

STEC, INC.
Form PREC14A
May 06, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

SCHEDULE 14A INFORMATION

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

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under § 240.14a-12

STEC, INC.

(Name of the Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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Preliminary Proxy Statement Subject to Completion

sTec, Inc.

3001 Daimler Street

Santa Ana, California 92705-5812

(949) 476-1180

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD JUNE 25, 2013

The 2013 Annual Meeting of Shareholders (the Annual Meeting) of sTec, Inc., a California corporation (the Company or sTec), will be held on Tuesday, June 25, 2013, 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 Rajat Bahri, F. Michael Ball, Alan E. Baratz, Ph.D., Christopher W. Colpitts, Kevin C. Daly, Ph.D., Manouch Moshayedi, Mark Moshayedi, and Matthew L. Witte to serve on our Board of Directors until the 2014 Annual Meeting of Shareholders and until their successors are duly elected and qualified or until their earlier resignation or removal;
2. To approve an amendment to sTec s Bylaws to increase the minimum and maximum size of our Board of Directors;
3. To approve the sTec, Inc. 2013 Executive Cash Incentive Plan;
4. To conduct an advisory vote to approve the compensation of our named executive officers (the Say-On-Pay vote);
5. To ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013; and

6. To transact such other business as may properly come before the Annual Meeting or any adjournment or adjournments thereof. The Proxy Statement accompanying this notice describes each of these items of business in more detail. Our Board of Directors recommends: a vote FOR each of the eight nominees listed above; and a vote FOR Items 2, 3, 4 and 5 above.

The Board of Directors has fixed the close of business on May 13, 2013 as the record date for determining the shareholders entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof.

All shareholders are cordially invited to attend the Annual Meeting in person. Whether or not you plan to attend the Annual Meeting in person, you are urged to mark, date, sign and return the enclosed **WHITE** proxy card or voting instruction form in the pre-addressed, pre-paid envelope provided or submit your proxy or voting instructions electronically over the Internet or by telephone as promptly as possible to ensure your representation and the presence of a quorum at the Annual Meeting. If you submit your proxy or voting instructions and then decide to attend the Annual Meeting, you may still vote your shares in person by following the procedures described in the Proxy Statement. Your proxy is

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revocable in accordance with the procedures set forth in the Proxy Statement. Only shareholders of record as of the close of business on May 13, 2013 are entitled to receive notice of, to attend and to vote at the Annual Meeting, but if you are a beneficial holder as of that date, you will receive communications from your broker, bank or other nominee about the Annual Meeting and how to direct the vote of your shares, and are welcome to attend the Annual Meeting, all as described in more detail in the related questions and answers in the attached Proxy Statement.

Based upon the recommendation of our Nominating and Corporate Governance Committee, our Board of Directors has unanimously selected the eight persons named above and in the attached Proxy Statement as its nominees for election to the Board of Directors at the Annual Meeting. Seven of our nominees are currently serving as directors of the Company. We believe that these eight nominees have a well-rounded combination of data storage, technology, sales and marketing, operational, financial and investment strategy expertise and insight, all necessary to provide the

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right leadership to build value for all sTec shareholders. These nominees also provide strong backgrounds in engineering, technology development, and global tax, accounting, and treasury activities, all complemented by public company senior executive, financial and corporate governance experience.

