

DURECT CORP
Form DEF 14A
April 29, 2010

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

DURECT Corporation

(Name of Registrant as Specified In Its Charter)

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

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DURECT CORPORATION

2 Results Way

Cupertino, CA 95014

NOTICE OF 2010 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JUNE 23, 2010

On Wednesday, June 23, 2010, DURECT Corporation (the Company), will hold its 2010 Annual Meeting of Stockholders (the Meeting) at its headquarters, 2 Results Way, Cupertino, CA 95014. The Meeting will begin at 10:00 a.m. local time.

Only stockholders who owned common stock at the close of business on April 26, 2010 can vote at the Meeting or any adjournment that may take place. At the Meeting, the stockholders will:

1. Elect three Class I directors of our Board of Directors to serve until the 2013 annual meeting of stockholders.
2. Approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 110,000,000 to 200,000,000;
3. Approve an amendment and restatement of the 2000 Stock Plan;
4. Approve an amendment and restatement of the 2000 Employee Stock Purchase Plan, including an increase of 250,000 in the number of shares of the Company's Common Stock available for issuance thereunder;
5. Ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the current fiscal year; and
6. Transact any other business properly brought before the Meeting.

You can find more information about each of these items, including the nominees for directors, in the attached Proxy Statement.

The Board of Directors recommends that you vote in favor of each of the five proposals outlined in the attached Proxy Statement.

We cordially invite all stockholders to attend the Meeting in person. However, whether or not you expect to attend the Meeting in person, please mark, date, sign and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope provided to ensure your representation and the presence of a quorum at the Meeting. Alternatively, you may vote your shares on the Internet or by telephone by

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following the instructions on your proxy card. If you send in your proxy card and then decide to attend the Meeting to vote your shares in person, you may still do so. Your proxy is revocable in accordance with the procedures set forth in the Proxy Statement.

Following the Meeting, we will also report on our business results and other matters of interest to stockholders.

By Order of the Board of Directors,

/s/ Jean I Liu

Jean I Liu

Senior Vice President, General Counsel and Secretary

Cupertino, California

April 29, 2010

YOUR VOTE IS IMPORTANT!

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting To Be Held on June 23, 2010.

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, SIGN, DATE AND MAIL PROMPTLY THE ACCOMPANYING PROXY CARD IN THE ENCLOSED RETURN ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. THIS WILL ENSURE THE PRESENCE OF A QUORUM AT THE MEETING. ALTERNATIVELY, YOU MAY VOTE YOUR SHARES ON THE INTERNET OR BY TELEPHONE BY FOLLOWING THE INSTRUCTIONS ON YOUR PROXY CARD. IF YOU ATTEND THE MEETING, YOU MAY VOTE IN PERSON IF YOU WISH TO DO SO EVEN IF YOU HAVE PREVIOUSLY SENT IN YOUR PROXY CARD OR VOTED.

DURECT CORPORATION

2 Results Way

Cupertino, CA 95014

PROXY STATEMENT

FOR THE

2010 ANNUAL MEETING OF STOCKHOLDERS

JUNE 23, 2010

Our Board of Directors is soliciting proxies for the 2010 annual meeting of stockholders. This Proxy Statement contains important information for you to consider when deciding how to vote on the matters brought before the Meeting. Please read it carefully.

The Board has set April 26, 2010 as the record date for the Meeting. Stockholders of record who owned our common stock on that date are entitled to vote at and attend the Meeting, with each share entitled to one vote. Stockholders who hold shares in street name may vote at the Meeting only if they hold a valid proxy from their broker. As of the record date, there were 86,780,385 shares of common stock outstanding and entitled to vote at the Meeting.

Voting materials, which include this Proxy Statement, a proxy card and our 2010 Annual Report, will be mailed to stockholders on or about May 17, 2010. These materials are also available free of charge on the Internet at <http://www.RRDEZProxy.com/2010/DURECT>.

Our Annual Report on Form 10-K for the year ended December 31, 2009 is available on the Internet at our website at www.direct.com in the Investor Relations section or through the SEC's electronic data system called IDEA (formerly EDGAR) at www.sec.gov. To request a printed copy of our Form 10-K, which we will provide to you without charge, either: write to Investor Relations, DURECT Corporation, 2 Results Way, Cupertino, CA 95014 or e-mail Investor Relations at info@direct.com.

In this Proxy Statement:

We, us, our and the Company refer to DURECT Corporation

Annual Meeting or Meeting means the 2010 annual meeting of stockholders

Board of Directors or Board means our Board of Directors

SEC means the Securities and Exchange Commission

We have summarized below important information with respect to the Annual Meeting.

Time and Place of the Annual Meeting

The Annual Meeting is being held on Wednesday, June 23, 2010, at 10:00 a.m. local time at our headquarters, 2 Results Way, Cupertino, CA 95014. All stockholders who own shares of our stock as of April 26, 2010, the record date, may attend the Annual Meeting.

Purpose of the Proxy Statement and Proxy Card

You are receiving a Proxy Statement and proxy card from us because you owned shares of our common stock on April 26, 2010, the record date. This Proxy Statement describes issues on which we would like you, as a stockholder, to vote. It also gives you information on these issues so that you can make an informed decision.

When you sign the proxy card, you appoint James E. Brown and Felix Theeuwes as your representatives at the Meeting. James E. Brown and Felix Theeuwes will vote your shares as you have instructed them on the proxy card, at the Meeting. This way, your shares will be voted whether or not you attend the Meeting. Alternatively, you may vote your shares on the Internet or by telephone by following the instructions on your proxy card. Even if you plan to attend the Meeting it is a good idea to complete, sign and return your proxy card in advance of the Meeting just in case your plans change.

Proposals to Be Voted on at This Year's Annual Meeting

You are being asked to vote on:

1. The election of three Class I directors to serve on our Board of Directors until our 2013 annual meeting of stockholders.
2. The amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 110,000,000 to 200,000,000.
3. An amendment and restatement of the 2000 Stock Plan;
4. An amendment and restatement of the 2000 Employee Stock Purchase Plan, including an increase of 250,000 in the number of shares of the Company's Common Stock available for issuance thereunder; and
5. The ratification of our appointment of Ernst & Young LLP as our independent registered public accounting firm for the current fiscal year.

The Board of Directors recommends a vote FOR each proposal.

Voting Procedure

You may vote by mail, phone or the Internet.

To vote by mail, please sign your proxy card and return it in the enclosed, prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct. To vote by phone or the Internet, please follow the instructions as listed on the proxy card.

You may vote in person at the Meeting.

