensation, in the form of stock options, (iv) perquisites and (v) termination and change in control benefits. Our executives also participate in certain other benefits, such as general health, life and disability insurance plans and our tax-qualified 401(k) defined contribution plan, which are generally available to all salaried employees with the exception of additional life insurance benefits provided to Manouch Moshayedi and Mark Moshayedi.

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While the Compensation Committee determines the mix of our compensation elements, it does not assign any specific weight to any of the individual compensation elements in establishing total executive compensation. The compensation mix and amount of each compensation element is intended to vary with position and level of responsibility, and is designed to motivate a focus on overachievement. As a result, total direct compensation should vary from year to year based on STEC's performance and the executive's performance.

Base Salary

We believe that it is important that the total cash compensation paid to our executive officers remains at a competitive level to enable us to attract and retain management personnel with the talents and skills required to meet the challenges of a highly competitive industry. Base salary has historically been the most significant portion of our compensation package to our executive officers. Base salary levels are designed primarily to provide the competitive compensation required to attract and retain executives with the talents, skills and experience necessary to drive STEC's success. Base salaries may be adjusted each year on the basis of the executive's experience, skill set, performance level and contributions to STEC's overall success, as well as the competitive marketplace for executives in comparable positions. Adjustments to base salary may be contingent on STEC's performance in any given year. The relative weight given to each factor varies with each executive officer in the sole discretion of the Compensation Committee. Although base salaries for executive officers are reviewed annually or upon changes in responsibilities, there is no assurance of any salary adjustment for any executive officer on an annual basis. In addition, the Compensation Committee believes that it is important to provide executive officers with a certain level of compensation stability and certainty each year. Therefore, the Compensation Committee generally does not expect that base salaries will change substantially from year to year absent extraordinary circumstances, such as a significant increase in responsibilities, change in compensation practices in the market for executive talent or promotion. We believe that base salary will over time comprise a smaller portion of total direct compensation as STEC continues to move toward a pay-for-performance policy.

In connection with the appointment of Raymond Cook as our new Chief Financial Officer in November 2008, the Compensation Committee originally set Mr. Cook's annual base salary at \$235,000. In March 2009, the Compensation Committee determined that it was appropriate to make an adjustment in the base salary for Mr. Cook to maintain it at a more competitive level following its review of the general compensation survey data from Radford which has indicated that Mr. Cook's base salary was below the 25th percentile of the market. Radford recommended migrating Mr. Cook's base salary over time to meet our pay philosophy, if warranted by performance. Accordingly, the Compensation Committee approved a \$15,000 increase in Mr. Cook's annual base salary to \$250,000 to be retroactively effective as of January 1, 2009. For 2010, the Compensation Committee set Mr. Cook's annual base salary at \$325,000, to be retroactively effective as of January 1, 2010. The Compensation Committee determined not to make any adjustments in the base salaries for Manouch Moshayedi and Mark Moshayedi for 2009 or 2010.

Cash Incentive

In March 2008 the Board adopted, and our shareholders approved at the 2008 annual meeting in May 2008, the STEC, Inc. Executive Cash Incentive Plan. The Executive Cash Incentive Plan is designed to recognize and reward the link between achievement of STEC's business objectives and an executive's contribution to that success. Cash incentives are intended to motivate and retain executives by providing compensation, in addition to base salary, for the achievement of corporate and individual objectives that are established annually by the Compensation Committee. The Compensation Committee believes the Executive Cash Incentive Plan will advance our pay-for-performance policy by focusing the attention of our executive officers on the attainment of the Company's objectives and individual objectives for the year.

Under the Executive Cash Incentive Plan, each executive officer has an annual bonus target, expressed as a percentage of base salary that is approved by the Compensation Committee each year. The Compensation Committee establishes the Company's performance goals and individual performance goals for the plan each

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year based on the then-current business priorities. Metrics and weightings may vary from year to year as the Compensation Committee seeks to deliver near-term operating performance that supports long-term growth, as measured through stock appreciation to the shareholders.

For 2009, the Compensation Committee selected Manouch Moshayedi, Mark Moshayedi and Raymond Cook to participate in the Executive Cash Incentive Plan. For 2009, Mr. Manouch Moshayedi's target bonus opportunity was increased from 50% to 75% of his base salary and Mr. Mark Moshayedi's target bonus opportunity was increased from 25% to 30% of his base salary. Mr. Cook's target bonus opportunity remained at 30% of base salary, the level established in 2008. The Compensation Committee considered a variety of factors when setting target incentive bonuses for our executive officers. Such factors included internal pay equity, experience, tenure and position. In addition, Radford's January 2009 report indicated that the named executive officers' 2008 target bonus opportunities were below the 25th percentile of the market and recommended increasing the named executive officers' target bonuses over time to focus more on variable cash compensation and to meet our pay philosophy. According to Radford's survey, the 50th percentile of the market established target bonuses at approximately 90% of base salary for the Chief Executive Officer, 60% of base salary for the President, Chief Operating Officer, Chief Technical Officer and 55% of base salary for the Chief Financial Officer.

For 2009, revenue and non-GAAP earnings per share were used as STEC's performance objectives because the Compensation Committee believed they most directly align with STEC's growth strategy and generally represent the best correlation with shareholder value. The Compensation Committee set the revenue target for 2009 at \$238 million and the non-GAAP earnings per share target at \$0.43. The individual performance goals for Manouch Moshayedi included the following: (i) conducting investor relations meetings, (ii) presenting at technology conferences, (iii) manufacture 90% of unit volume from the Malaysia facility during the fourth quarter of 2009, (iv) gross profit improvement and (v) three-year corporate strategy review presented to the Board. The individual performance goals for Mark Moshayedi included the following: (i) reduce Santa Ana manufacturing to two cells, (ii) Santa Ana facility cost reductions, (iii) increased revenue from SSD product lines, (iv) manufacture 90% of unit volume from the Malaysia facility during the fourth quarter of 2009 and (v) new Zeus^{10PS} product introduction. The individual performance goals for Raymond Cook included the following: (i) the year-end internal control review for the U.S. and Malaysia shall yield no material weakness and no more than one significant deficiency, (ii) increased tax efficiencies, (iii) manufacture 90% of unit volume from the Malaysia facility during the fourth quarter of 2009, (iv) U.S. operations cost reductions and (v) automate three business internal controls by December 31, 2009. Each of the individual performance objectives were equally weighted.