This year's Annual Meeting is a particularly important one, and your vote is very important. Simon J. Michael (Mr. Michael), Paul J. Solit (Mr. Solit), Eric Singer (Mr. Singer), Balch Hill Partners, L.P., a Delaware limited partnership (Balch Hill Partnership), Potomac Capital Partners L.P., a Delaware limited partnership (PCP I), Potomac Capital Partners II, L.P., a Delaware limited partnership (PCP II), Potomac Capital Partners III, L.P., a Delaware limited partnership (PCP III), and certain persons and entities affiliated with Mr. Michael, Mr. Solit, Mr. Singer, Balch Hill Partnership, PCP I, PCP II, and PCP III (collectively, the Balch-Potomac Entities) have provided notice that they intend to nominate seven individuals for election to the Board of Directors at the Annual Meeting and solicit proxies from shareholders in support of those seven nominees. You may receive proxy solicitation materials from one or more of the Balch-Potomac Entities or other persons or entities affiliated with them in support of their nominees, including an opposition proxy statement and proxy card. We do not endorse the election of any of the Balch-Potomac Entities nominees as a director of the Company.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR ALL OF THE BOARD'S NOMINEES ON THE ENCLOSED **WHITE** PROXY CARD OR VOTING INSTRUCTION FORM AND URGES YOU NOT TO SIGN OR RETURN ANY PROXY CARD OR VOTING INSTRUCTION FORM SENT TO YOU BY OR ON BEHALF OF THE BALCH-POTOMAC ENTITIES. Even if you have previously submitted a proxy or voting instructions with respect to the director nominees solicited by the Balch-Potomac Entities, you have the right to change your vote. If you are a shareholder of record, you may change your vote by marking, dating, signing and returning the enclosed **WHITE** proxy card in the pre-addressed, pre-paid envelope provided or by following the instructions on the **WHITE** proxy card to submit your proxy electronically over the Internet or by telephone. *Only the latest dated proxy you submit will be counted.* If you hold your shares in street name, please follow the voting instructions provided by your bank, broker or other nominee to change your vote. We urge you to disregard any proxy card or voting instruction form sent to you by the Balch-Potomac Entities or on behalf of any person other than sTec.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on June 25, 2013. The Proxy Statement and sTec's Annual Report on Form 10-K for fiscal year 2012 are available electronically at <http://www.sTec-inc.com/proxy> and www.proxyvote.com.

If you have any questions or require any assistance with voting your shares, or if you need additional copies of the proxy materials, please contact:

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

By Order of the Board of Directors,

Mark Moshayedi
President and Chief Executive Officer

Santa Ana, California

May [], 2013

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING IN PERSON, PLEASE VOTE AS PROMPTLY AS POSSIBLE VIA THE INTERNET OR TELEPHONE AS INSTRUCTED IN THESE MATERIALS OR, IF THIS PROXY STATEMENT WAS MAILED TO YOU, BY COMPLETING, DATING AND SIGNING THE ENCLOSED WHITE PROXY CARD AND MAILING IT IN THE ACCOMPANYING POSTAGE PAID ENVELOPE.

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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 JUNE 25, 2013

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 2013 Annual Meeting of Shareholders (the Annual Meeting) to be held on June 25, 2013, at 8:00 a.m. local time, or at any 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.

On or about May [], 2013, proxy materials for the Annual Meeting, including this Proxy Statement and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the 2012 Annual Report), are being mailed to our shareholders entitled to vote at the Annual Meeting.

The Company has received notice from Simon J. Michael (Mr. Michael), Paul J. Solit (Mr. Solit), Eric Singer (Mr. Singer), Balch Hill Partners, L.P., a Delaware limited partnership (Balch Hill Partnership), Potomac Capital Partners L.P., a Delaware limited partnership (PCP I), Potomac Capital Partners II, L.P., a Delaware limited partnership (PCP II), Potomac Capital Partners III, L.P., a Delaware limited partnership (PCP III), and certain persons and entities affiliated with Mr. Michael, Mr. Solit, Mr. Singer, Balch Hill Partnership, PCP I, PCP II, and PCP III (collectively, Balch-Potomac Entities) of their intention to nominate seven individuals (the Balch-Potomac Nominees) for election to the Company's Board of Directors at the Annual Meeting and solicit proxies from the Company's shareholders in support of the Balch-Potomac Nominees.

The Balch-Potomac Nominees are not endorsed by our Board of Directors. **We urge our shareholders NOT to vote any proxy card or voting instruction form that they may receive from or on behalf of the Balch-Potomac Entities.** We are not responsible for the accuracy of any information provided by or relating to the Balch-Potomac Entities contained in any proxy solicitation materials filed or disseminated by or on behalf of the Balch-Potomac Entities or any other statements that the Balch-Potomac Entities may otherwise make. The Balch-Potomac Entities choose which shareholders receive their proxy solicitation materials.