We will pass out written ballots to anyone who wants to vote at the Meeting. If you hold your shares in street name, you must request a legal proxy from your stockbroker in order to vote at the Meeting. Holding shares in street name means your shares of stock are held in an account by your stockbroker, bank, or other nominee, and the stock certificates and record ownership are not in your name. If your shares are held in street name and you wish to attend the Annual Meeting, you must notify your broker, bank or other nominee and obtain the proper documentation to vote your shares at the Annual Meeting.

You may change your mind after you have returned your proxy.

If you change your mind after you return your proxy, you may revoke your proxy at any time before the polls close at the Meeting. You may do this by:

signing another proxy with a later date, or

voting in person at the Annual Meeting.

Multiple Proxy Cards

If you received more than one proxy card, it means that you hold shares in more than one account. Please sign and return all proxy cards to ensure that all your shares are voted.

Quorum Requirement

Shares are counted as present at the Meeting if the stockholder either:

is present and votes in person at the Meeting, or

has properly submitted a proxy card.

A majority of our outstanding shares as of the record date must be present at the Meeting (either in person or by proxy) in order to hold the Annual Meeting and conduct business. This is called a quorum.

Consequences of Not Returning Your Proxy; Broker Non-Votes

If your shares are held in your name, you must return your proxy (or attend the Annual Meeting in person) in order to vote on the proposals. If your shares are held in street name and you do not vote your proxy, your brokerage firm may either:

vote your shares on routine matters, or

leave your shares unvoted.

Under the rules that govern brokers who have record of ownership of shares that are held in street name for their clients, brokers may vote such shares on behalf of their clients with respect to routine matters (such as the ratification of auditors), but not with respect to non-routine matters (such as a proposal submitted by a stockholder). If the proposals to be acted upon at any meeting include both routine and non-routine matters, the broker may turn in a proxy card for uninstructed shares that vote FOR the routine matters, but expressly states that the broker is not voting on non-routine matters. This is called a broker non-vote. Brokers will have the authority to vote in their discretion on the ratification of auditors but will not have discretion to vote on any other matter before the Annual Meeting. For more information on this topic, see the SEC Investor Alert issued in February 2010 entitled New Shareholder Voting Rules for the 2010 Proxy Season at <http://www.sec.gov/investor/alerts/votingrules2010.htm>.

Broker non-votes will be counted for the purpose of determining the presence or absence of a quorum, but will not be counted for the purpose of determining the number of votes cast. Broker non-votes will be counted as a vote AGAINST the proposal to amend our Certificate of Incorporation but will have no effect on any other proposal.

We encourage you to provide instructions to your brokerage firm by voting your proxy. This ensures that your shares will be voted at the Meeting.

Effect of Abstentions

Abstentions are counted as shares that are present and entitled to vote for the purposes of determining the presence of a quorum and as votes AGAINST for purposes of determining the approval of any matter submitted to the stockholders for a vote.

Required Vote

Assuming a quorum is present, the three nominees receiving the highest number of votes of shares that are present and entitled to vote will be elected as Class I directors. The vote required to approve the Amendment to our Certificate of Incorporation to increase the number of authorized shares is the affirmative vote of the holders of more than 50% of the combined voting power of all shares of the Company entitled to vote, voting together as a single class, present in person or represented by proxy. The vote required to approve the proposed amendment and restatement of the 2000 Stock Plan and the 2000 Employee Stock Purchase Plan and the ratification of the independent registered public accounting firm, as set forth in Proposals 3-5, is the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote.

Vote Solicitation; No Use of Outside Solicitors

DURECT Corporation is soliciting your proxy to vote your shares at the Annual Meeting. In addition to this solicitation by mail, our directors, officers, agents, and other employees may contact you by telephone, Internet, in person or otherwise to obtain your proxy. These persons will not receive any additional compensation for assisting in the solicitation. We will also request brokerage firms, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners. We will reimburse these entities and our transfer agent for their reasonable out-of-pocket expenses in forwarding proxy material. We have not retained the services of a proxy solicitor.

Voting Procedures

Votes cast by proxy or in person at the Annual Meeting will be tabulated by a representative of Computershare, our transfer agent, who will act as the Inspector of Election. The Inspector will also determine whether a quorum is present at the Annual Meeting. The shares represented by the proxy cards received, properly marked, dated, signed and not revoked, will be voted at the Annual Meeting. If the proxy card specifies a choice with respect to any matter to be acted on, the shares will be voted in accordance with that specified choice. Any proxy card which is returned but not marked will be voted FOR each of the director nominees, FOR the other proposal discussed in this Proxy Statement, and as the proxy holders deem desirable for any other matters that may come before the Meeting. Broker non-votes will be counted for the purpose of determining the presence or absence of a quorum, but will not be counted for the purpose of determining the number of votes cast. Broker non-votes will be counted as a vote AGAINST the proposal to amend our Certificate of Incorporation but will have no effect on any other proposal.

We believe that the procedures to be used by the Inspector to count the votes are consistent with Delaware law concerning voting of shares and determination of a quorum.

Publication of Voting Results

We will announce preliminary voting results at the meeting. We will publish the final results in a current report on Form 8-K within four business days of the meeting, which we will file with the SEC. You can get a copy on our website at www.durect.com in the Investor Relations section, by contacting Matthew J. Hogan, our Chief Financial Officer, at (408) 777-4936 or the SEC at (800) 732-0330 for the location of the nearest public reference room, or through the IDEA (formerly EDGAR) system at www.sec.gov.

Other Business

We do not know of any business to be considered at the Annual Meeting other than the proposals described in this proxy statement. However, if any other business is properly presented at the Annual Meeting, your signed proxy card gives authority to James E. Brown and Felix Theeuwes to vote on such matters at their discretion.

Stockholder Proposals For The 2011 Annual Meeting

To have your proposal included in our proxy statement for our 2011 annual meeting, you must submit your proposal in writing no later than January 17, 2011 to Jean Liu, Senior Vice President, General Counsel and Secretary, DURECT Corporation, 2 Results Way, Cupertino, CA 95014. Any such proposal must also comply with Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the regulations thereunder, as well as the our bylaws, which may be obtained free of charge by written request to Jean Liu, Senior Vice President, General Counsel and Secretary, DURECT Corporation, 2 Results Way, Cupertino, CA 95014.

Pursuant to our bylaws, stockholders must provide notice of any business that they wish to submit for consideration at the 2011 annual meeting to our executive offices (Attention: Secretary) no later than March 25, 2011 and no earlier than February 23, 2011; provided, however, that if the 2011 annual meeting is moved more than 30 days prior to or 60 days after the anniversary of the Annual Meeting and less than 60 days notice is provided to stockholders, then notice of a stockholder proposal must be received within 10 days of public notice of the meeting.

