



CORPORATE GOVERNANCE GUIDELINES

The following Corporate Governance Guidelines have been adopted by the Board of Directors (the “Board”) of STEC, Inc. (the “Company”) to assist the Board in the exercise of its responsibilities. These Corporate Governance Guidelines reflect the Board’s commitment to monitor the effectiveness of policy and decision making both at the Board and management level, with a view to enhancing long-term shareholder value. These Corporate Governance Guidelines should be interpreted in the context of all applicable laws, rules and regulations, and the Company’s Articles of Incorporation, By-laws and other corporate governance documents, and are intended to serve as a flexible framework within which the Board may conduct its business and not as a set of legally binding obligations. These Corporate Governance Guidelines are subject to modification and the Board shall be able, in the exercise of its discretion, to deviate from these Corporate Governance Guidelines from time to time, as the Board may deem appropriate or as required or permitted by applicable laws, rules and regulations.

1. Basic Responsibilities of Directors of the Board

The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of the Company’s senior executives and its outside advisors and accountants, to the fullest extent permitted by law. Directors shall adhere to their duties of care and loyalty, including, without limitation, avoiding where possible any conflicts between their interests and those of the Company and disclosing any conflicts of interest or potential conflicts of interest of which they become aware. The directors shall be entitled to have the Company purchase directors’ and officers’ liability insurance on their behalf and receive the benefits of indemnification and exculpation to the fullest extent permitted by law, the Company’s Articles of Incorporation and By-laws and any indemnification agreements, as applicable.

The specific duties and responsibilities of the Board will include, among other things:

- overseeing the management of the business and affairs of the Company;
- selecting and recommending to shareholders appropriate candidates for election to the Board;
- reviewing and, where appropriate, approving the business plans, major strategies and financial objectives of the Company;
- reviewing and approving material investments or divestitures, strategic transactions, and other significant transactions that are not in the ordinary course of the Company’s business;
- evaluating Board processes and performance and the overall effectiveness of the Board;
- evaluating the performance of the Company and of senior management; and
- reviewing compliance with applicable laws, rules and regulations and adopting policies of corporate conduct to assure compliance with applicable laws, rules and regulations and to assure maintenance of necessary accounting, financial, and other controls.

2. Composition of Board

a. Size of Board. The Board believes that it should generally have a sufficient number of directors to reflect a diversity of perspectives, backgrounds and experiences, but not so many directors that the size of the Board hinders effective discussion or diminishes individual accountability. The Company's By-laws provide for a range of directors to be not less than four (4) nor more than seven (7) with the exact number of directors to be set by a resolution duly adopted by the Board or by the shareholders. The Board will periodically review the appropriate size of the Board.

b. Majority of Independent Directors. The Board will be comprised of a majority of directors meeting the criteria for independence under The Nasdaq Stock Market Inc. ("Nasdaq") listing standards ("Nasdaq Listing Standards") as the same may be amended from time to time. The Board shall affirmatively determine annually and at other times required by Nasdaq or applicable laws, rules or regulations that the directors designated as independent have no material relationships to the Company (either directly or with an organization in which the director is a partner, stockholder or officer or is financially interested) that may interfere with the exercise of their independence from management and the Company.

c. Board Membership Criteria. The Board seeks members with a reputation for integrity from diverse professional and personal backgrounds who will contribute to the Company's overall corporate goals of industry leadership, high customer satisfaction, integrity in financial reporting and business conduct and the creation and preservation of shareholder value. The Nominating and Corporate Governance Committee is responsible for identifying, screening and recommending candidates to the Board for Board membership. This assessment will include an examination of whether the individual is independent, the individual's achievement in their professional careers, educational background, financial acumen, diversity, board experience, wisdom, integrity, analytical abilities, understanding of the Company's business, skills, experience in the context of the needs of the Board and willingness to devote adequate time to Board duties and any other qualifications or criteria the Board may establish from time to time. When formulating its Board membership recommendations, the Nominating and Corporate Governance Committee shall also consider advice and recommendations from others as it deems appropriate. In determining whether to recommend a director for re-election, the Nominating and Corporate Governance Committee also considers the director's past attendance at, and participation in, meetings of the Board and its committees and contributions to their activities, in addition to assessing whether the director continues to meet the aforementioned criteria for Board candidates.

3. Director Compensation and Stock Ownership Guidelines.

a. Compensation. The Compensation Committee will review or request management or outside consultants to review appropriate compensation policies or changes in compensation policies for the directors serving on the Board and its committees. This review may consider board compensation practices of other public companies of comparable size and complexity, contributions to the Board functions, time commitment expected for Board and committee service and other appropriate factors. Changes to director compensation will be proposed by the Compensation Committee to the full Board for its consideration and approval.

b. Stock Ownership. The Board believes that the number of shares of the Company's stock owned by each director is a personal decision and encourages stock ownership. The Board may, from time to time, consider and approve director stock ownership guidelines.