Revenue, non-GAAP earnings per share and individual objectives comprised 40%, 40% and 20% of each executive's 2009 annual bonus target, respectively. Corporate performance goals were weighted more heavily than individual objectives because they are important indicators of increased shareholder value. For the purpose of determining whether the non-GAAP earnings per share objective has been met, the Compensation Committee used numbers reported by STEC in its press releases announcing its quarterly and annual results of operations. For 2009, the non-GAAP earnings per share reflected an adjustment for non-cash, non-recurring, extraordinary and certain other items, including special charges related to a restructuring plan that we implemented during the first quarter of 2009, employee stock compensation and attorneys fees and costs incurred related to certain class action securities complaints and shareholder derivative actions. 2009 non-GAAP gross profits calculated to determine Manouch Moshayedi's individual performance goal included the following adjustments: start-up costs related to the Company's Malaysia facility and employee stock compensation. 2008 non-GAAP gross profits included the following adjustments: start-up costs related to the Company's Malaysia facility, an extraordinary customer warranty claim, employee severance and employee stock compensation. The Compensation Committee believes it is important to align the executive officers' performance-based cash payments with these non-GAAP financial measures, as these are the measures that STEC's management uses in analyzing the business.

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When determining the performance goals and metrics and target bonuses, the Compensation Committee considered the likelihood of the achievement of the target levels of performance. At the time the performance goals were determined, the Compensation Committee was substantially uncertain as to whether the performance goals would be met. The Compensation Committee believes that the performance goals were challenging and difficult to achieve, but attainable with significant effort and skill on the part of the executive officer participants.

STEC must meet a minimum level of performance for at least of one of the corporate performance objectives for any funding to be allocated to the Executive Cash Incentive Plan. For 2009, the Compensation Committee maintained the threshold performance level for each Company performance objective at 85% of the target performance level and increased the maximum performance level from 115% to 120% of the target performance level. So long as a threshold level of performance for at least one of the corporate performance objectives is met, individual performance is not subject to a separate threshold and results in a payment of 0% to 20% of each executive officer's target bonus opportunity based ratably on the executive officer's achievement of 0% to 100% of his individual performance objectives. Plan funding upon achievement of both Company performance objectives at the threshold level is set at 50% of target bonus and increases to 200% of target bonus at maximum performance, assuming in each case that the executive officer achieves his target individual performance objectives. The Compensation Committee increased the maximum payout from 150% of target bonus in 2008 to 200% in 2009. The corresponding increases in the measure of maximum performance and maximum bonus were intended to promote the achievement of Company and individual goals by further incentivizing and rewarding above-target performance. In February 2010, the Compensation Committee assessed the Company's performance and individual performance versus the pre-established performance objectives. For 2009, STEC achieved approximately 149% of its revenue objective and 374% of its non-GAAP earnings per share objective. The Compensation Committee also determined that Manouch Moshayedi, Mark Moshayedi and Raymond Cook each achieved all of their individual performance objectives. Based upon the achievement of the pre-established performance objectives for 2009, and in accordance with the bonus structure approved at the beginning of 2009, the Compensation Committee approved bonus payouts as follows:

Name	2009 Base Salary	2009 Target Bonus Opportunity as Percentage of Base Salary	2009 Actual Bonus Paid	Actual Bonus As Percentage of Base Salary
Manouch Moshayedi	\$ 515,000	75%	\$ 772,500	150%
Raymond Cook	\$ 250,000	30%	\$ 150,000	60%
Mark Moshayedi	\$ 455,000	30%	\$ 273,000	60%

For 2010, the Compensation Committee selected Manouch Moshayedi, Mark Moshayedi and Raymond Cook to participate in the Executive Cash Incentive Plan. The Compensation Committee did not change the components of the executives' 2010 annual bonus, which, at target levels of performance, will continue to be based on the following: pre-determined revenue objective (40%), pre-determined non-GAAP earnings per share objective (40%) and pre-determined individual objectives (20%). For the purpose of determining whether the non-GAAP earnings per share objective has been met, the Compensation Committee shall use numbers reported by STEC in its press releases announcing its quarterly and annual results of operations that are adjusted for certain non-cash, nonrecurring, extraordinary and certain other items. Individual performance objectives were tailored for each executive officer and include the following categories: gross profit and operating margins, product development, cash and expenditure levels and internal controls.

For 2010, STEC must again meet a threshold level of performance for at least of one of the corporate performance objectives for any funding to be allocated to the Executive Cash Incentive Plan. The Compensation Committee maintained the threshold for each Company performance objective at 85% of target performance objectives, with maximum performance measured at 120% of target performance objectives. So long as a threshold level of performance for at least one of the corporate performance objectives is met, individual performance is not subject to a separate threshold and results in a payment of 0% to 20% of each executive officer's target bonus opportunity based ratably on the executive officer's achievement of 0% to 100% of his

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individual performance objectives. Plan funding upon achievement of both Company performance objectives at the threshold performance is set at 50% of target bonus and increases to 200% of target bonus if the maximum performance level for both Company objectives is achieved, assuming in each case that the executive officer achieves his target individual performance objectives. For 2010, the target incentive bonuses for our executive officer participants range between 50% and 75% of base salary. The following table summarizes the 2010 base salaries, target bonus opportunities and potential bonus awards under each performance level for our executive officers:

Name	2010 Base Salary	2010 Target Bonus Opportunity as Percentage of Base Salary	Potential Bonus Awards Under Plan for 2010 (1)		
			Bonus Amount at Threshold Level of Performance (2)	Bonus Amount at Target Level of Performance	Bonus Amount at Maximum Level of Performance
Manouch Moshayedi	\$ 515,000	75%	\$ 193,125	\$ 386,250	\$ 772,500
Raymond Cook	\$ 325,000	50%	\$ 81,250	\$ 162,500	\$ 325,000
Mark Moshayedi	\$ 455,000	50%	\$ 113,750	\$ 227,500	\$ 455,000

(1) Amounts assume that the executive officer achieves 100% of his individual performance objectives at each level of threshold, target and maximum level of performance for corporate objectives.

(2) Amounts assume that STEC achieves its threshold level of performance for both of the corporate performance objectives.

Long-Term Incentive Compensation

We have provided long-term incentive compensation through stock-based awards that generally vest over multiple years under our shareholder-approved 2000 Stock Incentive Plan. Our 2000 Stock Incentive Plan expired on February 28, 2010 and shareholders are being asked to approve a new 2010 Incentive Award Plan at the Annual Meeting. The objectives of equity compensation are to encourage creation of increased shareholder value by providing executive officers with a significant incentive to create long-term share price appreciation and to attract, motivate, and reward executive officers by rewarding the achievement of superior performance by the Company.

Historically, our grants of stock-based awards to the executive officers have consisted solely of stock options. Stock options allow the executive officer to acquire shares of STEC's common stock at a fixed price per share over a specified period of time (usually up to ten years). Each option generally becomes exercisable in a series of equal installments over a specified period, contingent upon the executives' continued employment with us. Our executives realize value on these options only if our stock price increases (which benefits all shareholders) and only if the executives remain employed with us until the time their options vest. The Compensation Committee believes that awards of stock options over other forms of equity-based awards, such as restricted stock units, more closely align the interests of the recipient with those of our shareholders because the recipient will only realize a return on the option if our stock price increases over the term of the option.