PROPOSAL NO. 1**ELECTION OF DIRECTORS**

Our Certificate of Incorporation provides that our Board of Directors is divided into three classes, with staggered three-year terms. Our Class I directors whose terms expire at the Annual Meeting and who are being nominated for re-election, are Felix Theeuwes, Simon X. Benito and Terrence F. Blaschke. Our Class II directors whose terms expire at our 2011 annual meeting are David R. Hoffmann and Jon S. Saxe. Our Class III directors, whose terms expire at our 2012 annual meeting are James E. Brown, Michael D. Casey and Armand P. Neukermans. You only elect one class of directors at each annual meeting. The other classes continue to serve for the remainder of their three-year terms. Felix Theeuwes, Simon X. Benito and Terrence F. Blaschke, currently Class I directors, are nominees for re-election at the Annual Meeting. Each nominee has consented to serve an additional three-year term.

Vote Required

If a quorum is present, the three nominees receiving the highest number of votes of shares that are present and entitled to vote will be elected as directors for the ensuing three years. Unless marked otherwise, proxies received will be voted FOR the election of Felix Theeuwes, Simon X. Benito and Terrence F. Blaschke. If additional people are nominated for election as directors through the stockholder proposal process which includes written notification to us within specified time frames, the proxy holders intend to vote all proxies received by them in a way that will ensure that as many as possible of the nominees listed above are elected. If this happens, the specific nominees to be voted for will be determined by the proxy holders.

Continuing Directors

The names of our continuing directors, their ages as of April 26, 2010 and certain other information about them are set forth below:

Name	Age	Position
James E. Brown, D.V.M.	53	President, Chief Executive Officer and Director
Felix Theeuwes, D.Sc.	72	Chairman and Chief Scientific Officer
Simon X. Benito (2)(3)	65	Director
Terrence F. Blaschke, M.D. (3)	67	Director
Michael D. Casey (1)(3)	64	Director, Chairman of the Nominating and Governance Committee
Armand P. Neukermans, Ph.D. (1)	69	Director, Chairman of the Compensation Committee
David R. Hoffmann (1)(2)	65	Director, Chairman of the Audit Committee
Jon S. Saxe (1)(2)	73	Director

(1) Member of the Compensation Committee

(2) Member of the Audit Committee

(3) Member of the Nominating & Corporate Governance Committee

James E. Brown, D.V.M. co-founded DURECT in February 1998 and has served as our President, Chief Executive Officer and a Director since June 1998. He previously worked at ALZA Corporation as Vice President of Biopharmaceutical and Implant Research and Development from June 1995 to June 1998. Prior to that, Dr. Brown held various positions at Syntex Corporation, a pharmaceutical company, including Director of Business Development from May 1994 to May 1995, Director of Joint Ventures for Discovery Research from April 1992 to May 1995, and held a number of positions including Program Director for Syntex Research and Development from October 1985 to March 1992. Dr. Brown holds a B.A. from San Jose State University and a

D.V.M. (Doctor of Veterinary Medicine) from the University of California, Davis where he also conducted post-graduate work in pharmacology and toxicology. Dr. Brown's scientific expertise and pharmaceutical industry experience as well as the valuable perspective as the Company's Chief Executive Officer and co-founder into the management, strategies and operations of the Company are among the special qualifications that he brings to his service as a Director of the Company.

Felix Theeuwes, D.Sc. co-founded DURECT in February 1998 and has served as our Chairman and Chief Scientific Officer since July 1998. Prior to that, Dr. Theeuwes held various positions at ALZA Corporation, including President of New Ventures from August 1997 to August 1998, President of ALZA Research and Development from 1995 to August 1997, President of ALZA Technology Institute from 1994 to April 1995 and Chief Scientist from 1982 to June 1997. Dr. Theeuwes holds a D.Sc. degree in Physics from the University of Leuven (Louvain), Belgium. He also served as a post-doctoral fellow and visiting research assistant professor in the Department of Chemistry at the University of Kansas and has completed the Stanford Executive Program. Dr. Theeuwes' scientific expertise in drug delivery and pharmaceutical industry experience and the unique perspective he has as the Company's co-founder and its Chief Scientific Officer are among the qualifications he brings to the Board and his service as a Director of the Company.

Simon X. Benito has served as a director since April 2005. Mr. Benito is currently a director and chairman of the Audit Committee of Inovio Biomedical Corporation, a medical device company. From 1974 to 1999, Mr. Benito held various positions at Merck & Co Inc. including Senior Vice President, Vaccine Division from 1996 to 1999, Executive Vice President, Merck-Medco Managed Care from 1994 to 1996 and Executive Director and Vice President, Merck Human Health, Japan from 1986-1993. Mr. Benito was a Fellow of the Institute of Chartered Accountants in England and Wales from 1969 to 1999 until his retirement from Merck. Mr. Benito's pharmaceutical industry experience as relates to executive management, corporate transactions and international operations as well as his financial and accounting expertise are among the qualifications he brings to the Board and his service as a Director of the Company.

Terrence F. Blaschke, M.D. has served as a director since December 2006. Dr. Blaschke has served on the faculty of Stanford University since 1974 and is Professor of Medicine and Molecular Pharmacology (Active Emeritus) at the Stanford University School of Medicine. Dr. Blaschke held the position of Vice President of Methodology and Science at Pharsight Corporation from 2000 to 2002. Dr. Blaschke has served as an independent consultant working with a number of leading pharmaceutical and biotechnology companies. Dr. Blaschke was formerly a board member of Therapeutic Discovery Corporation and Crescendo Pharmaceuticals, two publicly-traded companies. He has also worked as a special government employee for the U.S. Food and Drug Administration (FDA) and has served as the chairman of the FDA's Generic Drugs Advisory Committee. Dr. Blaschke's medical and scientific expertise and pharmaceutical industry experience as relates to drug development are among the qualifications he brings to the Board and his service as a Director of the Company.

Michael D. Casey has served as a director since March 2004. Mr. Casey was Chairman, President and Chief Executive Officer of Matrix Pharmaceuticals, Inc. from September 1997 until February 2002 when Matrix was acquired by Chiron Corporation. From November 1995 until September 1997, Mr. Casey was President, Retail and Specialty Products Divisions of Schein Pharmaceutical, Inc. Mr. Casey was President and Chief Operating Officer of Genetic Therapy, Inc. from June 1993 until November 1995. Mr. Casey held various positions at Johnson & Johnson companies over a twenty-five year period, including serving as President of McNeil Pharmaceutical from July 1989 to June 1993. Mr. Casey is currently a director of a number of biotechnology and pharmaceutical companies including Celgene Corporation and AviBio Pharma, Inc. Mr. Casey's executive leadership experience with pharmaceutical companies and his expertise with respect to sales, marketing and commercialization of pharmaceutical products are among the qualifications he brings to the Board and his service as a Director of the Company.