4. Directors' Tenure.

a. Term Limits. The Board does not believe that arbitrary term limits on directors' service are appropriate. Directors who have served on the Board for an extended period of time are able to provide valuable insight into the operations and future of the Company based on their experience with and understanding of the Company's history, policies and objectives. At the same time, the Board does not believe that directors should expect to be automatically re-nominated annually. The Board believes that it is important to monitor overall Board performance. Therefore, the Nominating and Corporate Governance Committee shall review each director's continuation on the Board each year. This will allow each director the opportunity to confirm his or her desire to continue as a member of the Board, and also allow the Corporate Governance Committee an opportunity to review director performance and suitability.

b. Retirement Policy. In the absence of special circumstances, no person shall be nominated by the Board to serve as a director after their 75th birthday, unless the Board has voted, on an annual basis, to waive or to continue to waive, the mandatory retirement age of such person as a director.

c. Change of Position by Director. Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the Board for an extended period of time. The Board does not believe that directors who retire from or change their principal occupation, business association or position should necessarily leave the Board; however, there should be an opportunity for the Board and the Nominating and Corporate Governance Committee to review the appropriateness of continued Board membership under the changed circumstances. Upon a change in a director's principal occupation, business association or position, the director must notify the Nominating and Corporate Governance Committee, which shall review the appropriateness of the affected director remaining on the Board given the changed circumstances. The affected director agrees to submit a letter offering to resign as a director of the Company in the event the Nominating and Corporate Governance Committee makes a determination that such director's continued membership on the Board is not in the best interest of the Company and its shareholders given the changed circumstances.

d. Service on Other Boards and Audit Committees. The Board believes that individuals should limit the number of boards of publicly traded corporations on which they serve in order to give proper attention to their responsibility to each board. As a general policy, the Board believes that directors should limit their service to not more than three (3) boards of publicly traded companies in addition to that of the Company, but exceptions to this policy will be made in appropriate cases. Where a director seeks to serve on more than three such boards, s/he should seek and obtain approval of the Nominating and Corporate Governance Committee for that service. At its discretion, the Nominating and Corporate Governance Committee may refer the approval to the full Board.

Members of the Company's Audit Committee who seek to serve on the audit committee of another public company where that service will result in more than three (3) public company audit committee memberships simultaneously should seek and obtain a determination of the Company's Board, in advance of accepting such service, that such service will not impair the ability of such director to effectively serve on the Company's Audit Committee.

Regardless of whether the Nominating and Corporate Governance Committee or Board approval is required for service on other boards, a director seeking to serve on another board should notify the Chief Executive Officer and the Chairperson of the Nominating and Corporate Governance Committee in advance of accepting such service and should defer final acceptance of such a position until advised by the Chief Executive Officer or Chairperson that such service does not present legal or other problems for the Company.

5. Board Meetings.

a. Frequency of Board Meetings. A minimum of four regular meetings of the Board will be held each year. Additional meetings will be held as needed and will be called in accordance with the Company's By-laws. In appropriate circumstances, the Board may also act by written consent, as permitted by the Company's By-laws.

b. Scheduling of Full Board Meetings. Board meetings will be scheduled in advance, ordinarily for a day in each quarter and generally at the Company's principal executive officers. The Board may invite the Company's independent accountants, legal counsel, finance staff and other employees and any other advisors or persons they deem appropriate to attend portions of these meetings.

c. Agenda and Materials. The Chairman of the Board and the Chief Executive Officer (if not the Chairman) will have primary responsibility for preparing the agenda for each meeting and arranging for it to be sent in advance of the meeting to the directors along with appropriate written information and background materials. Each Board committee, and each individual director, is encouraged to suggest items for inclusion on the agenda. Each director is free to raise at any Board meeting subjects that are not on the agenda for that meeting. The Chairman, the Chief Executive Officer and the Board separately have authority to require the Board to meet in executive sessions to discuss sensitive matters without distribution of written materials.

d. Meeting Attendance. Directors are expected to attend regularly Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to discharge properly their responsibilities.

e. Executive Sessions of Independent Directors. The independent directors will hold during each fiscal year regular meetings of the independent members of the Board without management present, at such times and for such purposes as the independent directors consider to be appropriate. Such meetings shall be held not less than once a year and may be held as a part of a meeting of a Board committee provided such committee is comprised of all the independent directors. The independent directors may invite the Company's independent accountants, legal counsel, finance staff and other employees and any other advisors or persons they deem appropriate to attend portions of these meetings.