In determining the total number of options to award to each executive officer, the Compensation Committee's objective was to move target direct compensation for each executive closer to the 50th and 75th percentile of the market while attempting to create a meaningful opportunity for stock ownership based upon the executive's current position with us, his performance in recent periods and his potential for future responsibility and promotion over the option term. The Compensation Committee also considered the following: our retention goals for the executive officer; the number of shares of common stock and options held by the executive officer in order to maintain an appropriate level of equity incentive for that individual; and the relative size of option grants for similar officers in the market for talent.

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In 2009, the Compensation Committee granted stock options to the executive officers as summarized in the table below. Additional details regarding such grants may be found in the Grants of Plan-Based Awards table further below.

Name	Grant Date	Number of Securities Underlying Options (#)	Exercise Price of Option Awards (\$/sh)
Manouch Moshayedi	5/14/2009	150,000	\$ 14.09
Raymond Cook	5/14/2009	50,000	\$ 14.09
Mark Moshayedi	5/14/2009	75,000	\$ 14.09

We have not adopted any stock ownership guidelines since two of our three executive officers are founders and therefore have significant holdings in STEC. We have an insider trading policy which, among other things, prohibits our executive officers, employees and directors from short-selling our common stock or engaging in transactions involving STEC-based derivative securities. In addition, our insider trading policy also prohibits hedging transactions involving our common stock.

Option Grant Practice

Our Board has adopted an Equity Awards Policy that outlines the procedural guidelines for the grant of equity awards under our 2000 Stock Incentive Plan. The grant date of an equity award is the effective date that the authorizing body (Board, Compensation Committee or Equity Awards Committee) takes formal action to approve such equity award (unless a later effective grant date has been expressly designated). Equity awards may be granted during scheduled meetings or by unanimous written consent. For actions taken during a meeting, the effective date of approval is the date of such meeting. For actions approved by unanimous written consent, the effective date of approval is the latest date the consent is signed. All stock option grants have a per share exercise price equal to the fair market value of STEC's common stock on the grant date as measured by the closing selling price per share of our common stock on the Nasdaq Stock Market on that date (or, if such date is not a trading date, on the preceding trading date). Except for annual grants of equity awards to our non-employee directors made on the date of our annual meeting following their re-election to the Board, equity awards to executive officers and directors may only be granted during our open trading window under our insider trading policy and when the authorizing body is not in possession of material, non-public information concerning STEC.

Retirement Benefits

Our executive officers are eligible to participate in our tax-qualified 401(k) defined contribution plan. Our 401(k) plan covers all employees. Employees may make voluntary contributions of up to 75% of their annual pre-tax compensation to the plan, subject to the maximum elective deferral limit allowed by the IRS. Under our plan in place in 2009, after six months of employment, we made matching contributions equal to one-half of each participating employee's matchable contributions to the plan, which cannot exceed 10% of their salary. Our matching contributions to the plan were subject to vesting at the rate of 20% per year beginning after the employee's second year of employment. Manouch Moshayedi, Mark Moshayedi and Raymond Cook participated in our 401(k) plan during the year ended December 31, 2009 and received matching contributions similar to all other employees. Beginning in 2010, we make matching contributions immediately equal to 100% of the first 4% contributed, and 50% of the next 2% contributed, of each participating employee's matchable contributions to the plan. Also beginning in 2010, our matching contributions to the plan are immediately vested.

Perquisites and Generally Available Benefit Programs

We provide certain of our executive officers with limited personal benefits and perquisites. We provide Manouch Moshayedi and Mark Moshayedi with an annual car allowance. The executive is responsible for leasing or purchasing his own vehicle, as well as paying for insurance, maintenance and gas costs. The 2009

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annual car allowance for each participating executive officer was \$15,000. In addition, we also pay for the premiums on life insurance policies held by Manouch Moshayedi and Mark Moshayedi. Generally, each of these personal benefits and perquisites for Manouch Moshayedi and Mark Moshayedi were in place when STEC was a private company. The Compensation Committee believes these limited personal benefits are reasonable under the circumstances and does not consider them to be a significant component of total executive compensation. The Compensation Committee considers the value of these additional benefits when establishing appropriate compensation levels for the executive officers.

We also maintain life, medical and dental insurance, accidental death insurance, and disability insurance programs for all of our employees, as well as customary vacation, leave of absence and other similar policies. Executive officers are eligible to participate in these programs on the same basis as the rest of our salaried employees, with the exception of the additional life insurance policies maintained by Manouch Moshayedi and Mark Moshayedi for which we pay the premiums, as discussed above.

Compensation Following Employment Termination or Change-in-Control

Severance and Change in Control Agreements. In 2008, following the Compensation Committee's extensive review of our executive compensation arrangements and executive compensation philosophy, the Compensation Committee approved, and STEC entered into, severance and change in control agreements with Manouch Moshayedi, Mark Moshayedi and Raymond Cook. In February 2010 we terminated the 2008 severance and change in control agreements and entered into new severance and change in control agreements with each of our named executive officers (the 2010 Severance and Change in Control Agreements). The 2010 Severance and Change in Control Agreements generally provide for the same payments and benefits as provided in the 2008 severance and change in control agreements, except as described below.

We believe that such severance and change in control arrangements are important to provide continuity of management and the incentive to remain with STEC and continue to focus on running the business notwithstanding the possibility, threat or occurrence of a change in control. We also believe that we must offer such severance and change in control arrangements in order to remain competitive because similar protections are typically provided by other companies with which we compete for executive talent. When the Compensation Committee originally determined the appropriate amount of payments and benefits to provide our executives, the Compensation Committee considered practices by other technology companies of similar size and complexity, the length of each named executive officer's service to STEC, each named executive officer's contribution to STEC and competitive market practices.

The 2010 Severance and Change in Control Agreements generally provide for the same severance payments and benefit continuation or payment levels as provided in the 2008 severance and change in control agreements. In connection with approving these benefits in 2008, the Compensation Committee determined that severance payments, upon a qualifying termination, of twelve (12) to eighteen (18) months base salary for our named executive officers is competitive and within market norms in light of the fact that the severance payments ranged from twelve (12) to twenty-four (24) months of base salaries for businesses of similar size and complexity within the technology market. In deciding to set severance payments at eighteen (18) months for Messrs. Manouch and Mark Moshayedi, the Compensation Committee also considered the recommendation of our chief executive officer that post-termination benefits be similar for all long-term executive officers for internal pay equity purposes. In deciding to set Mr. Cook's severance payments at twelve (12) months, the Compensation Committee believed that a distinction in severance benefits between longer-term executives, who have demonstrated significant contributions to STEC's growth and development, and newer executives, is reasonable. The Compensation Committee also determined it was appropriate to provide Messrs. Manouch and Mark Moshayedi with a payment, upon a qualifying termination, equivalent in value to eighteen (18) months of their respective perquisites, if any, as in effect at the time of termination. Since the Compensation Committee's goal is to limit personal benefits and perquisites to those named executive officers that have historically received them and not offer such perquisites to any newly-appointed executive officers in the future, Mr. Cook will not be entitled to any post-termination payments for perquisites.