Armand P. Neukermans, Ph.D. has served as a Director since March 2001. Dr. Neukermans founded Xros, Inc. in December 1996. Xros was acquired by and became a division of Nortel Networks in March 2000. Throughout and until June 2002, Dr. Neukermans held the position of Chairman and Chief Technical Officer at Xros. In October 1993, Dr. Neukermans founded Adagio Associates, a consulting firm in the area of instrumentation, metrology and microfabrication and currently serves as its President. From 1992 to 1993, Dr. Neukermans was Vice President, Systems Development at Teknekron TSDC. Between 1985 and 1992, Dr. Neukermans held various positions at Tencor Instruments including Vice President and Chief Technical Officer. From 1973 to 1985, Dr. Neukermans held various positions at Hewlett Packard Company, HP Labs, including Department Manager. Dr. Neukermans holds an Engineer's Degree in Mechanical and Electrical Engineering from Louvain University, an M.S. in Electrical Engineering from Arizona State University and a Ph.D. in Applied Physics from Stanford University. Dr. Neukermans was named Silicon Valley Inventor of the Year in 2001. Dr. Neukermans' engineering and technical expertise and general industrial experience as relates to executive management and business operations are among the qualifications he brings to the Board and his service as a Director of the Company.

David R. Hoffmann has served as a director since December 2002. Mr. Hoffmann is retired from ALZA Corporation (now a Johnson & Johnson company) where he held the positions of Vice President and Treasurer from 1992 to until his retirement in October 2002, Vice President of Finance from 1982 to 1992 and Director of Accounting/Finance from 1976 to 1982. Mr. Hoffmann is currently Chief Executive Officer of Hoffmann Associates, a multi-group company specializing in cruise travel and financial and benefit consulting. Mr. Hoffmann holds a B.S. in Business Administration from the University of Colorado. Mr. Hoffmann is currently a member of the Board of Directors and chairman of the Audit Committee of Threshold Pharmaceuticals, a biotechnology company. Mr. Hoffmann's financial and accounting expertise has caused the Board to designate him as the Audit Committee's financial accounting expert. In addition, his pharmaceutical industry experience as relates to executive management, treasury, employee benefits and audit matters are additional qualifications he brings to the Board and his service as a Director of the Company.

Jon S. Saxe has served as a director since September 2003. Mr. Saxe is currently a director of a number of biotechnology and pharmaceutical companies including SciClone and several private companies. From January 1995 to May 1999, Mr. Saxe was President of Protein Design Labs. During 1999, he was an Executive-in-Residence at Institutional Venture Partners, a venture capital firm. Mr. Saxe was President of Saxe Associates, a biotechnology and pharmaceutical consulting firm, from May 1993 to December 1994. He served as President, Chief Executive Officer and as a director of Synergen, Inc., a biopharmaceutical company acquired by Amgen from October 1989 to April 1993. From August 1984 through September 1989, Mr. Saxe was Vice President, Licensing and Corporate Development at Hoffmann-LaRoche and also head of the patent law department and Associate General Counsel at the company from September 1978 through September 1989. Mr. Saxe received his B.S. in Chemical Engineering from Carnegie-Mellon University, a J.D. from George Washington University School of Law and an LL.M. from New York University School of Law. Mr. Saxe's legal and business expertise and pharmaceutical industry experience as relates to executive management, licensing, corporate development, intellectual property and legal matters and his board experience including as chairperson of audit and compensation committees are among the qualifications he brings to the Board and his service as a Director of the Company.

There are no family relationships among any of our directors or executive officers.

The Board, Board Committees and Meetings

Corporate governance is typically defined as the system that allocates duties and authority among a company's stockholders, board of directors and management. The stockholders elect the Board and vote on extraordinary matters; the Board is our governing body, responsible for hiring, overseeing and evaluating management, particularly the Chief Executive Officer; and management runs the our day-to-day operations. Our Board currently consists of 8 directors.

Independent Directors. Each of our directors other than Drs. Theeuwes and Brown qualify as independent directors as defined in the current rules of the NASDAQ Global Market. NASDAQ's definition of independent director includes a series of objective tests, such as that the director is not a Company employee and has not engaged in various types of business dealings with us. In addition, as further required by NASDAQ rules, the Board has made a subjective determination as to each independent director that no relationships exist which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, our directors reviewed and discussed information provided by our directors and us with regard to each director's business and personal activities as they may relate to us and our management.

Board and Committee Responsibilities. The primary responsibilities of the Board are oversight, counseling and direction to our management in the long-term interests of the Company and its stockholders. The Chief Executive Officer and management are responsible for seeking the advice and, in appropriate situations, the approval of the Board with respect to extraordinary actions to be undertaken by us.

The Board and its committees meet throughout the year on a set schedule, and also hold special meetings and act by written consent from time to time as appropriate. The Board has delegated various responsibilities and authority to different Board committees as described in this section of the proxy statement. Committees regularly report on their activities and actions to the full Board.

Board Leadership Structure. The roles of Board chair and principal executive officer are currently separated. Our Board chair is currently Felix Theeuwes, our Chief Scientific Officer, and our principal executive officer is currently James E. Brown, our President and Chief Executive Officer. We have not designated a lead independent director at present. Our Board has assessed and discussed whether our leadership structure is appropriate for the organization and the merits of appointing a lead independent director. However, in view of the fact that executive sessions are conducted including the Chairman and independent directors (excluding the CEO) and including just the independent directors at each regularly scheduled meeting of the Board of Directors as well as the openness of communication between the directors, the Board believes that the Company is well served by the current Board leadership structure at the present time.

Board Oversight of Risk. The Board of Directors is responsible for overseeing the Company's risks. In carrying out this responsibility, the Board evaluates the most critical risks relating to our business, allocates responsibilities for the oversight of risks among the full Board and its committees, and ensures that management has established effective systems and processes for managing the Company's risks. Additionally, because risk is inherently present in the Company's strategic decisions, the Board analyzes risk on an ongoing basis in connection with its consideration of specific proposed actions.

While the Board is responsible for oversight, management is responsible for identifying and communicating risk to the Board. Management fulfills this obligation in a variety of ways, including its establishment of appropriate and effective internal processes for the identification of risk. Management may report its findings to the full Board or its committees. Committees of the Board play an important role in risk oversight, including the Audit Committee, which oversees our processes for assessing risks and the effectiveness of our internal controls, and the Compensation Committee, which oversees risks present in the Company's compensation programs. Committees, to the extent that they deem appropriate or as required by their charters, report their findings and deliberations with respect to risk to the full Board.