f. Access to Information. Directors have full and free access to officers and other associates of the Company and the Company's outside advisors. Any meetings or contacts that a director wishes to initiate may be arranged through the Chief Executive Officer or Chief Financial Officer. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company. It is the expectation of the Board that directors will keep the Chief Executive Officer informed of communications between a director and an officer or other associate of the Company, as appropriate. Each director is entitled to inspect the Company's books, records and facilities, and obtain such other data and information as the director may reasonably request for the appropriate performance of his/her duties as a director of the Company.

g. Inquiries and Independent Advisors. The Board is authorized to conduct investigations, and to retain, at the Company's expense, independent legal, accounting, investment banking, or other professional advisors selected by the Board, for any matter relating to the purpose or responsibilities of the Board.

h. Confidentiality. The Board believes maintaining confidentiality of information and deliberations is imperative. Information learned during the course of service on the Board is to be held confidential and used solely in furtherance of the Company's business.

6. Board Committees.

a. Number and Type of Committees. The Board currently has four standing Committees: Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee, and Equity Awards Committee. The Board may, from time to time, add new committees or remove existing committees as it deems advisable for purposes of fulfilling its primary responsibilities.

b. Committee Member Selection. The Board will, after considering any recommendations from the Nominating and Corporate Governance Committee at the request of the Board, designate the members and Chair of each committee, endeavoring to match the committee's functions and needs for expertise with the individual skill and experience of the appointees to the committee. Subject to any exceptions permitted under applicable Nasdaq Listing Standards or other applicable laws, rules and regulations, each of the Audit, Compensation and Nominating and Corporate Governance Committees will be composed entirely of independent directors as defined in the Nasdaq Listing Standards and applicable laws, rules and regulations and shall comply with all Nasdaq Listing Standards, applicable laws, rules and regulations.

c. Committee Functions. Each of the Audit, Compensation and Nominating and Corporate Governance Committees shall have a written charter approved by the Board that complies with the requirements of the Nasdaq Listing Standards and applicable laws, rules and regulations. The frequency, length and content of committee meetings and other matters of committee governance will be determined by each committee in light of the authority delegated by the Board to the committee, the committee's charter, if any, approved by the Board, and legal, regulatory, accounting or governance principles applicable to that committee's function. The Company will provide each committee with access to Company employees, legal counsel, outside accountants and other professional advisors and resources, if needed, to enable the committee to carry out its responsibilities. Minutes of each committee meeting will be made available to each Board member and the Chairman of each committee will report regularly to the Board on committee meetings and other committee activities.

7. Other Matters.

a. Board Evaluation. The Nominating and Corporate Governance Committee is responsible for conducting an annual evaluation of the performance of the full Board and reports its conclusions to the Board. The Nominating and Corporate Governance Committee's report should generally include an assessment of the Board's compliance with the governance principles set forth in these guidelines, as well as identification of areas in which the Board could improve its performance.

b. Evaluation of Executive Officers. The Compensation Committee shall annually evaluate the performance of the Chief Executive Officer and approve the goals and objectives for compensating the Chief Executive Officer and shall set the Chief Executive Officer's salary, bonus and other incentive and equity compensation in light of these goals and objectives. The Compensation Committee shall also annually evaluate the performance of the Company's other executive officers and approve the compensation structure for such officers.

c. Review of Guidelines. The Nominating and Corporate Governance Committee will review these guidelines annually (and more often if necessary), and will report to the Board any recommendations that it may have regarding modification of these guidelines.

d. Corporate Communications. The Board believes that management speaks for the Company. Individual directors may, from time to time, meet or otherwise communicate with various

constituencies that are involved with the Company. It is expected, however, that directors would do this with the knowledge of management and, absent unusual circumstances or as contemplated by the committee charters, only at the request of management. Generally, directors should refer investors, market professionals and the media to the Chief Executive Officer or another individual designated by the Company.

e. Orientation and Continuing Education. Orientation materials will be made available and appropriate meetings will be held to acquaint new directors with the business, history, current circumstances, key issues and top managers of the Company. The Board is expected to periodically review appropriate policies and procedures for providing orientation materials and sessions for newly elected or appointed directors, and recommending director education programs for Board and committee members. The Company's management shall periodically provide or make available materials or briefing sessions for all directors on subjects that would assist them in their duties. The Company encourages directors to attend outside continuing education programs relevant to their duties as members of the Board and/or a particular committee. The Company will compensate directors for actual and reasonable out-of-pocket expenses incurred in attending such programs previously approved by the Board (or, in the case of directors who serve on multiple boards, the Company's share of those expenses).

f. Ethics and Conflicts of Interests. Directors, as well as officers and employees, are expected to act ethically at all times and to acknowledge their adherence to the policies comprising the Company's Code of Business Conduct and Ethics. If an actual or potential conflict of interest arises for a director, the director shall promptly inform the Chief Executive Officer and the Chairperson of the Audit Committee and/or Nominating and Corporate Governance Committee, as appropriate.