Our Board of Directors urges you to vote FOR ALL of our nominees for director: Rajat Bahri, F. Michael Ball, Alan E. Baratz, Ph.D., Christopher W. Colpitts, Kevin C. Daly, Ph.D., Manouch Moshayedi, Mark Moshayedi, and Matthew L. Witte.

IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY OF PROXY MATERIALS FOR STEC'S ANNUAL SHAREHOLDER MEETING TO BE HELD ON JUNE 25, 2013.

sTec's Proxy Statement, the 2012 Annual Report, which consists of our 2012 Annual Report on Form 10-K, and a proxy card sample are available at <http://www.sTec-inc.com/proxy> and www.proxyvote.com. You are encouraged to access and review all of the important information contained in the proxy materials before submitting a proxy or voting at the Annual Meeting.

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Who can attend the Annual Meeting?

Attendance at the Annual Meeting is limited to sTec's shareholders of record and beneficial owners as of May 13, 2013. 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 you 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 May 13, 2013, you must bring the executed proxy naming you as the proxy holder, signed by the shareholder of sTec who owned shares of sTec common stock as of the close of business on May 13, 2013 and a government-issued valid personal photo identification (such as a driver's license or passport).

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 similar electronic devices will not be permitted at the Annual 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, May 13, 2013. As of the close of business on the record date, [] 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. 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 by any shareholder meeting the requirements set forth in Section 1600(a) of the California Corporations Code at sTec's executive offices during normal business hours on or before five business days after such shareholder's request for such list is received. Furthermore, such list shall also be open to inspection by any shareholder at sTec's executive offices during normal business hours upon written request to sTec, for a purpose reasonably related to such holder's interests as a shareholder.

How do I vote?

You may vote by attending the Annual Meeting and voting in person or you may vote by submitting a proxy. The method of voting by proxy differs depending on whether you hold your shares as a record holder or in street name.

If you are the record holder of your stock and you are receiving a paper copy of this Proxy Statement, you may vote by completing, dating and signing the **WHITE** proxy card that was included with the Proxy Statement and promptly returning it in the pre-addressed, pre-paid envelope provided to you, or by submitting a proxy over the Internet, by telephone or through the mail by following the instructions on the **WHITE** proxy card. If you decide to vote by mail and do not have a pre-addressed, pre-paid envelope, please mail your completed **WHITE** proxy card to the following address: sTec, Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

If you hold your shares of common stock in street name, you will receive instructions on how to vote your shares from your broker, bank or other nominee. Your broker, bank or other nominee will allow you to deliver

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your voting instructions via the Internet and may also permit you to submit your voting instructions by telephone. In addition, you may request paper copies of our proxy materials and proxy card by following the instructions provided by your broker, bank or other nominee.

What is householding of proxy materials?

Some brokers, banks and other nominee record holders may participate in the practice of householding proxy materials. This means that only one copy of our proxy materials, may have been sent to multiple shareholders in your household. We will promptly deliver separate proxy materials to you if you contact us at sTec, Inc., 3001 Daimler Street, Santa Ana, California 92705-5812, Attention: Corporate Secretary, or via phone at (949) 476-1180. If you want to receive separate copies of our proxy materials in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your broker, bank or other nominee record holder, or you may contact us at the above address or telephone number.

How can I revoke or change my vote?

As a shareholder of record, you have the power to revoke your proxy at any time before it is voted either by:

Delivering a written notice of revocation to our Corporate Secretary;

Presenting to our Corporate Secretary a later dated proxy executed by the person who executed the prior proxy; or

Submitting another proxy by telephone or via the Internet (your latest telephone or Internet voting instructions are followed).

If you hold your shares through a broker, bank or other nominee, you may change your vote by submitting new voting instructions to your broker, bank or other nominee. Please note that your vote in person at the Annual Meeting will not be effective unless you have obtained and present a legal proxy from your broker, bank or other nominee.