In fulfilling its duties, the Audit Committee oversees and works in conjunction with our independent registered public accounting firm, Ernst & Young, LLP. In accordance with its charter, the Audit Committee is responsible for making examinations as necessary to monitor corporate financial reporting and the internal and external audits of the Company, reporting to the Board the results of such examinations and recommending changes that may be made in the Company's internal accounting controls. The Compensation Committee, with

the assistance of its compensation consultants, periodically reviews the Company's compensation policies and profile with management to ensure that executive compensation incentivizes its executive officers to meet the Company's goals and strategic objectives. For fiscal year 2009, the Audit Committee performed an analysis as to whether the Company's current compensation policy and practices were reasonably likely to expose the Company to material risk, and concluded that they did not.

Board Committees and Charters. The Board currently has, and appoints the members of, standing Audit, Compensation and Nominating & Corporate Governance Committees. Each of the Board committees has a written charter approved by the Board. Copies of each charter are available on our web site at www.durect.com under "About DURECT Corporate Policies/Governance."

Audit Committee. The Audit Committee has been established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee assists the Board in its general oversight of our financial reporting, internal controls and audit functions, and is directly responsible for the appointment, retention, compensation and oversight of the work of our independent registered public accounting firm. In 2009, the Audit Committee held five meetings. The responsibilities and activities of the Audit Committee are described in greater detail in the "Audit Committee Report." At the end of the last fiscal year, the Audit Committee was composed of the following directors: Simon X. Benito, David R. Hoffmann and Jon S. Saxe. Mr. Hoffmann has served as Chairman of the Audit Committee since September 2004.

Among other matters, the Audit Committee monitors the activities and performance of our external auditors, including the audit scope, external audit fees, auditor independence matters and the extent to which the independent registered public accounting firm may be retained to perform non-audit services. Our independent registered public accounting firm provides the Audit Committee with the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and the Audit Committee discusses with the independent registered public accounting firm and management that firm's independence.

In accordance with Audit Committee policy and the requirements of law, all services to be provided by Ernst & Young are pre-approved by the Audit Committee. Pre-approval includes audit services, audit-related services, tax services and other services. In its pre-approval and review of non-audit service fees, the Audit Committee considers, among other factors, the possible effect of the performance of such services on the auditor's independence. To avoid certain potential conflicts of interest in maintaining auditor independence, the law prohibits a publicly traded company from obtaining certain non-audit services from its auditing firm.

As required by NASDAQ rules, the members of the Audit Committee each qualify as "independent" under special standards established for members of audit committees. The Audit Committee also includes at least one member who is determined by the Board to meet the qualifications of an "audit committee financial expert" in accordance with SEC rules. David R. Hoffmann is the director who has been determined by the Board of Directors to be the Audit Committee financial expert. Stockholders should understand that this designation is a disclosure requirement of the SEC related to Mr. Hoffmann's experience and understanding with respect to certain accounting and auditing matters. The designation does not impose upon Mr. Hoffmann any duties, obligations or liability that are greater than are generally imposed on him as a member of the Audit Committee and the Board, and his designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Audit Committee or the Board.

Compensation Committee. The Compensation Committee reviews and approves salaries, performance-based incentives and other matters relating to executive compensation, and administers our stock option plans, including reviewing and granting stock options to executive officers. The Compensation Committee also reviews and approves various other Company compensation policies and matters. The Compensation Committee held five meetings in 2009. For more information, see the "Compensation Committee Report." At the end of the last fiscal year, the Compensation Committee was composed of Michael D. Casey, David R. Hoffmann, Armand P.

Neukermans and Jon S. Saxe. Dr. Neukermans has served as Chairman of the Committee since March 2004. As required by NASDAQ rules, the members of the Compensation Committee each qualify as independent under special standards established for members of compensation committees. In addition, the Compensation Committee, from time to time, retains independent compensation consultants to assist it with benchmarking of executive and Board compensation. In 2008 and 2009, the Compensation Committee retained J. Richard & Co., an independent compensation consultant, to provide such services. The process by which compensation is set for executive officers is described in the Compensation Discussion and Analysis below under the heading Setting Officer Compensation.

Nominating & Corporate Governance Committee. The Nominating & Corporate Governance Committee identifies, evaluates and recommends to the Board individuals, including individuals proposed by stockholders, qualified to serve as members of the Board and the nominees for election as directors at the next annual or special meeting of stockholders at which directors are to be elected. The Nominating & Corporate Governance Committee also identifies, evaluates and recommends to the Board individuals to fill any vacancies or newly created directorships that may occur between such meetings. The Nominating & Corporate Governance Committee also is responsible for preparing and recommending to the Board adoption of corporate governance guidelines, reviewing and assessing our Code of Ethics and overseeing and conducting an annual evaluation of the Board's performance. The Nominating & Corporate Governance Committee held one meeting in 2009. At the end of the last fiscal year, the Nominating & Corporate Governance Committee was composed of Simon X. Benito, Terrence F. Blaschke and Michael D. Casey. Mr. Casey has served as Chairman of the Committee since April 2004. As required by NASDAQ rules, the members of the Nominating & Corporate Governance Committee each qualify as independent under special standards established for members of the committee.

Criteria for Board Membership. In recommending candidates for appointment or re-election to the Board, the Nominating & Corporate Governance Committee considers the appropriate balance of experience, skills and characteristics required of the Board of Directors, and seeks to insure that at least a majority of our directors are independent under NASDAQ rules, and that members of the Audit Committee meet the financial literacy and sophistication requirements under NASDAQ rules and at least one of them qualifies as an audit committee financial expert under SEC rules. Nominees for director are selected on the basis of their depth and breadth of experience, integrity, ability to make independent analytical inquiries, understanding of our business environment and willingness to devote adequate time to Board duties.

Stockholder Nominees. The Nominating & Corporate Governance Committee will consider written proposals from stockholders for nominees for director. Any such nominations should be submitted to the Nominating & Corporate Governance Committee, c/o Jean Liu, Senior Vice President, General Counsel and Secretary, 2 Results Way, Cupertino, CA 95014 and should include the following information: (a) all information relating to such nominee that is required to be disclosed pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) the names and addresses of the stockholders making the nomination and the number of shares of the Company's common stock which are owned beneficially and of record by such stockholders; and (c) appropriate biographical information and a statement as to the qualification of the nominee, and should be submitted in the time frame described in our bylaws and under the caption Stockholder Proposals for 2011 Annual Meeting above.

Process for Identifying and Evaluating Nominees. The Nominating & Corporate Governance Committee believes that the Company is well-served by its current directors. In the ordinary course, absent special circumstances or a material change in the criteria for Board membership, the Nominating & Corporate Governance Committee will renominate incumbent directors who continue to be qualified for Board service and are willing to continue as directors. If an incumbent director is not standing for re-election, or if a vacancy on the Board occurs between annual stockholder meetings, the Nominating & Corporate Governance Committee will seek out potential candidates for Board appointment who meet the criteria for selection as a nominee and have the specific qualities or skills being sought. Director candidates will be selected based on input from members of

the Board, our senior management, stockholder nominations, and, if the Nominating & Corporate Governance Committee deems appropriate, a third-party search firm. The Nominating & Corporate Governance Committee will evaluate each candidate's qualifications and check relevant references; in addition, such candidates will be interviewed by at least one member of the Nominating & Corporate Governance Committee. Candidates meriting serious consideration will then meet with the members of the Board. Based on this input, the Nominating & Corporate Governance Committee will evaluate which of the prospective candidates is qualified to serve as a director and whether the committee should recommend to the Board that this candidate be appointed to fill a current vacancy on the Board or presented for the approval of the stockholders, as appropriate.