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In addition to the benefits provided under the 2008 agreements described above, under the 2010 Severance and Change in Control Agreements, upon a termination without cause or for good reason (each, as defined in the 2010 Severance and Change in Control Agreements) within twelve (12) months following a change in control, the named executive officer will be entitled to the payment of a pro-rated annual bonus to the extent any applicable performance goals have been met as of the termination date; and accelerated vesting of all unvested and unexercised stock options and/or restricted stock units, unless assumed by the successor corporation or replaced with a cash incentive program of the successor corporation.

For additional information on the payments and benefits provided under the 2010 Severance and Change in Control Agreements, see Potential Payments Upon Termination or Change in Control.

2000 Stock Incentive Plan. Under our 2000 Stock Incentive Plan the Compensation Committee may accelerate vesting of outstanding equity awards in the event of a corporate transaction, change in control or hostile take-over (each, as defined in the 2000 Stock Incentive Plan). In addition, our Compensation Committee has the discretion to structure one or more awards under the 2000 Stock Incentive Plan so that those awards will immediately vest in connection with our change of control or in the event the individual's service with us is terminated (actually or constructively) within a designated period following our change of control, or in connection with the successful completion of a hostile take-over or in the event the individual's service with us is terminated (actually or constructively) within a designated period following the completion of such hostile take-over. Addendums to certain outstanding stock options (issued pursuant to our 2000 Stock Incentive Plan) held by the named executive officers provide that such stock options will immediately vest if such named executive officer experiences an involuntary termination (as defined in the 2000 Stock Incentive Plan) within eighteen (18) months following a corporate transaction, change in control or hostile take-over. For additional information, see Potential Payments Upon Termination or Change in Control.

2010 Incentive Award Plan. Awards granted to our employees under our proposed 2010 Plan will immediately vest and become exercisable in the event of a change in control (as defined in the proposed 2010 Plan) in the event that they are not assumed or substituted by the successor corporation (or a parent or subsidiary thereof). In the event awards are assumed or substituted by the successor corporation (or a parent or subsidiary thereof) and the employee experiences a qualifying termination of employment within eighteen (18) months following the change in control, such awards will immediately vest and become exercisable.

Tax Considerations

Section 162(m) of the Internal Revenue Code disallows a tax deduction to publicly held companies for compensation paid to certain of their executive officers, to the extent that compensation, whether payable in cash or stock, exceeds \$1.0 million per covered officer in any fiscal year. The limitation applies only to compensation that is not considered to be performance-based compensation. Salaries for our executive officers do not qualify as performance-based compensation. Non-performance-based compensation paid to our executive officers for 2009 did not exceed the \$1.0 million limit per officer, and the Compensation Committee does not anticipate that any non-performance-based compensation payable in cash to the executive officers for 2010 will exceed that limit. Accordingly, the Compensation Committee has decided not to take any action at this time to limit or restructure the elements of cash compensation payable to our executive officers but will reconsider this decision should the individual non-performance-based cash compensation of any executive officer approach the \$1.0 million level. Our 2000 Stock Incentive Plan and 2010 Plan have been structured so that any compensation deemed paid by us in connection with the exercise of option grants made under that plan with an exercise price equal to the fair market value of the option shares on the grant date should qualify as performance-based compensation that will not be subject to the \$1.0 million limitation on deductibility provided that the option grants are approved by a committee comprised exclusively of two or more outside directors as required by Section 162(m). Our Executive Cash Incentive Plan has also been structured so that incentive bonuses awarded under such plan should qualify as performance-based compensation within the meaning of Section 162(m).

Table of Contents**Summary Compensation Table**

The following table sets forth certain summary information concerning the compensation earned by our chief executive officer, chief financial officer and our other most highly compensated executive officer for services rendered in all capacities to us and our subsidiaries for the fiscal years ended December 31, 2009, 2008 and 2007.

Name and Principal Position	Year	Salary (\$)	Option Awards \$(1)	Non-Equity	All Other Compensation \$(3)	Total (\$)
				Incentive Plan Compensation \$(2)		
Manouch Moshayedi Chief Executive Officer and Chairman of the Board	2009	\$ 515,000	\$ 1,242,000	\$ 772,500	\$ 63,357	\$ 2,592,857
	2008	\$ 515,000	\$ 584,284	\$ 249,947	\$ 65,651	\$ 1,414,882
	2007	\$ 500,000	\$ 0	\$ 0	\$ 69,824	\$ 569,824
Raymond Cook (4) Chief Financial Officer	2009	\$ 250,000	\$ 414,000	\$ 150,000	\$ 4,991	\$ 818,991
	2008	\$ 33,894	\$ 102,000	\$ 0	\$ 0	\$ 135,894
Mark Moshayedi President, Chief Operating Officer, Chief Technical Officer and Secretary	2009	\$ 455,000	\$ 621,000	\$ 273,000	\$ 67,038	\$ 1,416,038
	2008	\$ 455,000	\$ 256,784	\$ 110,413	\$ 73,798	\$ 895,995
	2007	\$ 440,000	\$ 0	\$ 0	\$ 77,298	\$ 517,298

- (1) The amounts shown represent the grant date fair value of the option awards computed in accordance with FASB ASC 718. The assumptions used to calculate the grant date fair value of stock options are set forth in Note 11 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 23, 2010. In accordance with SEC rules, the amounts previously reported in the Option Awards column for fiscal 2008 and fiscal 2007 have been revised to reflect the grant date fair values of the options granted in such years, as determined in accordance with FASB ASC 718.
- (2) The amounts for 2009 reflect the cash awards paid under the Executive Cash Incentive Plan for 2009 performance, as further described in the Compensation Discussion and Analysis section of this Proxy Statement.
- (3) Amounts in this column for 2009 are detailed in the All Other Compensation Table below.
- (4) Raymond Cook joined STEC on November 10, 2008. The 2008 amount represents compensation earned by Mr. Cook from November 10, 2008 through December 31, 2008.

All Other Compensation Table

Name	Year	401(k)	Car Allowance	Company	Total All Other Compensation
		Matching Contribution (1)		Paid Life Insurance Premiums	
Manouch Moshayedi	2009	\$ 8,250	\$ 15,000	\$ 40,107	\$ 63,357
Raymond Cook	2009	\$ 4,991			\$ 4,991
Mark Moshayedi	2009	\$ 8,250	\$ 15,000	\$ 43,788	\$ 67,038

- (1) Based on the results of compliance testing of STEC's 401(k) plan in 2009, STEC made a corrective distribution in 2009 of certain amounts STEC made in 401(k) matching contributions in 2008 to each of these named executive officers. Accordingly, Manouch Moshayedi and Mark Moshayedi forfeited in 2009 \$101 and \$111, respectively, of STEC's 2008 401(k) matching contributions. The figures above therefore do not include these forfeited amounts.

Table of Contents**Grants of Plan-Based Awards**

The following table sets forth summary information regarding all grants of plan-based awards made to our named executive officers during the year ended December 31, 2009.