Please note that the submission of a later dated proxy card or voting instruction form, including any non-**WHITE** proxy card or voting instruction form that you may have received from the Balch-Potomac Entities or on behalf of any person other than sTec, will revoke any proxy or voting instructions you may have previously submitted by telephone, over the Internet or by mail, including by using a **WHITE** proxy card or voting instruction form. Accordingly, please note that if you submit a non-**WHITE** proxy card or voting instruction form to **WITHHOLD AUTHORITY** to vote your shares with respect to any of the Balch-Potomac Nominees, that submission will not cause your shares to be counted as a vote **FOR** any of the Board's nominees and will result in the revocation of any previous proxy or voting instructions you may have submitted using sTec's **WHITE** proxy card or voting instruction form.

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 item and to which 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. If there is a quorum present at the Annual Meeting initially, but a sufficient number of shareholders withdraw, leaving less than a quorum, business may continue to be transacted at the Annual Meeting if any action taken (other than adjournment) is approved by shares holding at least a majority of the voting power required to constitute a quorum.

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What vote is required for each item?

For Item No. 1, the eight nominees receiving the highest number of affirmative votes will be elected as directors, so long as Item No. 2, the amendment to sTec's bylaws, as amended and restated on September 22, 2011 (the Bylaws), to increase the minimum and maximum size of our Board of Directors, is approved by our shareholders. However, if the Bylaw amendment is not approved by our shareholders, then the seven nominees receiving the highest number of affirmative votes shall be elected. The election of nominees for director is a non-routine proposal on which a broker, bank or other nominee does not have discretion to vote any uninstructed shares. Abstentions and broker non-votes will have no effect on the outcome of the election of nominees for director.

sTec has also received notice from the Balch-Potomac Entities that they intend to nominate the Balch-Potomac Nominees for election as directors at the Annual Meeting and solicit proxies from shareholders in support of the Balch-Potomac Nominees. *Because the number of nominees timely nominated for election at the Annual Meeting exceeds the number of directors to be elected at the Annual Meeting, the election of directors at the Annual Meeting is a contested election.* The Balch-Potomac Nominees are not endorsed by our Board. We urge shareholders to vote FOR ALL of the eight director nominees named in Item No. 1 on the **WHITE** proxy card and NOT to vote any proxy card or voting instruction form that you may receive from or on behalf of the Balch-Potomac Entities. If you submit the **WHITE** proxy card or voting instruction form and do not indicate otherwise, your shares will be voted FOR ALL of the eight nominees named in Item No. 1 in this Proxy Statement.

For Item No. 2, approving an amendment to sTec's Bylaws to increase the minimum and maximum size of our Board of Directors requires the affirmative vote of a majority of shares present at the Annual Meeting, in person or by proxy, and voting on the proposal. Abstentions and broker non-votes will not count as shares voting on this proposal, which is considered non-routine, and thus will not impact the outcome of the vote on Item No. 2.

For Item No. 3, approving the sTec, Inc. 2013 Executive Cash Incentive Plan requires the affirmative vote of a majority of shares present at the Annual Meeting, in person or by proxy, and voting on the proposal. Abstentions and broker non-votes will not count as shares voting on this proposal, which is considered non-routine, and thus will not impact the outcome of the vote on Item No. 3.

For Item No. 4, an advisory vote approving the compensation of our named executive officers, as described in this Proxy Statement (the Say-On-Pay Vote), requires the affirmative vote of a majority of shares present at the Annual Meeting, in person or by proxy, and voting on the proposal. Abstentions and broker non-votes will not count as shares voting on this proposal, which is considered non-routine, and thus will not impact the outcome of the vote on Item No. 4.

For Item No. 5, ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013 requires the affirmative vote of a majority of shares present at the Annual Meeting, in person or by proxy, and voting on the proposal. Abstentions will not count as shares voting on this proposal and will not have any impact on the outcome of the vote on Item No. 5. The approval of Item No. 5 is a routine proposal on which a broker, bank or other nominee is generally empowered to vote. Accordingly, it is unlikely that any broker non-votes will result from this proposal.

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.

If you are a shareholder of record and you vote using a proxy card that is properly signed and dated, 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 an item, the proxy holders will vote for you on that item. Unless you instruct

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otherwise, the proxy holders will vote **FOR** each of the director nominees; vote **FOR** Items No. 2, 3, 4 and 5; and vote 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.

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 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 Annual Meeting, the proxy holders will vote your shares as they deem appropriate.