Consideration of Diversity. The Nominating & Corporate Governance Committee believes that the interests of the stockholders are best served by a Board of Directors whose members collectively have a diverse balance of experience, skills and characteristics as appropriate to our business because it encourages a full discussion on Board topics from a variety of viewpoints and with the benefit of many different experiences. Although we do not have a policy regarding diversity, in looking for a candidate who will best meet the particular needs of the Board at the time, the Nominating & Corporate Governance Committee does consider whether the specific skills, background and work experience of a candidate would add to and complement the existing viewpoints represented by the present Board members. The Nominating & Corporate Governance Committee believes that the current Board composition does represent a diversity of experience and skills appropriate to our business.

Attendance at Board, Committee and Annual Stockholders Meetings. During the last fiscal year (the period from January 1, 2009 through December 31, 2009), the Board met nine times. All directors are expected to attend each meeting of the Board and the committees on which they serve, and are also strongly encouraged to attend our annual meeting of stockholders. Each director attended at least 75% of all Board and applicable committee meetings during the fiscal year 2009. All directors attended our 2009 annual meeting of stockholders.

Communications from Stockholders to the Board. The Board recommends that stockholders initiate any communications with the Board in writing and send them c/o the Company's Secretary, Jean Liu. Stockholders can send communications by e-mail to jean.liu@durect.com, by fax to (408) 777-3577 or by mail to Jean Liu, Senior Vice President, General Counsel and Secretary, DURECT Corporation, 2 Results Way, Cupertino, California 95014. This centralized process will assist the Board in reviewing and responding to stockholder communications in an appropriate manner. The name of any specific intended Board recipient should be noted in the communication. The Board has instructed the Secretary to forward such correspondence only to the intended recipients; however, the Board has also instructed the Secretary, prior to forwarding any correspondence, to review such correspondence and, in her discretion, not to forward certain items if they are deemed to be of a commercial or frivolous nature or otherwise inappropriate for the Board's consideration. In such cases, some of that correspondence may be forwarded elsewhere in the Company for review and possible response.

Code of Ethics

In December 2003, the Board approved an amended Code of Ethics applicable to all of our employees, officers and directors. The purpose of the Code of Ethics is to deter wrongdoing and, among other things, promote compliance with applicable laws, fair dealing, proper use and protection of our assets, prompt and accurate public company reporting, reporting of accounting complaints or concerns and avoidance of conflicts of interest and usurpation of corporate opportunities.

Our Code of Ethics can be found on our corporate website at www.durect.com under About DURECT Corporate Policies/Governance. If we make any substantive amendments to the Code of Ethics or grant any waiver from a provision of the Code of Ethics to any executive officer or director, we will promptly disclose the nature of the amendment or waiver by a method selected by the Board of Directors and in conformity with applicable SEC and NASDAQ rules.

Whistleblower Policy

In December 2003, in compliance with Section 301 of the Sarbanes-Oxley Act, the Audit Committee of the Board of Directors established procedures for the receipt, retention, and treatment of complaints received by the us regarding accounting, internal accounting controls or auditing matters, and confidential, anonymous employee submissions of concerns regarding questionable accounting or auditing matters (Whistleblower Policy). Our Whistleblower Policy can be found on our corporate website at www.direct.com under About DURECT Corporate Policies/Governance.

Recommendation of the Board:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR*

THE ELECTION OF ALL NOMINEES NAMED ABOVE.

PROPOSAL NO. 2

APPROVAL OF AN AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK FROM 110,000,000 to 200,000,000

The Board of Directors has determined that it is advisable to increase our authorized common stock from 110,000,000 shares to 200,000,000 shares, and has voted to recommend that the shareholders adopt an amendment to our Certificate of Incorporation effecting the proposed increase.

As of April 9, 2010, 86,776,223 shares of our common stock were issued and outstanding and an additional 20,032,919 shares were reserved for issuance upon the exercise of options and warrants. Accordingly, a total of 3,190,858 shares of common stock is currently available for future issuance.

The Company has not increased the number of authorized common stock since 2000. In the intervening years, shares have been issued in connection with financings, acquisitions, licensing transactions and equity based compensation plans. These uses have enabled the Company to broaden its technology base, develop a pipeline of pharmaceutical products in development, assist in business development activities, and attract and retain key scientists, managers and employees. Over the three years covering 2007 through 2009, we issued 4,444,444 shares in connection with a common stock financing, granted 7,523,134 options (net of expired or cancelled options) in connection with our 2000 Stock Plan, granted 360,000 options under our 2000 Director's Stock Option Plan and issued 592,990 shares in connection with our 2000 Employee Stock Purchase plan. In addition, during the three years covering 2007 through 2009, we issued 11,853,002 shares through the conversion of a convertible note that had originally been issued through a financing in 2003.

The Board of Directors believes it continues to be in our best interest to have sufficient additional authorized but unissued shares of common stock available in order to provide flexibility for corporate action in the future. Management believes that the availability of additional authorized shares for issuance from time to time at the Board of Directors' discretion in connection with possible acquisitions of other companies, future financings, investment opportunities, stock splits or dividends or for other corporate purposes is desirable in order to avoid repeated separate amendments to our charter and the delay and expense of holding special meetings of shareholders to approve such amendments. Other than shares of common stock that we may issue pursuant to our equity compensation plan and employee stock purchase plan or stock options issued pursuant to prior equity compensation plans, we currently have no specific understandings, arrangements or agreements that would require us to issue new shares of our common stock. The Board of Directors believes, however, that the currently available unissued shares do not provide sufficient flexibility for corporate action in the future.

Although at present the Board of Directors has no specific plans to issue shares of common stock in excess of the number previously authorized, the board believes it is desirable to have a significant number of available and authorized shares, to provide the Board with flexibility to use common stock for business and financial purposes in the future. The additional shares may be issued without further stockholder approval, except as may be required by law, regulatory authorities, or the rules of the NASDAQ Global Market, Inc. or any other stock exchange on which our shares may be listed at the time of any proposed issue. The additional shares may be used for various purposes including, without limitation, raising capital, providing equity incentives to employees, directors and consultants, establishing strategic relationships with other companies, expanding our business or research and development programs through the acquisition of other businesses and products, and stock splits and dividends. If this amendment to increase the number of authorized shares of common stock is not approved, our business could be materially harmed as our ability to undertake the corporate actions listed above would be severely constrained by the fact that only a total of 3,190,858 shares of common stock is currently available for future issuance.