Name	Grant Date	Estimated Possible Payments Under Non-Equity Incentive Plan Awards (1)			All Other Option Awards: Number of Securities Underlying Options (#)(2)	Exercise or Base Price of Option Awards (\$/sh)	Grant Date Fair Value of Stock and Option Awards \$(3)
		Threshold (\$)	Target (\$)	Maximum (\$)			
Manouch Moshayedi	3/27/2009	\$ 193,125	\$ 386,250	\$ 772,500	150,000	\$ 14.09	\$ 1,242,000
	5/14/2009						
Raymond Cook	3/27/2009	\$ 37,500	\$ 75,000	\$ 150,000	50,000	\$ 14.09	\$ 414,000
	5/14/2009						
Mark Moshayedi	3/27/2009	\$ 68,250	\$ 136,500	\$ 273,000	75,000	\$ 14.09	\$ 621,000
	5/14/2009						

- (1) The amounts shown are the 2009 bonus opportunities under our Executive Cash Incentive Plan. For 2009, Mr. Manouch Moshayedi's target bonus opportunity was 75% of his base salary, Mr. Mark Moshayedi's target bonus opportunity was 30% of his base salary and Mr. Cook's target bonus opportunity was 30% of his base salary. Plan funding upon achievement of both Company performance objectives at the threshold level is set at 50% of target bonus and increases to 200% of target bonus at maximum performance, assuming in each case that the executive officer achieves his target individual performance objectives. Revenue and non-GAAP earnings per share were used as STEC's company performance objectives. The Compensation Committee established the threshold performance levels for the Company objectives at 85% of the target performance levels, with maximum performance levels set at 120% of the target performance levels. The actual amount earned by each named executive officer is disclosed in the Summary Compensation Table under the column entitled Non-Equity Incentive Plan Compensation. For a description of the STEC, Inc. Executive Cash Incentive Plan, see Compensation Discussion & Analysis Elements of Compensation Cash Incentive.
- (2) These stock option awards were granted under the 2000 Stock Incentive Plan. Each option vests and becomes exercisable in four equal annual installments over the 4-year period measured from the grant date.
- (3) The dollar value of the options shown represents the grant date fair value as prescribed under FASB ASC 718. The assumptions used to calculate the value of stock options are set forth in Note 11 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 23, 2010.

Table of Contents**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth information regarding unexercised options for each of our named executive officers outstanding as of December 31, 2009. All awards listed in the table were granted under our 2000 Stock Incentive Plan. Our named executive officers did not hold any stock awards as of December 31, 2009.

Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards		Option Exercise Price (\$)	Option Expiration Date
			Number of Securities Underlying Unexercised Options (#) Unexercisable			
Manouch Moshayedi	5/14/2009	0	150,000(2)		\$ 14.09	5/13/2019
	5/7/2008	9,354	28,062(2)(3)		\$ 11.76	5/6/2013
	5/7/2008	15,646	46,938(2)		\$ 10.69	5/6/2018
Raymond Cook	5/14/2009	0	50,000(2)		\$ 14.09	5/13/2019
	11/14/2008	12,500	37,500(4)		\$ 3.52	11/13/2018
Mark Moshayedi	5/14/2009	0	75,000(2)		\$ 14.09	5/13/2019
	5/7/2008	9,354	28,062(2)(3)		\$ 11.76	5/6/2013
	5/7/2008	3,146	9,438(2)		\$ 10.69	5/6/2018
	2/24/2005	250,000(1)	0		\$ 3.84	2/23/2015
	5/22/2003	87,665(1)	0		\$ 3.08	5/21/2013

- (1) These options are fully-vested and immediately exercisable.
- (2) Each of these option vests and becomes exercisable in four equal annual installments over the 4-year period measured from the grant date.
- (3) Manouch Moshayedi and Mark Moshayedi were granted an aggregate of 100,000 and 50,000 stock options, respectively, on May 7, 2008. Under the 2000 Stock Incentive Plan and IRS rules, incentive stock options granted to a holder of 10% or more of an issuer's common stock must have an exercise price per share not less than 110% of the fair market value per share of the common stock on the grant date and a term of not more than 5 years. Accordingly, the portion of the May 7, 2008 awards intended to be an incentive stock option granted to Manouch Moshayedi and Mark Moshayedi, as beneficial holders of 10% or more of STEC's common stock, have an exercise price of \$11.76 per share.
- (4) This option was granted on November 14, 2008 and vests and becomes exercisable in four equal annual installments on each anniversary of November 10, 2008, Mr. Cook's employment commencement date.

Option Exercises and Stock Vested For Fiscal Year 2009

No stock options were exercised by and no stock awards vested for our named executive officers during the year ended December 31, 2009.

Potential Payments Upon Termination or Change-in-Control***2010 Severance and Change in Control Agreements***

In 2008, we entered into severance and change in control agreements with each of our named executive officers. In February 2010 we terminated the 2008 severance and change in control agreements and entered into new severance and change in control agreements with each of our named executive officers. The 2010 Severance and Change in Control Agreements provide for the same payments and benefits as provided in the 2008 Severance and Change in Control Agreements except the 2010 Severance and Change in Control Agreements provide for an initial four (4) year term and are subject to automatic one-year extensions unless the Company gives notice of its intent not to renew at least sixty (60) days prior to the expiration of the then-current term.

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Under the 2010 Severance and Change in Control Agreements, if we terminate the named executive officer's employment without cause or if the named executive officer terminates his employment for good reason (each, as defined in the 2010 Severance and Change in Control Agreements), in exchange for a general release and waiver of claims against STEC, we will provide him:

a cash lump sum payment equal to eighteen (18) months (or, in the case of Mr. Cook, twelve (12) months) of his then-current annual base salary;

continuation of group medical and group dental plan coverage for eighteen (18) months (or, in the case of Mr. Cook, twelve (12) months) after the termination date as well as certain Company-paid COBRA benefits; and

solely with respect to Messrs. Manouch and Mark Moshayedi, a cash lump sum payment equal to the sum of (i) eighteen (18) months of payments under STEC's automobile allowance/reimbursement policy and (ii) eighteen (18) months of premium payments for any term life insurance maintained, or paid for, by STEC.

If the named executive officer's employment is terminated for any reason (including by us for cause or if the named executive officer terminates his employment without good reason or as a result of his death or disability), he will be entitled to receive all salary and vacation pay accrued but unpaid through his termination date in one lump sum payment.

The 2010 Severance and Change in Control Agreements also provide that in the event any payment or benefit received by the named executive officer under the 2010 Severance and Change in Control Agreements is subject to excise tax imposed by Internal Revenue Code Section 4999 (which results in a corresponding loss of a tax deduction for STEC pursuant to Internal Revenue Code Section 280G), the payments and benefits to which he is entitled will be reduced so that no portion will be subject to such tax, but only if, on an after-tax basis, he retains a greater amount by reducing the payments and benefits.