Who pays for this proxy solicitation and what is the method of 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 but no additional compensation will be paid to such individuals. In addition, sTec has retained MacKenzie Partners, Inc. (MacKenzie Partners) to assist in connection with the solicitation of proxies from shareholders whose shares are held in nominee name by various brokerage firms. Our agreement with MacKenzie Partners contains customary indemnification provisions with respect to the services provided by MacKenzie Partners. Approximately fifty employees of MacKenzie Partners will participate in the solicitation of proxies. We estimate the cost of this solicitation to be \$[], plus out-of-pocket costs and expenses of approximately \$[]. To date, the total expenditures in connection with the solicitation amount to approximately \$30,000. Actual expenditures may vary from this estimate, however, as many of the expenditures cannot be readily predicted.

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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CERTAIN BACKGROUND INFORMATION

As noted above, the Balch-Potomac Entities have notified the Company of their intention to nominate the Balch-Potomac Nominees for election to our Board of Directors at the Annual Meeting. Our Board unanimously recommends that you vote FOR ALL of our Board's nominees at the Annual Meeting on the WHITE proxy card for the reasons set forth below.

Our Board takes its fiduciary duties to all shareholders very seriously.

Our Board currently consists of five independent directors and two employee directors that are significant shareholders, Mr. Mark Moshayedi, our President and Chief Executive Officer, and Manouch Moshayedi, our Founder. If all our Board nominees are elected, including Alan E. Baratz, Ph.D., our Board will then consist of eight directors, five of whom are independent, bringing it to a 62.5% independent Board.

We have an independent director, Kevin C. Daly, Ph.D., serving as the Chairman of our Board.

Our Board has the skill, dedication, experience and industry knowledge both from a technical perspective and a customer perspective that is needed to implement the Company's business strategy in this time of dramatic change in the enterprise solid-state storage market. See Item No. 1: Election of Directors for detailed background information and qualifications of each of our Board's nominees.

In response to evolving dynamics in the industry, our Board has proactively adopted an additional go-to-market strategy. Focusing on selling SSDs as a component product to a limited set of OEM customers in a market that has attracted much larger and more vertically integrated competitors has created challenges. In response to these changing competitive dynamics, the Company is making significant investments in the people, tools and resources necessary to effectively and seamlessly transition from an OEM-centric model to a more-balanced and diversified sales model. With our new go-to-market strategy we expect to achieve a sales mix by year-end with a significant component of our revenue coming from non-OEM customers, including global channel partners and direct enterprise customers. This is consistent with our goal to transform the Company from a component supplier to a limited set of OEM customers into a storage solutions provider with a much broader and diversified enterprise and OEM customer base. We have already seen significant results from implementing this strategy, and at this stage in the Company's transformation, we believe it is imperative that we maintain leadership continuity and stability to see this strategy through to fruition.

Our Board is always open to constructive dialogue with all of our shareholders and, to that end, we have engaged in numerous discussions with Balch Hill and Potomac Capital. Moreover, we have made considerable good faith efforts to reach an accord in the best interests of the Company and all shareholders that was acceptable to both parties. To this end, we have been more than willing to give Balch Hill and Potomac Capital reasonable representation on our Board so that we can evaluate and potentially benefit from any meritorious ideas they may have to share with us, and to avoid a costly and time-consuming proxy contest. Specifically:

During the period from December 2012 through April 2013, members of our Board, with management when requested, met with representatives of Balch Hill and Potomac on multiple occasions. In addition, all of our independent directors, at the request of Balch Hill and Potomac, attended a conference call with the representatives of Balch Hill and Potomac. Our Board has met each and every request of Balch Hill and Potomac Capital to meet with members of our Board and management.

During the period from February through April 2013, our Board remained, and continues to remain open to resolving the contemplated proxy contest with the Balch-Potomac Entities. To that end, our Board made three proposals to Balch Hill and Potomac, in which it proposed that it would expand the size of the Board to nine members, and nominate two of the Balch-Potomac Nominees to be added to the Company's slate of directors for election at the Annual Meeting.