The proposed Certificate of Amendment of the Amended and Restated Certificate of Incorporation is included in this Proxy Statement as Appendix A.

Recommendation of the Board:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE *FOR*

**THE AMENDMENT TO OUR CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED
SHARES OF COMMON STOCK FROM 110,000,000 to 200,000,000**

PROPOSAL NO. 3

APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE COMPANY'S 2000 STOCK PLAN

General

At the Annual Meeting, you are being asked to approve the amendment and restatement of the 2000 Stock Plan (the "Stock Plan") so that we can continue to use the Stock Plan to attract and retain key talent, encourage stock ownership by our employees, non-employee directors and consultants, to better align with governance best practices, and to receive a federal income tax deduction for certain compensation paid under the Stock Plan. Our Board of Directors unanimously approved the amendment and restatement of the Stock Plan, subject to approval of our stockholders at the Annual Meeting. Approval of the amendment and restatement of the Stock Plan requires the affirmative vote of a majority of the shares of our common stock that are present in person or by proxy at the Annual Meeting and entitled to vote on this matter. If the stockholders approve the amendment and restatement of the Stock Plan, the amended and restated version of the Stock Plan will replace the prior version of the Stock Plan. If the stockholders do not approve the amended and restated version of the Stock Plan, the prior version of the Stock Plan will remain in effect.

We are not asking you to approve any increases to the number of shares of the Company's common stock available for issuance. The primary changes we propose to make to the Stock Plan are:

- (1) Provide that the number of shares that remain available for issuance will be reduced by two shares for each share issued pursuant to an Award (as defined below) granted on or after the date of the 2010 Annual Meeting, other than an option or stock appreciation right;
- (2) Expand the requirement of stockholder approval as it currently applies to repricings and option exchanges so that stockholder approval is also now required for (i) any reduction in the price used to determine the amount payable to a participant upon exercise of any stock appreciation right, and (ii) the cancellation of options and stock appreciation rights at a time when the per share price of the Award exceeds the fair market value of the underlying shares of common stock subject to the Award in exchange for another option, stock appreciation right with a per share price that is lower than the original Award, or another Award or a cash payment, except, in each case, in connection with a change in our capitalization, such as a stock split or a recapitalization, merger or certain other transactions;
- (3) Provide that the following shares will not again become available for future issuance under the Stock Plan: (i) shares tendered or withheld in payment of the exercise price of an option, (ii) shares withheld to satisfy any tax withholding obligation, and (iii) shares covered by the portion of a stock appreciation right that is exercised (whether or not shares are actually issued to the participant upon exercise of the stock appreciation right);
- (4) Provide that options and stock appreciation rights may not be granted with an exercise price or base appreciation amount that is less than fair market value on the grant date, except in connection with certain corporate transactions, and limit the term of stock appreciation rights to the same 10-year maximum term that applies to options;
- (5) Add new performance goals that may be used to provide performance-based compensation under the Stock Plan that is exempt from deduction limits;
- (6) Extend the term of the Stock Plan so that the Stock Plan will terminate on the date that is ten (10) years following stockholder approval of the amended and restated Stock Plan; and
- (7) Expand the treatment of outstanding Awards in connection with certain changes of control of the Company to cover mergers in which the consideration payable to stockholders is not solely securities of the successor corporation.

We believe strongly that the approval of the Stock Plan is essential to our success. Our employees are our most valuable assets. Stock options and other Awards such as those that may be provided for under the Stock Plan are vital to our ability to attract and retain outstanding and highly skilled employees, especially in the competitive labor markets in which we must compete. Such Awards also are crucial to our ability to motivate employees to achieve our goals. The proposed modifications to the Stock Plan are thus designed to allow the Company to continue to attract, retain and motivate people whose skills and performance are critical to the Company's success. We recognize that by granting full value awards such as restricted stock and restricted stock units potentially makes the Stock Plan more costly to our stockholders. Accordingly, the amended and restated Stock Plan would introduce a fungible share pool design (also known as flexible share counting) which would require that the number of shares that remain available for issuance under the Stock Plan will be reduced by two shares for each share issued pursuant to an Award granted on or after the 2010 Annual Meeting other than an option or stock appreciation right with a per share price equal to or greater than 100% of fair market value on the date of grant. We will continue to monitor the environment in which we operate and make changes to our equity compensation program to help us meet our goals, including achieving long-term stockholder value.

Moreover, our 2000 Directors' Stock Option Plan (the Director's Plan) will expire in September 2010. We anticipate granting awards to our non-employee directors under the amended and restated Stock Plan following that date.

Background on Section 162(m) Approval

We are also asking our stockholders to approve the material terms of the Stock Plan to maximize the corporate income tax deductions that may become available to us pursuant to Section 162(m). We are asking our stockholders for this approval so that we may deduct for federal income tax purposes compensation in excess of \$1.0 million that may be paid to certain executive officers in any single year. Compensation includes cash compensation and income arising from the exercise of nonstatutory stock options, as a result of the grant or vesting of other types of equity awards, and from disqualifying dispositions of incentive stock options.

Pursuant to Section 162(m), we generally may not deduct for federal income tax purposes compensation paid to certain executive officers (our Chief Executive Officer and our three other most highly compensated executive officers (other than our Chief Financial Officer)) to the extent that any of these persons receive more than \$1.0 million in compensation in any single year. However, if the compensation qualifies as performance-based for Section 162(m) purposes, we may deduct it for federal income tax purposes even if it exceeds \$1.0 million in a single year. To assure that stock options, other stock awards, and cash awards granted under the Stock Plan in the future qualify as performance-based compensation under Section 162(m), we believe our stockholders should approve the material terms of the Stock Plan at the Annual Meeting. Two of the material terms of the Stock Plan are that the maximum number of shares that may be granted subject to options and other stock awards under the Stock Plan to any employee during any single fiscal year is 1,500,000 shares and that the maximum amount payable pursuant to any cash award granted under the Stock Plan for any fiscal year that is intended to qualify as performance-based compensation under Section 162(m) will not exceed \$1,000,000. These limits are included in the Stock Plan specifically for purposes of Section 162(m).

To qualify stock awards other than options and stock appreciation rights as performance-based compensation, these Awards must be made subject to performance conditions approved by the Board's Compensation Committee and our stockholders as required under the Section 162(m) regulations. The Company may or may not apply performance criteria and qualify the Awards under Section 162(m), but the Company believes it is in the best interests of the Company and its stockholders to have the ability to do so.