In addition, under the 2010 Severance and Change in Control Agreements, upon a termination without cause or for good reason within twelve (12) months following a change in control (each, as defined in the 2010 Severance and Change in Control Agreements), the named executive officer will be entitled to (i) the payment of a pro-rated annual bonus for the year in which the termination occurred, to the extent any applicable performance goals have been met as of the termination date (as pro-rated through the termination date); and (ii) accelerated vesting of all unvested and unexercised stock options and/or restricted stock units held by him on the termination date, unless assumed by the successor corporation (or parent thereof) in connection with a change in control or replaced with a cash incentive program of the successor corporation that preserves the spread of the stock options and/or restricted stock units existing at the time of the change in control and provides for subsequent payout in accordance with the same vesting and exercise schedule of the original stock option and/or restricted stock unit.

2000 Stock Incentive Plan Awards

In March 2009, the Compensation Committee approved addendums to certain outstanding stock options (issued pursuant to our 2000 Stock Incentive Plan) held by Manouch Moshayedi, Mark Moshayedi and Raymond Cook so that such stock options will immediately vest if such named executive officer experiences an involuntary termination within eighteen (18) months following a corporate transaction, change in control or hostile take-over (each, as defined in our 2000 Stock Incentive Plan). In the event of such immediate vesting, the stock option will remain exercisable until the earlier of the stock option expiration date or one year from the date of the named executive officer's involuntary termination of service.

Table of Contents**Summary of Potential Payments**

The following table summarizes the payments that would be made to our named executive officers upon the occurrence of a qualifying termination of employment, assuming that each named executive officer's termination of employment with our company occurred on December 31, 2009. The amounts assume that the 2010 Severance and Change in Control Agreements were in place prior to December 31, 2009. Amounts shown do not include (i) accrued but unpaid salary through the date of termination, and (ii) other benefits earned or accrued by the named executive officer during his employment that are available to all salaried employees, such as accrued vacation.

Name	Benefit	Death	Disability	Termination without Cause or for Good Reason	Termination within 12 Months Following Change in Control	Termination between 12 to 18 Months Following Change in Control
Manouch Moshayedi	Cash Severance	\$ 772,500(1)	\$ 772,500(1)	\$ 772,500(2)	\$ 1,545,000(1)(2)	\$ 772,500(2)
	Health, Welfare and Life Insurance					
	Benefits (3)	0	0	\$ 83,673	\$ 83,673	\$ 83,673
	Perquisites (4)	0	0	\$ 22,500	\$ 22,500	\$ 22,500
	Equity Acceleration (5)	0	0	0	\$ 731,224	\$ 393,724
	Life Insurance (6)	\$ 3,000,000	0	0	0	0
	Total	\$ 3,772,500	\$ 772,500	\$ 878,673	\$ 2,382,397	\$ 1,272,397
Raymond Cook	Cash Severance	\$ 150,000(1)	\$ 150,000(1)	\$ 250,000(2)	\$ 400,000(1)(2)	\$ 250,000(2)
	Health & Welfare					
	Benefits (3)	0	0	\$ 15,675	\$ 15,675	\$ 15,675
	Equity Acceleration (5)	0	0	0	\$ 593,250	\$ 480,750
	Total	\$ 150,000	\$ 150,000	\$ 265,675	\$ 1,008,925	\$ 746,425
Mark Moshayedi	Cash Severance	\$ 273,000(1)	\$ 273,000(1)	\$ 682,500(2)	\$ 955,500(1)(2)	\$ 682,500(2)
	Health, Welfare and Life Insurance					
	Benefits (3)	0	0	\$ 89,196	\$ 89,196	\$ 89,196
	Perquisites (4)	0	0	\$ 22,500	\$ 22,500	\$ 22,500
	Equity Acceleration (5)	0	0	0	\$ 350,599	\$ 181,849
	Life Insurance (6)	\$ 3,000,000	0	0	0	0
	Total	\$ 3,273,000	\$ 273,000	\$ 794,196	\$ 1,417,795	\$ 976,045

- (1) Amount represents (or includes, in the case of a termination within 12 months following a change in control) the 2009 bonus that the named executive officers would have received had they not been terminated. The Executive Cash Incentive Plan provides that in the event of death or disability employees are eligible to receive a prorated bonus payment for the year in which termination occurs based on actual performance. The 2010 Severance and Change in Control Agreements also provide this benefit in the event of a termination without cause or for good reason within twelve months following a change in control.
- (2) Amount represents (or includes, in the case of a termination within 12 months following a change in control), the severance payable under the named executive officers' 2010 Severance and Change in Control Agreements.
- (3) Represents the aggregate value of the continuation of group medical and group dental plan coverage for the payout period (18 months for Messrs. Moshayedi and 12 months for Mr. Cook), based on the executive's health insurance coverage as of December 31, 2009 and, with respect to Messrs. Moshayedi only, a lump sum cash payment equal to eighteen (18) months of premium payments for term life insurance maintained by our company.
- (4) Represents a lump sum cash payment in an amount equal to eighteen (18) months of payments under our automobile allowance/reimbursement policy.
- (5) The value of accelerated stock options was calculated by multiplying (x) the number of shares subject to acceleration by (y) the difference between the fair market value of a share of our common stock on December 31, 2009 (\$16.34) and the per share exercise price of the accelerated option. In the event of a termination without cause or for good reason that occurs between 12 and 18 months following a change in control, the executive is only entitled to the acceleration of certain outstanding stock options granted under the 2000 Stock Incentive Plan. In the event of a termination within 12 months following a change in control, all outstanding stock options granted under the 2000 Stock Incentive Plan accelerate.
- (6) Represents the life insurance proceeds payable under the executive's life insurance policy upon a termination due to death.

Table of Contents**Equity Compensation Plan Information**

The following table provides information as of December 31, 2009 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans Approved by Shareholders (1)	4,611,756(2)	\$ 11.60(3)	6,036,100(4)(5)
Equity Compensation Plans Not Approved by Shareholders			
Total	4,611,756	\$ 11.60	6,036,100

(1) Consists of the 2000 Stock Incentive Plan.

(2) Represents 4,274,374 shares to be issued upon exercise of outstanding options and a total of 337,382 shares of common stock subject to outstanding restricted stock units.

(3) Represents the weighted-average exercise price of outstanding options and is calculated without taking into account the 337,382 shares of common stock subject to outstanding restricted stock units that become issuable as those units vest, without any cash consideration or other payment required for such shares.

(4) Consists of shares that were available for future issuance under the 2000 Stock Incentive Plan as of December 31, 2009. As of February 28, 2010, our 2000 Stock Incentive Plan expired and no shares are currently available for issuance under this plan. Previously, the number of shares of common stock available for issuance under the 2000 Stock Incentive Plan would automatically increase on the first trading day of January each calendar year by an amount equal to 4% of the total number of shares of common stock outstanding on the last trading day in December of the prior calendar year, but in no event would any such annual increase exceed 2,500,000 shares of common stock.