The fundamental reason that the Board was unable to reach an accommodation with the Balch-Potomac Entities and resolve the contemplated proxy contest was based on the unwavering demands by Balch

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Hill and Potomac that we immediately reconstitute our senior management team. They have demanded that we terminate all relationships with the two founders of the Company, Mark Moshayedi, our President and Chief Executive Officer and Manouch Moshayedi, both of whom are Board members, have over two decades of industry experience and who together pioneered the enterprise-class SSD. In fact, Mark Moshayedi was the Company's Chief Technology Officer from January 1995 to September 2012 and continues to be the leading innovator of our products and solutions and our strategic product development roadmap. The Board believes that the loss of these experienced leaders could deter the development and innovation of our product lines and potentially result in departures of many of our critical research and development engineers. This would clearly be to the detriment of the Company and all our shareholders. Our Board also believes that to reconstitute our senior management at this juncture in the transformation of our Company would be extremely destabilizing and detrimental to our overall business and new go-to-market strategy.

Table of Contents**ITEM NO. 1****ELECTION OF DIRECTORS****General**

Our Board currently consists of seven directors. Based upon the recommendation of our Nominating and Corporate Governance Committee, the Board has nominated all seven of the current directors for re-election at the Annual Meeting, plus Alan E. Batatz, Ph.D (see his background information and qualifications below), to serve for a one-year term and until their respective successors have been duly elected and qualified. The eight nominees receiving the highest number of affirmative votes will be elected as directors, provided that Item No. 2, the amendment to sTec's Bylaws to increase the minimum and maximum size of our Board of Directors, is approved by our shareholders. However, if the Bylaw amendment is not approved by our shareholders, then the seven nominees receiving the highest number of affirmative votes shall be elected.

Holders of proxies solicited by this Proxy Statement will vote the proxies received by them as directed on the **WHITE** proxy card or, if no direction is made, the proxy holders will vote **FOR** the election of the eight director nominees named below. Proxies cannot be voted for more than the eight 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 table below lists our director nominees. A summary of each nominee's background is set forth after the table below and includes the specific experience, qualifications, attributes, and skills that, together with the general characteristics and qualifications described below under the caption "Director Candidate Nominating Procedures," contributed to our Nominating and Corporate Governance Committee's and Board's conclusion that the person should serve as a director of sTec.

The names of our director nominees, their ages as of May [], 2013, and their positions with sTec are set forth below, followed by certain other information about them:

Name	Age	Director	
		Since	Position
Kevin C. Daly, Ph.D. (1)(2)	68	2010	Chairman of the Board
Rajat Bahri (1)	49	2005	Director
F. Michael Ball (1)	57	2000	Director
Alan E. Batatz, Ph.D.	58	N/A	Director Nominee
Christopher W. Colpitts	45	2009	Director
Manouch Moshayedi	54	1990	Founder and Director
Mark Moshayedi (2)	51	1992	President, Chief Executive Officer, and Director
Matthew L. Witte (1)	55	2009	Director

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

(2) Member of the Equity Awards Committee

Kevin C. Daly, Ph.D., joined sTec in May 2010 as a director and member of our Audit, Compensation, and Nominating and Corporate Governance Committees, Chairman of our Equity Awards Committee, and was appointed as sTec's Chairman of the Board in September 2012. Dr. Daly also served as our Lead Independent

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Director from May 2011 to September 2012. He 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 initial public offering 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 publicly-traded provider of traffic management solutions, and Project Tomorrow, a national education non-profit group based in Irvine, California. Dr. Daly holds two Master degrees in engineering as well as a Ph.D. in engineering from Princeton University, and he holds a Bachelor of Engineering degree from the University of Notre Dame. 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. For these reasons, our Board concluded that Dr. Daly should serve as one of our directors.

Rajat Bahri joined sTec in November 2005 as a director and member of our Audit, Compensation, and Nominating and Corporate Governance Committees and currently serves as the Chairman of our Audit Committee. 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 organizations 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 holds a Bachelor of Commerce degree from the University of Delhi and a Masters of Business Administration from Duke University. 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, where he is 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 an audit committee financial expert on our Audit Committee. In addition, as Chief Financial Officer of Trimble, Mr. Bahri has significant exposure to many of the complex issues facing public companies. For these reasons, our Board concluded that Mr. Bahri should serve as one of our directors.