The Stock Plan currently permits the Company to issue such Awards incorporating performance objectives and provides that these performance objectives (Qualifying Performance Criteria) may be based upon: (1) cash flow (including operating cash flow or free cash flow), (2) earnings (including gross margin, earnings before interest and taxes, earnings before taxes, and net earnings), (3) earnings per share, (4) growth in earnings or earnings per share; (5) stock price, (6) return on equity or average stockholders' equity, (7) total stockholder

return, (8) return on capital, (9) return on assets or net assets, (10) return on investment, (11) revenue, (12) income or net income, (13) operating income or net operating income, (14) operating profit or net operating profit, (15) operating margin, (16) return on operating revenue, (17) market share, (18) contract awards or backlog, (19) overhead or other expense reduction, (20) growth in stockholder value relative to the moving average of the S&P 500 Index or a peer group index, (21) credit rating, (22) strategic plan development and implementation (including individual performance objectives that relate to achievement of the Company's or any business unit's strategic plan), (23) improvement in workforce diversity, and (24) such other similar criteria as may be determined by the Administrator (as defined below). As amended, the Stock Plan would include the performance objectives identified in numbers 1-23, as well as the following additional performance objectives: (i) expenses; (ii) economic value added; (iii) product quality; (iv) number of customers; (v) objective customer indicators; (vi) customer satisfaction; (vii) new product invention or innovation; (viii) profit after taxes; (ix) pre-tax profit; (x) working capital; (xi) sales; (xii) advancement of the Company's product pipeline; (xiii) consummation of strategic transactions; (xiv) reduction in cash utilization; and (xv) addition of technologies and products. To the extent that the Administrator determines that an Award will be granted subject to Qualifying Performance Criteria, such criteria will be specified with respect to a particular Award by our Compensation Committee in a manner designed to comply with Section 162(m). These criteria may be applied to the Company as a whole or to a business unit, parent, subsidiary or business segment, either individually, alternatively or in any combination, and may be measured either annually or cumulatively over a period of years, on an absolute basis, or relative to a pre-established target, to previous years' results or to a designated comparison group, and on a pre-tax or after-tax basis, in each case as specified by the Administrator in the award agreement. The Company generally attempts to ensure that any Awards under the Stock Plan meet the standards of Section 162(m) but may not do so in every instance.

Stockholder approval of the Stock Plan as amended pursuant to this proposal will constitute stockholder approval of the material terms of the Plan, including the limitations on stock awards and cash awards and the Qualifying Performance Criteria, for Section 162(m) purposes.

General Plan Background and Share Reserve

The Stock Plan was adopted by the Board of Directors on January 31, 2000, and it became effective on January 31, 2000 after approval of the stockholders. In April 2005, the Board approved certain amendments to the Stock Plan which were approved by the stockholders in June 2005. Among other things, amendments expanded the types of Awards that could be granted under the Stock Plan, permitted certain Awards to qualify as performance-based compensation under Section 162(m), and extended the term of the Stock Plan.

As of April 9, 2010, Awards (net of expired or canceled Awards) covering an aggregate of 21,961,208 shares of common stock had been granted under the Stock Plan. 2,335,292 shares of common stock (plus any shares that might in the future be returned to the Stock Plan as a result of expiration of Awards) remain available for future grant under the Stock Plan. This number includes the number of shares automatically added to the Stock Plan's share reserve for each of our fiscal years from 2001 through 2010 pursuant to the evergreen provisions approved by our stockholders in January 2000. Pursuant to these provisions, for each of our fiscal years from 2001 through 2010, an additional number of shares equal to 2,250,000 shares per year were added to the Stock Plan. As of April 9, 2010, there were 19,288,404 options outstanding under the 2000 Stock Plan, with an average exercise price of \$3.80 and a remaining average life of 7.05 years. There were no stock awards, other than stock options, under this plan as of April 9, 2010. We are not seeking stockholder approval of an extension to the evergreen provisions of the Stock Plan so no shares will automatically be added to the Stock Plan's share reserve in the future without stockholder approval.

In addition to the 2000 Stock Plan, we currently have a separate Director's Plan. As of April 9, 2010, there were 689,000 options outstanding under the Director's Plan, with an average exercise price of \$3.65 and a remaining average life of 6.62 years. As of April 9, 2010, there were 194,000 options available for future grant under the Director's Plan. The Director's Plan will expire in September 2010, after which options to directors will be issued under the 2000 Stock Plan.

In addition, if the stockholders approve the amended and restated Stock Plan, the number of shares that remain available for issuance under the Stock Plan will be reduced by two shares for each share issued pursuant to an Award granted on or after the 2010 Annual Meeting, other than an option or stock appreciation right with a per share price equal to or greater than 100% of fair market value on the date of grant. Finally, the following shares will not again become available for future issuance under the Stock Plan: (i) shares tendered or withheld in payment of the exercise price of option, (ii) shares withheld to satisfy any tax withholding obligation, and (iii) shares covered by the portion of a stock appreciation right that is exercised (whether or not shares are actually issued to the participant upon exercise of the stock appreciation right).

Summary of the Stock Plan

A copy of the Stock Plan, as amended, will be filed with the SEC contemporaneously with this Proxy Statement as Exhibit 1 and is available online at www.sec.gov or from the Company upon request by any stockholder. The following description of the Stock Plan is only a summary and so is qualified by reference to the complete text of the Stock Plan. Except as otherwise noted, this summary reflects the amendments proposed above.

General

The purpose of the Stock Plan is to offer incentives to attract and retain the best available personnel for positions of substantial responsibility and by providing additional incentive to employees and consultants to promote the success of the Company's business. Stock options, stock purchase rights, restricted stock, restricted stock units, stock appreciation rights and cash awards may be granted under the Stock Plan (each an Award). Options granted under the Stock Plan may be either incentive stock options, as defined in section 422 of the Code, or non-statutory stock options.

Administration. The Stock Plan is administered by the Board of Directors or a committee designated by the Board (the Administrator). The Compensation Committee presently acts as the Administrator.

Eligibility. Nonstatutory stock options and stock awards may be granted under the Stock Plan to employees, directors (including non-employee directors) and consultants of the Company, its parent and subsidiaries. Incentive stock options and cash awards may be granted only to employees of the Company or its subsidiaries. The Administrator, in its discretion, selects the employees to whom stock options and other stock awards, as well as cash awards, may be granted, the time or times at which such Awards are granted, and the terms of such Awards to be granted under the Stock Plan. As of April 9, 2010, the Company had approximately 129 employees and consultants and 6 non-employee directors who would be eligible to participate in the Stock Plan.

Amended Plan Benefits. The grant of options, other stock awards, and cash awards under the Stock Plan to employees, including the Named Executive Officers, is subject to the discretion of the Administrator. As of the date of this proxy statement, there has been