(5) The amount shown does not include the 4,600,000 shares of our common stock proposed for issuance under the 2010 Plan proposed for approval by our shareholders at this Annual Meeting under Item No. 2 of this Proxy Statement.

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COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The information contained in this Compensation Committee Report is not to be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor is such information to be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that STEC, Inc. specifically incorporates it by reference in such filing.

The Compensation Committee has reviewed and discussed with management the foregoing Compensation Discussion and Analysis. Based on that review and discussions, the Compensation Committee recommended to the Board of the Directors that the Compensation Discussion and Analysis be included in the Company's Proxy Statement for its 2010 Annual Meeting of Shareholders and incorporated by reference into the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Submitted by the Compensation Committee of

the Board of Directors,

F. Michael Ball, Chair

Rajat Bahri

Matthew L. Witte

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AUDIT MATTERS

Audit Committee Report

The information contained in this Audit Committee Report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that STEC, Inc. specifically incorporates it by reference in such filing.

The following is the report of the Audit Committee with respect to STEC's consolidated audited financial statements for the fiscal year ended December 31, 2009, which include STEC's consolidated balance sheets as of December 31, 2009 and 2008, and the related consolidated income statements, consolidated statements of shareholders' equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and the notes thereto.

Review with Management

The Audit Committee has reviewed and discussed STEC's audited financial statements with management.

Review and Discussions with Independent Registered Public Accounting Firm

The Audit Committee has reviewed and discussed STEC's audited financial statements with PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm. The Audit Committee has discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Statement of Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board (PCAOB), which include, among other items, matters related to the conduct of the audit of the Company's financial statements.

The Audit Committee has also received and reviewed the written disclosures and the letter from PricewaterhouseCoopers LLP required by the applicable requirements of the PCAOB regarding the independent accountant's communications with the Audit Committee concerning independence, and has discussed with PricewaterhouseCoopers LLP its independence from the Company.

Conclusion

Based on the review and discussions referred to above, the Audit Committee recommended to the Company's Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Submitted by the Audit Committee of

the Board of Directors,

Rajat Bahri, Chair

F. Michael Ball

Matthew L. Witte

Table of Contents**Accountant Fees and Services**

During the fiscal years ended December 31, 2009 and 2008, PricewaterhouseCoopers LLP provided various audit, audit related and non-audit services to us as follows:

Fee Category	Fiscal Year 2009 Fees	Fiscal Year 2008 Fees
<i>Audit Fees</i> Aggregate fees billed for professional services rendered for the audit of our annual financial statements and review of financial statements included in our quarterly reports on Form 10-Q, financial statement and statutory audits for our subsidiaries and services that are normally provided in connection with statutory and regulatory filings or engagements for the 2009 and 2008 fiscal years.	\$ 853,000	\$ 984,000
<i>Audit-Related Fees</i> Aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements which are not reported under <i>Audit Fees</i> above, including fees for review of incentive grant reimbursement submissions to foreign governmental agencies.	\$ 6,000	\$ 11,000
<i>Tax Fees</i>	\$ 0	\$ 0
<i>All Other Fees</i>	\$ 0	\$ 0
<i>Total Fees</i>	\$ 859,000	\$ 995,000

Our Audit Committee has considered whether provision of the above services other than audit services is compatible with maintaining the independent registered public accounting firm's independence and has determined that such services have not adversely affected PricewaterhouseCoopers LLP's independence.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is specific to the particular service or category of services and is generally subject to a specific budget. In addition, the Audit Committee has delegated pre-approval authority to its Chairman who, in turn, must report any pre-approval decisions to the Audit Committee at its next scheduled regular meeting. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis. All of the 2009 and 2008 services described above were pre-approved in accordance with these policies.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Policies and Procedures with Respect to Related Person Transactions

Our Audit Committee Charter requires that members of the Audit Committee, all of whom are independent directors, review and approve all related party transactions as defined in applicable SEC rules. Our Code of Business Conduct and Ethics, which applies to all of our directors, officers and employees, discourages related party transactions. In the event of a related party transaction involving our directors or officers, the nature of the related party transaction must be fully disclosed to, and approved by, the Audit Committee in advance. In addition, under our Code of Business Conduct and Ethics, directors, officers and employees are expected to avoid any activity or personal interest that creates or appears to create a conflict between such person's interests and the interests of STEC. Directors and executive officers are required to disclose to our Board, Audit Committee and/or the Nominating and Corporate Governance Committee, as appropriate, for pre-approval any activity or personal interest that creates or appears to create a conflict with the interests of STEC. Our Board, Audit Committee and/or the Nominating and Corporate Governance Committee, as appropriate, will determine an appropriate resolution on a case-by-case basis. All directors must recuse themselves from any decision affecting their personal, business or professional interests.

Related Persons Transactions

Deutsche Bank Securities

Christopher W. Colpitts is a Managing Director and the Global Head of Technology Investment Banking at Deutsche Bank Securities Inc. On August 3, 2009, Deutsche Bank Securities Inc. and J.P. Morgan Securities Inc. acted as joint book-running managers of the underwriters in the offering by STEC's shareholders of 10,350,000 shares of common stock. The aggregate offering price was \$320,850,000 and the total underwriting discounts and commissions paid to the underwriters by the selling shareholders was \$12,834,000. In addition, Deutsche Bank Securities Inc. or its affiliates have in the past and may from time to time in the future provide investment banking and other services to us, including cash management services as well as certain commercial banking, financial advisory, investment banking and other services, for which it will receive customary fees and commissions.

MDC Land LLC

Manouch Moshayedi and Mark Moshayedi each have a one-third ownership interest in MDC Land Corporation, MDC Land LLC, and QualCenter, Inc., all of which are privately-held entities. In addition, Manouch Moshayedi and Mark Moshayedi are both a director, executive officer and/or manager of each of these companies.

STEC occupies two leased facilities of approximately 24,500 and 48,600 square feet, in Santa Ana, California, in which our executive offices, sales and marketing and research and development operations are located. STEC leases both facilities from MDC Land LLC. In addition, QualCenter, Inc. leases a facility in Houston, Texas from MDC Land LLC. MDC Land LLC has no operations other than its leasing transactions with us.

24,500 square foot facility. The operating lease for the 24,500 square foot facility expires in July 2017. The monthly base rent was approximately \$20,000 per month during 2009. Beginning August 1, 2007, the monthly base rent was adjusted to approximately \$20,000 based on the change in the Consumer Price Index. For the remainder of the lease, base rent shall be adjusted every two years based on the change in the Consumer Price Index. STEC believes its lease of the 24,500 square foot facility with MDC Land LLC is on terms no less favorable to it than could be obtained from an unaffiliated third party.

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48,600 square foot facility. The operating lease for the 48,600 square foot facility expires in July 2017. The monthly base rent was approximately \$34,000 per month during 2009. Beginning August 1, 2007, the monthly base rent was adjusted to approximately \$34,000 based on the change in the Consumer Price Index. For the remainder of the lease, base rent shall be adjusted every two years based on the change in the Consumer Price Index. STEC believes its lease of the 48,600 square foot facility with MDC Land LLC is on terms no less favorable to it than could be obtained from an unaffiliated third party.