F. Michael Ball joined sTec in October 2000 as a director and member of our Audit and Compensation Committees. Mr. Ball was appointed as a member of our Nominating and Corporate Governance Committee in February 2004 and currently serves as the Chairman of our Compensation Committee. Since March 28, 2011, Mr. Ball has been Chief Executive Officer of Hospira, Inc., a publicly-traded global specialty pharmaceutical and medication delivery company. He also serves on the board of directors of Hospira. Prior to joining Hospira, Mr. Ball served for more than 15 years in various capacities within Allergan, Inc., a publicly-traded pharmaceutical company. From February 2006 to March 2011, Mr. Ball served as President of Allergan. From October 2003 to January 2006, Mr. Ball was Executive Vice President and President, Pharmaceuticals, of Allergan. From April 1996 to September 2003, Mr. Ball was Corporate Vice President and President, North America Region of Allergan. In addition, Mr. Ball has previously served on the board of directors of Intralase Corp., a publicly-traded medical device company, from July 2006 until April 2007. Mr. Ball holds a Bachelor degree and a Masters of Business Administration from Queens University Canada. With his distinguished career, 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

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at Allergan and Hospira, Mr. Ball has significant exposure to many of the complex issues facing large public companies, including on the operational, financial and corporate governance fronts. For these reasons, our Board concluded that Mr. Ball should serve as one of our directors.

Alan E. Baratz, Ph.D., currently serves as an angel investor and technology business and product strategy consultant. From 2008 to 2012, Dr. Baratz served as Senior Vice President and President, Global Communications Solutions at Avaya, Inc., a privately held leading global provider of real-time business collaboration and communication solutions. From 2007 to 2008, Dr. Baratz served as Senior Vice President, Network Software and Systems Technology Group of Cisco Systems, Inc., a publicly traded, designer, manufacturer, and seller of Internet Protocol based networking and other products and services related to the communications and information technology industry. From 2005 to 2007, Dr. Baratz served as President and CEO of Neopath Networks, Inc., a storage technology startup that was subsequently acquired by Cisco Systems. Prior to Neopath, Dr. Baratz served from 2003 to 2005 as a member of the Board of Directors and as President and Chief Executive Officer of Versata, Inc., a publicly traded provider of enterprise software development tools; and from 2000 to 2002, he served as President and CEO of Zaplet, Inc., an enterprise software startup. From 1999 to 2000, Dr. Baratz served as a Managing Director of E.M. Warburg, Pincus & Co, a private investment venture capitalist firm in which he specialized in information technology investments. From 1996 to 1999, Dr. Baratz was the President of JavaSoft at Sun Microsystems. Prior to this, Dr. Baratz served in various senior management positions with companies involved in storage systems, information processing systems, networking systems, software development and information technology. Dr. Baratz holds a Ph.D. and a Masters in computer science from the Massachusetts Institute of Technology (MIT) and a Bachelor of Science degree in mathematics and computer science from the University of California, Los Angeles. Dr. Baratz's experience in the storage industry, information technology and enterprise software include a variety of leadership and strategic positions, which have provided him with accumulated expertise in operational management, strategy, finance, and technology development. Dr. Baratz also brings to our Board broad management experience, having served as chief executive officer of startup technology companies and served in senior executive positions at multi-billion dollar public companies. For these reasons, our Board concluded that Dr. Baratz should serve as one of our directors.

Christopher W. Colpitts joined sTec as a director in March 2009. Since April 2013, Mr. Colpitts has been the Managing Director and Global Co-Head of Technology, Media and Telecommunications Investment Banking at Deutsche Bank. From May 2006 to April 2013, Mr. Colpitts served as 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. Mr. Colpitts holds a Bachelor of Art degree in business administration and a Masters of Business Administration from the University of Western Ontario. 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, and these attributes led the Board to conclude that he should serve as one of our directors.

Manouch Moshayedi, a co-founder of sTec, has served as a director and our President or Chief Executive Officer and Chairman of the Board from our inception in March 1990 until September 2012, at which time he assumed the position of Founder and Director. From March 1990 to September 1994, Mr. Moshayedi also served as our Chief Financial Officer. Mr. Moshayedi graduated with a Bachelor of Science degree in engineering from California State University, Fullerton and a Masters of Business Administration from Long Island University in New York. 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 and led our Board to conclude that he should serve as one of our directors. As a co-founder, Mr. Moshayedi brings in-depth knowledge, experience and understanding of all facets of our business and industry. Mr. Moshayedi co-founded sTec as a small computer memory company in Santa Ana

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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 solid-state drives (SSDs) worldwide with locations in California, Texas, Malaysia, Taiwan, Japan, China, India, the United Kingdom, Germany and Italy. The strengths and benefits of Mr. Moshayedi's leadership are reflected in sTec's transformation into a leading provider of enterprise-class Flash SSDs. Mr. Moshayedi is the brother of Mark Moshayedi, who is a director and President and Chief Executive Officer of sTec.

Mark Moshayedi has served as a sTec director since March 1992 and is a member of the Equity Awards Committee of our Board of Directors, President since March 2007, and Chief Executive Officer since September 2012. From January 1995 to September 2012, Mr. Moshayedi served as our Chief Operating Officer and Chief Technical Officer. From June 1994 to December 1994, Mr. Moshayedi served as our President of Research and Development. From March 1992 to May 1994, Mr. Moshayedi held various positions with sTec, including Senior Vice President. Mr. Moshayedi also served as sTec's Secretary from January 1995 through March 2012. Mr. Moshayedi holds a Bachelor of Science degree in engineering from the University of California, Irvine and a Masters of Business Administration from Pepperdine University. With over fifteen years of senior management experience at sTec, 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. The foregoing attributes, Mr. Moshayedi's tireless dedication to sTec, his experienced leadership skills and drive for innovation and excellence position him well to serve as our President and Chief Operating Officer, and led our Board to conclude that he should serve as one of our directors. Mr. Moshayedi is the brother of Manouch Moshayedi, who is a former executive officer of sTec and is currently a director and Founder of sTec.

Matthew L. Witte joined sTec in January 2009 as a director and member of our Audit, Compensation and Nominating and Corporate Governance Committees. He serves as the Chairman of our Nominating and Corporate Governance Committee. Mr. Witte is a founding partner of Marwit Capital, LLC, a private equity firm with which he was affiliated from January 1994 until 2010. 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 holds a Bachelor of Science degree from Cornell University. 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 makes 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 sTec. 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. For these reasons, our Board concluded that Mr. Witte should serve as one of our directors.

Recommendation of sTec's Board of Directors

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR EACH OF THE DIRECTOR NOMINEES NAMED IN THIS ITEM NO. 1.

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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, Messrs. Manouch and Mark Moshayedi were not paid for their service as directors in 2012. All compensation paid to Messrs. Manouch and Mark Moshayedi during the year ended December 31, 2012 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 2012 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.

Cash Compensation for Meeting Attendance

During fiscal year 2012, 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 \$15,000 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: The chair of the Nominating and Corporate Governance Committee received \$2,000 for each regular meeting over which he presided in person and the remaining 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.

Equity Compensation

Pursuant to sTec's 2010 Incentive Award Plan, 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 (Initial Option Grant). In addition, beginning with the annual meeting of shareholders that occurs after each non-employee director's first anniversary of election or appointment to our Board, such non-employee director will automatically be granted an option to purchase 15,000 shares of sTec common stock per year for each year of service on the Board thereafter, effective as of the date immediately following each annual meeting of shareholders. 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. The stock options will immediately vest in full upon certain changes in control or ownership of sTec, and any Initial Option Grant shall immediately vest in full upon cessation of service on the Board by reason of death or disability. Upon a non-employee director's cessation of service on the Board for any reason, his or her vested stock options shall remain exercisable for twelve (12) months.

Table of Contents**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, 2012. 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 below is only with respect to our non-employee directors.

Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$) (1)(2)	Total (\$)
Kevin C. Daly, Ph.D.	\$ 72,000		