Total outstanding remaining lease payments due on or after January 1, 2010 under both the 24,500 and 48,600 square foot facilities at current lease rates is approximately \$4,868,000. Total base rents in 2009 for both the 24,500 and 48,600 square foot facilities was approximately \$640,000.

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SHAREHOLDER PROPOSALS

Shareholder proposals that are intended to be presented at our 2011 annual meeting and included in our proxy materials relating to the 2011 annual meeting must be received by Mark Moshayedi, Corporate Secretary, STEC, Inc., 3001 Daimler Street, Santa Ana, California 92705-5812 no later than December 17, 2010, which is 120 calendar days prior to the anniversary of the mailing date for this year's proxy materials. All shareholder proposals must be in compliance with applicable laws and regulations in order to be considered for possible inclusion in the Proxy Statement and form of proxy for the 2011 annual meeting.

If a shareholder wishes to present a proposal at our 2011 annual meeting and the proposal is not intended to be included in our Proxy Statement relating to the 2011 annual meeting, the shareholder must give advance notice to us prior to the deadline for the 2011 annual meeting. In order to be deemed properly presented, the notice of a proposal must be delivered to our Corporate Secretary no later than March 2, 2011, which is 45 calendar days prior to the anniversary of the mailing date for this year's proxy materials. However, in the event that the 2011 annual meeting is called for a date which is not within thirty days of the anniversary of the date of the 2010 Annual Meeting, shareholder proposals intended for presentation at the 2011 annual meeting must be received by our Corporate Secretary no later than the close of business on the tenth day following the date on which public announcement of the date of the 2011 annual meeting is first made. If a shareholder gives notice of such proposal after March 2, 2011, then the proxy solicited by the Board for the 2011 annual meeting will confer discretionary authority to vote on such proposal at that meeting, which may include a vote against such shareholder proposal.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file an initial report of securities ownership on Form 3 and reports of changes in securities ownership on Form 4 or 5 with the Securities and Exchange Commission. Such executive officers, directors and 10% shareholders are also required by SEC rules to furnish us with copies of all Section 16(a) forms that they file. Based solely on our review of the copies of such forms received by us for fiscal year 2009 and written representations from certain reporting persons that no other reports were required for such persons, we believe that our executive officers, directors and 10% shareholders complied with their reporting requirements under Section 16(a), with the following exception: Mark Moshayedi filed an amended Form 4 in April 2010 to correct the number of shares sold with respect to a transaction initially reported in a Form 4 filed in June 2008.

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OTHER MATTERS

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate this Proxy Statement or future filings made by us under those statutes, the Compensation Committee Report and the Audit Committee Report are not deemed filed with the Securities and Exchange Commission (SEC) and shall not be deemed incorporated by reference into any of those prior filings or into any future filings made by us under those statutes, except to the extent we specifically incorporate such reports by reference therein.

On February 23, 2010 we filed an Annual Report on Form 10-K for the year ended December 31, 2009 with the SEC. A copy of our 2009 Form 10-K has been mailed concurrently with this Proxy Statement to all shareholders entitled to notice of and to vote at the Annual Meeting. Shareholders may also obtain a copy of the 2009 Form 10-K or any of its exhibits, and any of our other SEC reports, free of charge, from the SEC website at <http://www.sec.gov> or from the Investor Relations section of our website at <http://www.stec-inc.com>, or by writing to Investor Relations, STEC, Inc., 3001 Daimler Street, Santa Ana, California 92705-5812. The 2009 Form 10-K and information contained on our website, other than this Proxy Statement, are not considered proxy solicitation materials and are not incorporated by reference herein.

Our Board knows of no other business that will be presented at the Annual Meeting. If any other business is properly brought before the Annual Meeting, proxies received will be voted in respect thereof in accordance with the recommendation of the Board. Discretionary authority with respect to such other matters is granted by the execution of the enclosed proxy.

It is important that the proxies be returned promptly and that your shares be represented. You are urged to sign, date and promptly return the enclosed proxy card in the enclosed envelope.

By Order of the Board of Directors,

Manouch Moshayedi

Chief Executive Officer and Chairman

of the Board of Directors

Dated: April 16, 2010

Santa Ana, California

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Appendix A

STEC, INC.

2010 INCENTIVE AWARD PLAN

ARTICLE 1.

PURPOSE

The purpose of the STEC, Inc. 2010 Incentive Award Plan (the Plan) is to promote the success and enhance the value of STEC, Inc. (the Company) by linking the individual interests of the members of the Board, Employees, and Consultants to those of Company shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to Company shareholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board, Employees, and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

ARTICLE 2.

DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 Administrator shall mean the entity that conducts the general administration of the Plan as provided in Article 12. With reference to the duties of the Committee under the Plan which have been delegated to one or more persons pursuant to Section 12.6, or as to which the Board has assumed, the term Administrator shall refer to such person(s) unless the Committee or the Board has revoked such delegation or the Board has terminated the assumption of such duties.

2.2 Affiliate shall mean (a) Subsidiary; and (b) any domestic eligible entity that is disregarded, under Treasury Regulation Section 301.7701-3, as an entity separate from either (i) the Company or (ii) any Subsidiary.

2.3 Applicable Accounting Standards shall mean Generally Accepted Accounting Principles in the United States, International Financial Reporting Standards or such other accounting principles or standards as may apply to the Company's financial statements under United States federal securities laws from time to time.

2.4 Award shall mean an Option, a Restricted Stock Award, a Restricted Stock Unit Award, a Performance Award, a Dividend Equivalents Award, a Deferred Stock Award, a Stock Payment Award, a Stock Appreciation Right, or an Other Incentive Award, which may be awarded or granted under the Plan (collectively, Awards).

2.5 Award Agreement shall mean any written notice, agreement, terms and conditions, contract or other instrument or document evidencing an Award, including through electronic medium, which shall contain such terms and conditions with respect to an Award as the Administrator shall determine consistent with the Plan.

2.6 Board shall mean the Board of Directors of the Company.

2.7 Cause shall mean, except as otherwise defined in an applicable Award Agreement or any applicable employment agreement, the occurrence of any one or more of the following:

(a) The Holder's commission of a felony or any other crime involving dishonesty;

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(b) The willful and continued failure by the Holder (other than any such failure resulting from the Holder's disability) to substantially perform the Holder's duties with the Company or an Affiliate or to comply with a lawful instruction of the Board, or the Holder's gross negligence in the performance of his or her duties with the Company or an Affiliate;

(c) The willful engaging by the Holder in conduct which is demonstrably and materially injurious to the Company or an Affiliate; or

(d) The Holder's unauthorized use or disclosure of confidential information or trade secrets of the Company or an Affiliate.

2.8 Change in Control shall mean and includes each of the following: