

DURECT CORP
Form SC 13G
May 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934
(Amendment No. _____)*

DURECT CORPORATION
(Name of Issuer)

Common Stock
(Title of Class of Securities)

266605104
(CUSIP Number)

May 10, 2013
(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- Rule 13d-1(b)
 Rule 13d-1(c)
 Rule 13d-1(d)

The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No 266605104

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Broadfin Capital, LLC
 2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

(a)
(b)
 3. SEC USE ONLY
 4. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware
- NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH
5. SOLE VOTING POWER

0
 6. SHARED VOTING POWER

5,331,927
 7. SOLE DISPOSITIVE POWER

0
 8. SHARED DISPOSITIVE POWER

5,331,927
 9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

5,331,927
 10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES
CERTAIN SHARES (SEE INSTRUCTIONS)
 11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

5.23%

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

OO

CUSIP No 266605104

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Broadfin Healthcare Master Fund, Ltd.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)
(a)
(b)

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

5. SOLE VOTING POWER

0

6. SHARED VOTING POWER

5,331,927

7. SOLE DISPOSITIVE POWER

0

8. SHARED DISPOSITIVE POWER

5,331,927

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

5,331,927

10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES
CERTAIN SHARES (SEE INSTRUCTIONS)

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

5.23%

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

CO

CUSIP No 266605104

1. NAME OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Kevin Kotler
 2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

(a)
(b)
 3. SEC USE ONLY
 4. CITIZENSHIP OR PLACE OF ORGANIZATION

United States of America
- NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH
5. SOLE VOTING POWER

0
 6. SHARED VOTING POWER

5,331,927
 7. SOLE DISPOSITIVE POWER

0
 8. SHARED DISPOSITIVE POWER

5,331,927
 9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

5,331,927
 10. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES
CERTAIN SHARES (SEE INSTRUCTIONS)
 11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

5.23%

12. TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)
IN, HC
-

CUSIP No 266605104

Item 1. (a). Name of Issuer:

Durect Corporation

(b). Address of Issuer's Principal Executive Offices:

10260 Bubb Road, Cupertino, California 95014

Item 2. (a). Name of Person Filing:

Broadfin Capital, LLC
Broadfin Healthcare Master Fund, Ltd.
Kevin Kotler

(b). Address of Principal Business Office, or if None, Residence:

Broadfin Capital, LLC
237 Park Avenue, Suite 900
New York, New York 10017
United States of America

Broadfin Healthcare Master Fund, Ltd.
20 Genesis Close
Ansbacher House, Second Floor
P.O. Box 1344
Grand Cayman KY1-1108
Cayman Islands

Kevin Kotler
c/o Broadfin Capital, LLC
237 Park Avenue, Suite 900
New York, New York 10017
United States of America

(c). Citizenship:

Broadfin Capital, LLC – Delaware
Broadfin Healthcare Master Fund, Ltd. – Cayman Islands
Kevin Kotler – United States of America

(d). Title of Class of Securities:

Common Stock

(e). CUSIP Number:

266605104

Item 3. If This Statement is filed pursuant to ss.240.13d-1(b) or 240.13d-2(b), or (c), check whether the person filing is a

- (a) Broker or dealer registered under Section 15 of the Exchange Act (15 U.S.C. 78c).
- (b) Bank as defined in Section 3(a)(6) of the Exchange Act (15 U.S.C. 78c).
- (c) Insurance company as defined in Section 3(a)(19) of the Exchange Act (15 U.S.C. 78c).
- (d) Investment company registered under Section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).
- (e) An investment adviser in accordance with § 240.13d-1(b)(1)(ii)(E);
- (f) An employee benefit plan or endowment fund in accordance with § 240.13d-1(b)(1)(ii)(F);
- (g) A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G);
- (h) A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C.1813);
- (i) A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
- (j) Group, in accordance with s.240.13d-1(b)(1)(ii)(J).

Item 4. Ownership.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

- (a) Amount beneficially owned:

Any general statement that incorporates this Proxy Statement into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934 shall not be deemed to incorporate by reference this Audit and Finance Committee Report and related disclosure. Except to the extent the Company specifically incorporates such Report and related disclosure by reference, this information shall not otherwise be deemed to have been filed under such Acts.

AUDIT AND FINANCE COMMITTEE REPORT

The Audit and Finance Committee of the Board has reviewed and discussed the Company's audited financial statements with the management of the Company and has reviewed a report from management assessing the Company's internal controls. The Audit and Finance Committee has discussed with Deloitte & Touche LLP, the Company's Independent Accountants for the fiscal year ended December 31, 2005, the matters required to be discussed by the Statement on Auditing Standards No. 61 and Rule 2-07 of Regulation S-X. The Audit and Finance Committee has also received the written disclosures and letter from the Independent Accountants required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), has discussed with Deloitte & Touche LLP the independence of such Independent Accountants, and has considered the question of whether the auditors' provision of non-audit services was compatible with the Independent Accountants maintaining their independence.

Based on its review and discussions referred to in the preceding paragraph, the Audit and Finance Committee recommended to the Board that the audited financial statements for the Company's fiscal year ended December 31, 2005 be included in the Company's Annual Report on Form 10-K for the Company's fiscal year ended December 31, 2005.

The Board has determined that each member of the Audit and Finance Committee satisfies the independence requirements of the rules and regulations of the SEC and the independence and other requirements of the rules and listing standards of the NYSE. The Board has determined that Daniel J. Meyer, Robert W. Mahoney and John M. Zrno are audit committee financial experts as defined in the rules and regulations of the SEC and that each member of the Committee is financially literate as defined by the rules and listing standards of the NYSE.

AUDIT AND FINANCE COMMITTEE:

Daniel J. Meyer, Chairman

Phillip R. Cox

Robert W. Mahoney

Carl Redfield

John M. Zrno

INDEPENDENT ACCOUNTANTS

On March 21, 2005, the Audit and Finance Committee dismissed PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm and engaged Deloitte & Touche LLP as the Company's Independent Accountants for the fiscal year ending December 31, 2005, effective upon the final completion of Deloitte & Touche LLP's customary client acceptance procedures and execution of an engagement letter. The Audit and Finance Committee retained Deloitte & Touche LLP as its Independent Accountants to audit the financial statements of the Company for the fiscal year ending December 31, 2006.

AUDIT FEES

Deloitte & Touche LLP was the Company's Independent Accountants for the fiscal year 2005 and PricewaterhouseCoopers LLP was the Company's independent registered public accounting firm for the fiscal year 2004. Aggregate fees for professional services rendered for the Company by Deloitte & Touche LLP for the year ended December 31, 2005 and by PricewaterhouseCoopers LLP for the year ended December 31, 2004, were as follows:

	2005	2004
Audit Fees	\$1,540,000	\$2,852,420
Audit Related Fees	305,595	141,014
Tax Fees		48,485
All Other Fees		
Total	\$1,845,595*	\$3,041,919

* This amount does not include \$449,615 of tax consulting fees for services rendered by Deloitte & Touche LLP prior to being engaged as the Company's Independent Accountants.

Audit Fees

The Audit Fees for the years ended December 31, 2005 and 2004, respectively, were for services rendered in connection with the audit of the Company's annual consolidated financial statements, review of consolidated financial statements included in the Company's reports filed with the SEC and services related to requirements established by the Sarbanes-Oxley Act of 2002.

Audit Related Fees

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The Audit Related Fees for the years ended December 31, 2005 and 2004, respectively, were for professional services rendered for the audits of the Company's employee benefit plans filed with the SEC and various accounting consultations.

Tax Fees

Tax Fees for the year ended December 31, 2004, were for consulting services related to the implications of changes in federal and state tax laws and other compliance issues. Other than as noted above, the Company did not pay Deloitte & Touche LLP any Tax Fees for the year ended December 31, 2005.

All Other Fees

None.

Engagement of the Independent Accountants and Pre-approval Policy

In accordance with its charter, the Audit and Finance Committee has the sole authority and responsibility to select, evaluate, and, if necessary, replace the Independent Accountants. The Audit and Finance Committee has the sole authority to approve all audit engagement fees and terms. In addition, the Audit and Finance Committee, or the Chairperson of the Audit and Finance Committee between regularly scheduled meetings, must pre-approve all services provided to the Company by the Company's Independent Accountants.

Pursuant to Section 202 of the Sarbanes-Oxley Act of 2002, the Audit and Finance Committee pre-approved every engagement of PricewaterhouseCoopers LLP through March 21, 2005 to perform audit or non-audit services on behalf of the Company or any of its subsidiaries. In addition, the Audit and Finance Committee pre-approved every engagement of Deloitte & Touche LLP to perform audit or non-audit services on behalf of the Company or any of its subsidiaries since March 21, 2005.

STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of common shares and 6^{3/4}% Cumulative Convertible Preferred Shares as of February 28, 2006 (except as otherwise noted) by (i) each beneficial owner of more than five percent (5%) of either class of stock known by the Company, (ii) each director and each executive officer named in the Summary Compensation Table on page 25, and (iii) all directors and executive officers of the Company as a group.

Unless otherwise indicated, the address of each director and executive officer is c/o Cincinnati Bell at Cincinnati Bell's address.

Name and Address of Beneficial Owner	Common Shares Beneficially Owned as of February 28, 2006 (unless otherwise noted) (a)	Percent Of Common Shares (f)	6 ^{3/4} % Cumulative Convertible Preferred Shares Owned as of February 28, 2006 (g)	Percent of 6 ^{3/4} % Cumulative Convertible Preferred Shares (g)
Barclays Global Investors, N.A. 45 Fremont Street San Francisco, CA 94105	16,566,502 (b)	6.7%		
Brandes Investment Partners, L.P. and affiliates 11988 El Camino Real, Suite 500 San Diego, CA 92130	14,818,223 (c)	6.0%		
Gabelli Funds, LLC and affiliates One Corporate Center Rye, NY 10580	13,021,527 (d)	5.3%		
The Goldman Sachs Group, Inc. and affiliates 85 Broad Street New York, NY 10004	14,176,539 (e)	5.7%		
Bruce L. Byrnes	62,635	*		
Michael W. Callaghan	765,289	*		
John F. Cassidy	4,375,196	1.8%		
Phillip R. Cox	84,986	*		
Rodney D. Dir	355,538	*		

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Robert W. Mahoney	34,000	*		
Daniel J. Meyer	90,000	*		
Michael G. Morris	60,080	*		
Carl Redfield	70,000	*		
Brian A. Ross	909,007	*		
David B. Sharrock	85,052	*		
Alex Shumate	25,000	*		
Christopher J. Wilson	296,177	*		
John M. Zrno	1,146,650	*		
All directors and executive officers as a group (consisting of 19 persons, including those named above)	9,001,829	3.6%	25	*

* indicates ownership of less than 1% of issued and outstanding shares.

(a) Includes common shares subject to outstanding options under the Cincinnati Bell Inc. 1997 Long Term Incentive Plan and the Directors Stock Option Plan that are exercisable by such individuals within 60 days. The following options are included in the totals: 43,000 common shares for Mr. Byrnes; 714,700 common shares for Mr. Callaghan; 3,684,400 common shares for Mr. Cassidy; 81,925 common shares for Mr. Cox; 300,000 common shares for Mr. Dir; 34,000 common shares for Mr. Mahoney; 79,000 common shares for Mr. Meyer; 43,000 common shares for Mr. Morris; 70,000 common shares for Mr. Redfield; 811,400 common shares for Mr. Ross; 78,250 common shares for Mr. Sharrock; 25,000 common shares for Mr. Shumate; 255,050 common shares for Mr. Wilson; and 1,141,650 common shares for Mr. Zrno.

- (b) As reported on Schedule 13G filed on January 26, 2006 by Barclays Global Investors, N.A., as of December 31, 2005, Barclays Global Investors, N.A. had sole voting power for 9,042,151 common shares and sole dispositive power for 10,868,432 common shares and Barclays Global Fund Advisors had sole voting power for 5,678,536 common shares and sole dispositive power for 5,698,070 common shares.
- (c) As reported on Schedule 13G/A filed on February 14, 2006, Brandes Investment Partners, L.P. and its affiliates, as of December 31, 2005, shared voting power for 13,936,792 common shares and beneficially owned 14,818,223 common shares.
- (d) As reported on Schedule 13D/A filed on November 29, 2005 by Gabelli Funds, LLC, as of November 22, 2005, Gabelli Funds, LLC had sole voting and dispositive power for 3,949,666 common shares, GAMCO Asset Management Inc. had sole voting power for 8,108,161 common shares and sole dispositive power for 9,003,661 common shares, MJG Associates, Inc. had sole voting and dispositive power for 65,700 common shares and Gabelli & Company, Inc. Profit Sharing Plan had sole voting and dispositive power for 2,500 common shares.
- (e) As reported on Schedule 13G filed on February 28, 2006 by The Goldman Sachs Group, Inc. and its affiliates, as of February 23, 2006, had shared power to vote 14,175,449 common shares and shared power to dispose 14,176,539 common shares and beneficially owned 14,176,539 common shares.
- (f) These numbers are based upon 247,125,771 common shares issued and outstanding as of the Record Date.
- (g) These numbers represent 6^{3/4}% Convertible Preferred Shares. In the aggregate, the 155,250 issued and outstanding 6^{3/4}% Convertible Preferred Shares are represented by 3,105,000 Depositary Shares and each 6^{3/4}% Convertible Preferred Share is represented by 20 Depositary Shares.

EXECUTIVE COMPENSATION

Any general statement that incorporates this Proxy Statement into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934 shall not be deemed to incorporate by reference this Compensation Committee Report on Executive Compensation and related disclosure. Except to the extent the Company specifically incorporates such Report and related disclosure by reference, this information shall not otherwise be deemed to have been filed under such Acts.

Compensation Committee Report on Executive Compensation

The Compensation Committee of the Board of Directors administers Cincinnati Bell's executive compensation program. The Compensation Committee, which is composed of non-employee directors, is responsible for recommending to the Board for approval all elements of compensation for the Company's Chief Executive Officer. The Committee is also responsible for approving and reporting to the Board on all elements of compensation for the Company's other executive officers. The Committee has a written charter that sets forth its duties and responsibilities, including the requirement to conduct annually a self-assessment of the Committee's performance. The Compensation Committee Charter is available on the Company's website, www.cincinnati-bell.com, in the Corporate Governance Section of the Corporate Information webpage.

The Committee retains an individual independent consultant to assist it in evaluating matters presented to the Committee as well as the operation of the Committee itself. The independent consultant is engaged by, and reports directly to, the Committee. The independent consultant generally attends all meetings of the Committee. In addition, the Company also retains Towers Perrin, an outside compensation consulting firm, to provide it with marketplace compensation and practices.

Compensation Philosophy

The principles of the executive compensation program established by the Compensation Committee are that:

Compensation must be competitive with other companies to attract and retain high-quality executives;

A significant portion of total executive compensation should be at risk and tied to the achievement of specific short-term and long-term performance objectives, principally the Company's earnings and the performance of the Company's common shares, thereby linking executive compensation with the returns realized by shareholders; and

Emphasis should be on providing a balance across each executive's base salary and short-term and long-term incentive components appropriate to the current and long-term goals and strategy of the Company.

Executive Compensation Practices

The Compensation Committee targets each executive officer's total direct compensation (base salary, annual incentive compensation and long-term incentive compensation) to be competitive with the revenue adjusted median of the marketplace, using information from general industry surveys and a study group of companies from the telecommunications industry whose products and services closely parallel those of the Company and who likely seek executives with similar kinds of skills and experience. Towers Perrin initially proposes for consideration a group of telecommunications companies that consists of companies that participate in a survey conducted by Towers Perrin. The Committee's independent consultant reviews the proposed group of companies for reasonableness and the Committee itself further reviews such group prior to initiating any study of competitive compensation practices. Additionally, the Committee also reviews and considers general marketplace competitive compensation practices for a much larger group of companies which Towers Perrin also provides to it. Competitive marketplace data, however, is only one determinant of setting executive pay. The Committee evaluates results against the Company's business goals and carefully considers other personal performance factors in determining executive pay.

Components of Executive Compensation

The Company's compensation program for executive officers consists of three components: base salary, annual incentive compensation and long-term incentive compensation.

Base Salary. Each year the Committee reviews and determines the base salary of the Chief Executive Officer and the other executive officers taking into account the individual's personal performance, his or her scope of responsibilities and experience and competitive compensation practices. The base salaries for the

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last three years paid to Messrs. Cassidy, Ross, Dir, Callaghan and Wilson appear in the Summary Compensation Table on page 25.

For the 2006 year, the Committee has determined that the base salary of the Chief Executive Officer and the other named executive officers should stay at the same level as 2005.

Annual Incentive. The Cincinnati Bell Inc. Short Term Incentive Plan, in which all of the above-named executives participated, is one of the means by which the Compensation Committee encourages the Company's management to enhance shareholder value. As in the case of base salary, short-term award targets under this plan for 2005 were benchmarked against market data. Any award granted under the plan to an executive generally will specify a standard payment amount (the award's standard award level) if certain but not all (or a certain level but not the highest level) of the performance goals applicable to the award are met and will also specify payment amounts more or less than the standard award level if additional or fewer (or if a higher or lower level) of the performance goals applicable to the award are met. The payment of the annual incentive awards for fiscal year 2005 to Messrs. Cassidy, Ross, Dir, Callaghan and Wilson was based on (i) the Company achieving between 95% and 120% of targeted levels of income before income taxes and revenue and (ii) individual performance, weighted as follows: (a) income before income taxes 60%, (b) revenue 20%, and (c) individual performance 20%. The short term awards received by Messrs. Cassidy, Ross, Dir, Callaghan and Wilson in 2005 appear in the Summary Compensation Table on page 25.

On December 1, 2005, the Compensation Committee set the short-term award targets for fiscal year 2006 under the Cincinnati Bell Inc. Short-Term Incentive Plan. Payment of the annual incentive is based on (i) the Company achieving certain levels of EBITDA and revenue, and (ii) individual performance, weighted as follows: (a) EBITDA 40%, (b) revenue 40%, and (c) individual performance 20%. The 2006 standard award levels for the Company's executive officers are: Mr. Cassidy \$774,000; Mr. Ross \$297,500; Mr. Dir \$255,000; Mr. Callaghan \$112,500; and Mr. Wilson \$125,000.

Long-Term Incentives. The Company's executive compensation program currently includes grants of stock options and, beginning in 2005, performance-based restricted shares. The total market competitive long-term incentive opportunity for each executive will be divided approximately equally between grants of equity made under each of these two programs. The long-term incentives, along with stock acquired by the executive over time, are intended to more closely align the interests of the Company's executive officers with those of the Company's shareholders.

In the discretion of the Compensation Committee, the Company awards stock options for the purchase of common shares under the Company's Long Term Incentive Plan. On December 1, 2005, the Compensation Committee granted the following stock options: Mr. Cassidy 425,000 stock options; Mr. Ross 150,000 stock options; Mr. Dir 100,000 stock options; Mr. Callaghan 75,000 stock options; and Mr. Wilson 77,400 stock options. In addition to the December stock option grant, on July 11, 2005, the Committee awarded Mr. Dir a grant of stock options for 200,000 shares in conjunction with his joining the Company as Chief Operating Officer.

For 2005, the Compensation Committee granted performance-based restricted shares as follows: Mr. Cassidy 551,500 shares; Mr. Ross 60,000 shares; Mr. Dir 60,000 shares; Mr. Callaghan no shares; and Mr. Wilson 30,000 shares. The Compensation Committee intends to authorize the award of additional shares in connection with the final performance measurement period noted below if the established performance standards applicable to this performance period would warrant the issuance of additional shares. The maximum number of additional shares which could be authorized are as follows: Mr. Cassidy an additional 275,750 shares; Mr. Ross an additional 30,000 shares; Mr. Dir an additional 30,000 shares; Mr. Callaghan no additional shares; and Mr. Wilson an additional 15,000 shares. The performance-based restricted shares are subject to the achievement of certain free cash flow results during the 2005-2007 three-year period; more specifically, 90% to 110% of the free cash flow goal established for the three measurement periods: the 2005 period, the 2005-2006 period, and the 2005-2007 period. The threshold, target and maximum number of shares that could vest or be awarded over the term of the three-year performance period are shown in the Long-Term Incentive Plans Awards in Last Fiscal Year table on page 29.

The performance-based restricted shares and stock options awarded in 2005 to Messrs. Cassidy, Ross, Dir, Callaghan and Wilson appear in the Summary Compensation Table on page 25 and/or the Long Term Incentive Plan Awards in Last Fiscal Year table on page 29.

Compensation of the Chief Executive Officer

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Based upon the Company's revenue and income before income taxes, and an evaluation of his personal performance, Mr. Cassidy received the base salary and annual bonus shown in the Summary Compensation Table on page 25. In 2005, he also received 551,500 performance-based restricted shares as shown on pages 25 and 29, and options to purchase 425,000 common shares as shown on pages 25 and 27.

Compensation Limitation

Section 162(m) of the Code generally limits the available deduction to the Company for compensation paid to any of the Company's named executives to \$1,000,000, except for performance-based compensation that meets certain technical requirements. Although the Committee considers the anticipated tax treatment to the Company and the executive officers of its compensation payments, the Committee has determined that it will not necessarily seek to limit executive compensation to that deductible under Section 162(m) of the Code.

Compensation Committee:

Michael G. Morris, Chairman

Bruce L. Byrnes

Phillip R. Cox

Daniel J. Meyer

David B. Sharrock

SUMMARY COMPENSATION TABLE

The following table shows the compensation of the Chief Executive Officer and the other four most highly compensated executive officers of the Company for services to the Company during fiscal year 2005, as well as their compensation for each of the fiscal years ending December 31, 2004 and December 31, 2003.

Name and Principal Position (a)	Year	Long-Term Compensation						
		Annual Compensation			Awards		Payouts	
		Salary (\$)(b)	Bonus (\$)	Other Annual Compensation (\$)(c)	Restricted Stock Award(s) (\$)(d)	Securities Underlying Options/ SARs (#)	Long-Term Incentive Payouts (\$)(e)	All Other Compensation (\$)(f)
John F. Cassidy President and Chief Executive Officer	2005	\$ 651,095(g)	\$ 821,988	\$ 31,000	\$ 0	425,000	\$ 1,058,130	\$ 8,200
	2004	\$ 669,808	\$ 846,602	\$ 43,364	\$ 0	666,100	\$ 0	\$ 8,200
	2003	\$ 550,000	\$ 720,000	\$ 21,581	\$ 0	801,000	\$ 0	\$ 8,000
Brian A. Ross Chief Financial Officer	2005	\$ 348,705	\$ 301,070	\$ 16,227	\$ 0	150,000	\$ 115,118	\$ 8,200
	2004	\$ 285,577	\$ 253,419	\$ 17,366	\$ 54,250	450,000(h)	\$ 0	\$ 1,036
	2003	\$ 220,480	\$ 158,760	\$ 16,544	\$ 0	61,000	\$ 0	\$ 0
Rodney D. Dir Chief Operating Officer	2005	\$ 167,738	\$ 255,000	\$ 6,900	\$ 0	300,000(i)	\$ 57,559	\$ 1,846
	2004	n/a						
	2003	n/a						
Michael W. Callaghan Senior Vice President Corporate Development	2005	\$ 250,153	\$ 96,975	\$ 23,000	\$ 0	75,000	\$ 0	\$ 13,380
	2004	\$ 259,615	\$ 123,053	\$ 20,067	\$ 54,250	75,000	\$ 0	\$ 14,891
	2003	\$ 250,000	\$ 300,556(j)	\$ 21,794	\$ 0	51,000	\$ 0	\$ 9,539
Christopher J. Wilson Vice President, General Counsel and Secretary	2005	\$ 249,672	\$ 132,750	\$ 13,000	\$ 0	77,400	\$ 57,559	\$ 7,171
	2004	\$ 233,654	\$ 123,053	\$ 13,480	\$ 54,250	75,000	\$ 0	\$ 8,047
	2003	\$ 174,631(k)	\$ 97,333	\$ 4,868	\$ 0	51,000	\$ 0	\$ 7,325

(a) Mr. Cassidy was named President and Chief Executive Officer effective July 31, 2003. Prior to that time, he served as Chief Operating Officer of the Company. Mr. Ross was named Chief Financial Officer on January 9, 2004. Prior to that time, he served as Senior Vice President, Finance and Accounting for Cincinnati Bell Telephone Company. Mr. Dir joined the Company as its Chief Operating Officer on July 11, 2005. Prior to that he was employed by T-Mobile. Mr. Wilson was named Vice President and General Counsel effective August 4, 2003 and Secretary effective December 1, 2005. Prior to that time, he served as Associate General Counsel of Cincinnati Bell Telephone Company.

(b) The salary amounts listed in this column are the actual amounts paid during the respective calendar year, which during the 2004 calendar year included a 27th pay check, instead of the more customary 26 pay checks, due to the fact 27 Company pay cycles ended in 2004. The actual 2004 annual salary rates for Messrs. Cassidy, Ross, Callaghan and Wilson were \$645,000, \$275,000, \$250,000 and \$225,000, respectively.

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- (c) The amounts listed in this column represent the amounts reimbursed during the course of 2005 to each named executive officer under the Company's flexible perquisite program, which, rather than fixing set amounts for specific purposes, provides each executive with an annual allowance and a variety of categories for which reimbursement may be made. Reimbursable categories include monthly automotive allowance, tax planning and preparation, financial planning, estate planning, legal counseling, life insurance premiums on the life of the executive, the cost of software in connection with the aforementioned items, fees in connection with the adoption of a child, supplemental disability/long-term care insurance, social club dues and home security systems.
- (d) The amounts in this column reflect the value of time-based restricted shares granted on February 5, 2004 to Messrs. Ross, Callaghan and Wilson under the Cincinnati Bell Inc. 1997 Long Term Incentive Plan (the "LTIP"). These values are based upon the average (\$5.425) of the high and low prices of the Company's common shares on February 5, 2004. The restrictions on these time-based restricted shares lapsed on February 5, 2006.

The Company also granted performance-based restricted shares in 2005 under the LTIP. For more information about the performance-based restricted shares granted in 2005, see the table on page 29 and the notes that immediately follow.

As of December 31, 2005, the number and value of time-based and performance-based restricted shares held in the aggregate by the named executive officers was as follows: Mr. Cassidy 551,500 restricted shares (\$1,935,765); Mr. Ross 70,000 restricted shares (\$245,700); Mr. Dir 60,000 restricted shares (\$210,600); Mr. Callaghan 10,000 restricted shares (\$35,100); and Mr. Wilson 40,000 restricted shares (\$140,400). These values are based upon the closing price of \$3.51 for the Company's common shares on the last trading day of 2005. As described in the table and accompanying notes on page 29, a portion of these restricted shares will not vest (and are subject to forfeiture) if the Company does not meet certain free cash flow performance criteria in the future; on the other hand, additional shares may be awarded under certain circumstances described in the table. If the Company pays a dividend, dividends will be paid on the restricted shares.

- (e) The amounts listed in this column reflect the value of those performance-based restricted shares granted in 2005 under the LTIP (information as to which is contained in the table on page 29 and the notes that immediately follow) with respect to which the named executive officers became vested on February 28, 2006 by reason of certain free cash flow performance results of the Company and its subsidiaries for 2005 (the first performance period applicable to such restricted shares). The number of performance-based restricted shares that vested for each named executive officer was as follows: Mr. Cassidy 255,896 shares; Mr. Ross 27,840 shares; Mr. Dir 13,920 shares; and Mr. Wilson 13,920 shares. These values are based upon the average (\$4.135) of the high and low prices of the Company's common shares on February 28, 2006.
- (f) All amounts in this column represent Company matching contributions to the Retirement Savings Plan and/or to the Executive Deferred Compensation Plan.
- (g) The 2005 salary amount reported above for Mr. Cassidy in this item includes \$6,095 attributable to the exercise of Convergys Corporation stock options that the Company is required to report as wages.
- (h) Mr. Ross received two grants of stock options during 2004. The first grant of options was for 300,000 shares on January 29, 2004, in connection with Mr. Ross' appointment as Chief Financial Officer. The second grant of options was for 150,000 shares on December 3, 2004, in connection with the Company's award of long-term incentives under the LTIP.
- (i) Mr. Dir received a stock option grant of 200,000 shares upon his commencement of employment on July 11, 2005, and an additional stock option grant of 100,000 shares at the December meeting of the Compensation Committee as part of the Company's annual consideration of stock option grants under the LTIP.
- (j) Mr. Callaghan's bonus amount consisted of an annual bonus in the amount of \$119,306 and a success bonus in the amount of \$181,250, which was paid in connection with the sale by the Company of the broadband business of BCSI Inc. (f/k/a Broadwing Communications Services Inc.).
- (k) Mr. Wilson's base salary for 2003 reflected a blend of his starting annual salary rate of \$140,000 and, following his appointment as Vice President and General Counsel, an ending annual salary rate of \$225,000.

Grants of Stock Options in Last Fiscal Year

The following table shows all individual grants by the Company of stock options to purchase common shares granted to the named executive officers of the Company during the fiscal year ended December 31, 2005:

Name	Number of Securities Underlying Options Granted (#) (a)	% of Total Options Granted to Employees In Fiscal Year	Exercise Price (\$/Sh)	Expiration Date	Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term(b)	
					5%(\$)	10%(\$)
John F. Cassidy	425,000	20.66%	\$ 3.995	12/01/15	\$ 1,067,770	\$ 2,705,975
Brian A. Ross	150,000	7.29%	\$ 3.995	12/01/15	\$ 376,860	\$ 955,050
Rodney D. Dir	100,000	4.86%	\$ 3.995	12/01/15	\$ 251,240	\$ 636,700
	200,000	9.72%	\$ 4.510	07/11/15	\$ 567,260	\$ 1,437,560
Michael W. Callaghan	75,000	3.65%	\$ 3.995	12/01/15	\$ 188,430	\$ 477,525
Christopher J. Wilson	77,400	3.76%	\$ 3.995	12/01/15	\$ 194,460	\$ 492,806

- (a) The material terms of the December options granted are: grant type: non-incentive; exercise price: fair market value on grant date; exercise period: fully exercisable grant, but recipient's right to sell any shares obtained upon exercise of the options was limited to 28% upon the first anniversary of the grant, and an additional 3% per month in each of the next 24 months thereafter; term of grant: 10 years; termination: all sales restrictions are extinguished upon termination of employment. Mr. Dir's July options are non-incentive options at fair market value on the date of grant and are fully exercisable, with a term of 10 years. Except in the case of retirement, disability, death or change in control of the Company, any unexercised options will be cancelled 90 days following termination of employment.
- (b) As required by rules of the SEC, potential values stated are based on the prescribed assumption that the common shares will appreciate in value from the date of the grant to the end of the option term (ten years from the date of the grant) at annualized rates of 5% and 10% (total appreciation of 62.9% and 159.4%) resulting in values of \$6.5074 and \$10.3620 for all options expiring on December 1, 2015 and \$7.3463 and \$11.6978 for all options expiring on July 11, 2015. They are not intended, however, to forecast possible future appreciation, if any, in the price of the common shares. The total of all stock options granted to employees, including executive officers, during fiscal 2005 was approximately 0.83% of the total number of common shares outstanding as of December 31, 2005.

Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table shows aggregate option exercises for common shares in the last fiscal year by each of the named executive officers and fiscal year-end values of each such officer's unexercised options at December 31, 2005:

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at FY-End (#) Exercisable (E)/ Unexercisable (U)	Value of Unexercised In-the-Money Options at FY-End (\$) (a)(b) Exercisable (E)/ Unexercisable (U)
John F. Cassidy	0	\$n/a	3,684,400(E) 0(U)	\$0(E) \$0(U)
Brian A. Ross	0	\$n/a	811,400(E) 0(U)	\$0(E) \$0(U)
Rodney D. Dir	0	\$n/a	300,000(E) 0(U)	\$0(E) \$0(U)
Michael W. Callaghan	0	\$n/a	714,700(E) 0(U)	\$0(E) \$0(U)
Christopher J. Wilson	0	\$n/a	255,050(E) 0(U)	\$0(E) \$0(U)

- (a) On December 30, 2005, the value of a common share on the NYSE (based on the average of the high and low prices of the common shares on such date, which was the last trading day of 2005) was \$3.455 per share.
- (b) On December 30, 2005, the Compensation Committee accelerated the vesting of all out-of-the-money options, defined as those options for which the option exercise price was greater than the closing market price on December 30, 2005 of the Company's common shares, or \$3.51. The Company also immediately vested 1,673,700 options that were granted in December 2005. Restrictions were placed on the December 2005 option grant, such that the recipient's right to sell any shares obtained upon exercise of the options were limited to 28% upon the first anniversary of the grant, and an additional 3% per month in each of the 24 months thereafter. The decision to accelerate the vesting of the out-of-the-money options and to fully vest the December 2005 options was made primarily to reduce compensation expense that otherwise would have been recorded in future periods following the Company's adoption in 2006 of SFAS No. 123(R), Share-Based Payment. Additionally, the Company believes this action further enhances management's focus on shareholder return and is in the best interest of the Company's shareholders.

Long-Term Incentive Plans Awards in Last Fiscal Year

In 2005, as shown in the table below, the Company granted performance-based restricted share awards to the named executive officers.

Name	Number of Shares, Units or Other Rights (#) (a)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts under Non-Stock Price-Based Plans (b)		
			Threshold (#)	Target (#)	Maximum (#)
John F. Cassidy	551,500	(a)	206,813	551,500	827,250
Brian A. Ross	60,000	(a)	22,500	60,000	90,000
Rodney D. Dir	60,000	(a)	11,250	60,000	90,000
Michael W. Callaghan	0	n/a	0	0	0
Christopher J. Wilson	30,000	(a)	11,250	30,000	45,000

(a) The Company granted performance-based restricted shares to Messrs. Cassidy, Ross and Wilson on January 28, 2005 and to Mr. Dir on July 11, 2005 under the LTIP. The value of these performance-based restricted shares on the date of grant was as follows: Mr. Cassidy \$2,368,693; Mr. Ross \$257,700; Mr. Dir \$270,600; and Mr. Wilson \$128,850. For Messrs. Cassidy, Ross and Wilson, these values are based upon the average (\$4.295) of the high and low prices for the Company's common shares on January 28, 2005; and for Mr. Dir, this value is based upon the average (\$4.51) of the high and low prices for the Company's common shares on July 11, 2005. Each named executive officer generally becomes vested in (or forfeits) his 2005-granted performance-based restricted shares based on the achievement of (i) the free cash flow results of the Company and its subsidiaries for a 2005 performance period, (ii) the cumulative free cash flow results of the Company and its subsidiaries for a 2005-2006 performance period and (iii) the cumulative free cash flow results of the Company and its subsidiaries for a 2005-2007 performance period.

The Compensation Committee intends to authorize the award of additional shares in connection with the final performance measurement period noted above if the established performance standards applicable to this performance period would warrant the issuance of additional shares.

(b) The column labeled "Maximum" includes the maximum number of shares that could be awarded if the established performance standards applicable to the final performance period would warrant the issuance of additional shares. If these additional shares are issued, then the value of the sum of the 2005-granted performance-based restricted shares and these additional shares would have been, on the dates of grant of the 2005-granted restricted shares, as follows: Mr. Cassidy \$3,553,039; Mr. Ross \$386,550; Mr. Dir \$405,900; and Mr. Wilson \$193,275. The values noted in the immediately preceding two sentences are: for Messrs. Cassidy, Ross and Wilson, based upon the average (\$4.295) of the high and low prices for the Company's common shares on January 28, 2005; and for Mr. Dir, based upon the average (\$4.51) of the high and low prices for the Company's common shares on July 11, 2005. The maximum number of the 2005-granted performance-based restricted shares and the additional shares that could be awarded, considered in the aggregate, in which a named executive officer could become vested or be awarded was or is: (i) for the 2005 performance period, 50% of the target number of restricted shares shown in the above table (set forth in the Target column under the Estimated Future Payouts under Non-Stock Price-Based Plans heading in the above table), except that such percent is 25% for Mr. Dir; (ii) for the 2005-2006 performance period, 75% of the target number of restricted shares shown in the above table less the number of shares in which he became vested for the 2005 performance period; and (iii) for the 2005-2007 performance period, 150% of the target number of restricted shares shown in the above table less the number of shares in which he became vested for the 2005 and 2005-2006 performance periods.

Further, for a named executive officer to become vested in any 2005-granted performance-based restricted shares (or to be awarded any additional shares) with respect to any performance period, not

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only must the Company and its subsidiaries achieve certain free cash flow results for such performance period but the officer generally must also remain employed by the Company or a Company subsidiary until a certain short period of time after the end of such period (unless his employment with the Company and its subsidiaries

ends because of his retirement or disability). Also, in general, a named executive officer will become fully vested in all of his 2005 performance-based restricted shares if he dies during the 2005-2007 performance period or a change in control of the Company occurs during such period.

The maximum and target number of the shares shown for each named executive officer in the above table reflects the maximum and target number of shares in which the officer can become vested or be awarded for all of the applicable performance periods considered in the aggregate (should the Company and its subsidiaries meet a certain level of free cash flow results that would cause the officer to be vested in or be awarded the maximum or target number of the shares applicable to him and the officer meets all other factors required for him to become vested in or entitled to such shares).

The threshold number of the shares shown for each named executive officer in the above table reflects the minimum number of shares in which the officer can become vested for any of the applicable performance periods (should the Company and its subsidiaries meet a certain level of free cash flow results for any of the performance periods that would cause the officer to be vested in or become entitled to at least a portion of the shares applicable to him). In this regard, each named executive officer already has become vested in slightly more than the threshold number of his 2005 granted performance based restricted shares, based on the free cash flow results of the Company and its subsidiaries for the 2005 performance period. The value and number of the performance-based restricted shares in which each named executive officer became vested with respect to the 2005 performance period is noted in the Summary Compensation Table (and the notes that follow such table) on page 25.

While each named executive officer has become vested in a portion of his 2005-granted performance-based restricted shares by reason of the free cash flow results of the Company and its subsidiaries for the 2005 performance period, the officer could still fail to become vested in any more of his 2005-granted performance-based restricted shares for the 2005-2006 and 2005-2007 performance periods depending on the free cash flow results of the Company and its subsidiaries for such periods and the other factors related to vesting that are described above.

If the Company pays a dividend on its common shares as of any date, dividends will be paid on any still outstanding (and not yet forfeited) performance-based restricted shares then held by the named executive officers.

**EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT
AND CHANGE-IN-CONTROL ARRANGEMENTS**

Employment Agreement with Mr. Cassidy

Effective January 1, 1999 (as amended on September 20, 2002 and July 26, 2005), the Company entered into an Employment Agreement with Mr. Cassidy which provided for the employment and retention of Mr. Cassidy for a four-year term commencing January 1, 1999 subject to automatic one-year extensions. The Employment Agreement provides for: a minimum base salary of \$550,000 per year and a minimum bonus target of \$495,000 per year (pursuant to the September 20, 2002 amendment); a grant of options to purchase 30,000 common shares in 1999 and an amount to be determined each year for subsequent years; a restricted stock award in 1999 of 40,000 common shares which vested on May 23, 2003; and a supplemental non-tax-qualified pension as described in the paragraph below.

If Mr. Cassidy's employment terminates after April 8, 2001 and prior to April 7, 2006, his non-tax-qualified supplemental pension will equal that portion of his accrued pension under the Cincinnati Bell Management Pension Plan that is attributable to his first five years of service. If his employment terminates on or after April 8, 2006, his non-tax-qualified pension shall equal that portion of his accrued pension under the Cincinnati Bell Management Pension Plan that is attributable to his first ten years of service. Mr. Cassidy's supplemental pension shall be paid to him (or his estate if his employment terminates by reason of his death) in a single lump sum within ninety days after the termination of his employment.

The Employment Agreement provides that, in the event that the Company terminates Mr. Cassidy's employment (other than for cause or disability or within two years of a change in control of the Company), Mr. Cassidy will receive a lump sum payment equal to the greater of (a) two times his base salary rate and bonus target or (b) the base salary rate and bonus target for the remainder of the term of the Employment Agreement, plus certain continued medical, dental, vision and life insurance coverages. If Mr. Cassidy's employment terminates within two years following a change in control of the Company, Mr. Cassidy will receive a lump sum payment equal to 2.99 times his annual base salary and bonus target on the date of termination, plus certain continued medical, dental, vision and life insurance coverages. In addition, to the extent that Mr. Cassidy is deemed to have received an excess parachute payment by reason of a change in control, the Company will pay Mr. Cassidy an additional sum sufficient to pay (i) any taxes imposed under Section 4999 of the Code plus (ii) any federal, state and local taxes applicable to such additional sum.

Employment Agreement with Mr. Ross

Effective July 26, 2005, the Company entered into an Employment Agreement with Mr. Ross which provides for the employment and retention of Mr. Ross for a one-year term subject to automatic one-year extensions. The Employment Agreement provides for a minimum base salary of \$350,000 per year and a minimum bonus target of \$297,500 per year.

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The Employment Agreement provides that, in the event that the Company terminates Mr. Ross' employment other than for cause or disability, Mr. Ross will receive a lump sum payment equal to one times his base salary rate and bonus target, plus certain continued medical, dental, vision and life insurance coverages. If Mr. Ross' employment is terminated within one year following a change in control, Mr. Ross will receive a lump sum payment equal to two times his base salary rate and bonus target, plus certain continued medical, dental, vision and life insurance coverages. In addition, to the extent that Mr. Ross is deemed to have received an excess parachute payment by reason of a change in control, the Company will pay Mr. Ross an additional sum sufficient to pay (i) any taxes imposed under Section 4999 of the Internal Revenue Code plus (ii) any federal, state and local taxes applicable to such additional sum.

Employment Agreement with Mr. Dir

Effective July 26, 2005, the Company entered into a new Employment Agreement with Mr. Dir which provides for the employment and retention of Mr. Dir for a one-year term subject to automatic one-year extensions. The Employment Agreement provides for a minimum base salary of \$300,000 per year, a minimum bonus target of \$255,000 per year, a guaranteed bonus for 2005 (payable in early 2006 when other annual bonuses are customarily paid) of \$255,000 and a grant of 200,000 stock options on July 11, 2005 his first day of employment.

The Employment Agreement provides that, in the event that the Company terminates Mr. Dir's employment other than for cause or disability, Mr. Dir will receive a lump sum payment equal to one times his base salary rate and bonus target, plus certain continued medical, dental, vision and life insurance coverages. If Mr. Dir's employment is terminated within one year following a change in control, Mr. Dir will receive a lump sum payment equal to two times his base salary rate and bonus target, plus certain continued medical, dental, vision and life insurance coverages. In addition, to the extent that Mr. Dir is deemed to have received an excess parachute payment by reason of a change in control, the Company will pay Mr. Dir an additional sum sufficient to pay (i) any taxes imposed under Section 4999 of the Internal Revenue Code plus (ii) any federal, state and local taxes applicable to such additional sum.

Employment Agreement with Mr. Callaghan

Effective December 4, 2001 (as amended on February 3, 2003, October 22, 2003, December 3, 2004 and December 15, 2005), the Company entered into an Employment Agreement with Mr. Callaghan which provides for the employment and retention of Mr. Callaghan for a two-year term subject to automatic one-year extensions. The Employment Agreement provides for a minimum base salary of \$250,000 per year; a bonus target of \$100,000 per year; and a grant of options to purchase 100,000 common shares in 2001 and an amount to be determined each year for subsequent years.

The Employment Agreement provides that, in the event that the Company terminates Mr. Callaghan's employment other than for cause or disability; or terminates his employment within one year of a change in control of the Company; or if he resigns within 90 days following a change in control of the Company, Mr. Callaghan will receive a lump sum payment equal to two times his base salary rate and bonus target, plus certain continued medical, dental, vision and life insurance coverages. In addition, to the extent that Mr. Callaghan is deemed to have received an excess parachute payment by reason of a change in control, the Company will pay Mr. Callaghan an additional sum sufficient to pay (i) any taxes imposed under Section 4999 of the Code plus (ii) any federal, state and local taxes applicable to such additional sum.

On February 3, 2003, Mr. Callaghan's Employment Agreement was amended in connection with the implementation of a Success Plan. Under the Success Plan, Mr. Callaghan became eligible to receive a one-time bonus payment equal to 50% of the sum of his then current annual base salary and bonus target upon completion of the sale of the Company's broadband business. In addition, the February 3, 2003 amendment gave Mr. Callaghan the right to terminate his Employment Agreement at any time within the seven calendar days following completion of the Success Plan with the same rights and privileges that would have accrued to Mr. Callaghan had the Company terminated his Employment Agreement within one year of a change in control. On October 22, 2003, Mr. Callaghan's Employment Agreement was amended to

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postpone this self-termination right to the time period between December 15, 2004 and December 31, 2004. Similar amendments were executed on December 3, 2004 and December 15, 2005 to further postpone this self-termination right. Currently, Mr. Callaghan has the right to terminate his Employment Agreement at any time within the period between December 26, 2006 and December 31, 2006.

Employment Agreement with Mr. Wilson

Effective July 26, 2005, the Company entered into a new Employment Agreement with Mr. Wilson which provides for the employment and retention of Mr. Wilson for a one-year term subject to automatic one-year extensions. The Employment Agreement provides for a minimum base salary of \$250,000 per year and a minimum bonus target of \$125,000 per year.

The Employment Agreement provides that, in the event that the Company terminates Mr. Wilson's employment other than for cause or disability, Mr. Wilson will receive a lump sum payment equal to one times his base salary rate and bonus target, plus certain continued medical, dental, vision and life insurance coverages. If Mr. Wilson's employment is terminated within one year following a change in control, Mr. Wilson will receive a lump sum payment equal to two times his base salary rate and bonus target, plus certain continued medical, dental, vision and life insurance coverages. In addition, to the extent that Mr. Wilson is deemed to have received an excess parachute payment by reason of a change in control, the Company will pay Mr. Wilson an additional sum sufficient to pay (i) any taxes imposed under Section 4999 of the Code plus (ii) any federal, state and local taxes applicable to such additional sum.

Executive Deferred Compensation Plan

The Executive Deferred Compensation Plan permits, for any calendar year, each employee who has an annual base rate of pay and target bonus above a certain high dollar amount and has been designated by the Company or a subsidiary of the Company as a key employee for purposes of the plan (currently a key employee for purposes of the plan generally has annual pay of more than \$210,000) to defer receipt of up to 75% of his or her base salary, up to 100% of his or her cash bonuses (including annual incentive awards and cash awards under the Long Term Incentive Plan) and up to 100% of any common share awards (not including awards of stock options or restricted stock) provided him or her under the Long Term Incentive Plan. In addition, any key employee who has received a restricted stock award under the Long Term Incentive Plan may generally elect to surrender any of the restricted shares of such award as long as such surrender is at least six months prior to the date on which the restrictions applicable to such shares would otherwise have lapsed.

For all key employees who participate in the Executive Deferred Compensation Plan, there is also a Company match on the amount of base salary and cash bonuses deferred under the plan for any calendar year. In general, to the extent a participating key employee's base salary and cash bonuses for the applicable year do not exceed a certain annual compensation limit prescribed by the Internal Revenue Code for tax-qualified plans (which limit was \$210,000 for 2005 and \$205,000 for 2004), the match is 4% of the base salary and cash bonuses deferred by the employee under the plan. To the extent a participating key employee's base salary and cash bonuses for the applicable year exceed the appropriate annual compensation limit, the match is generally equal to the lesser of 6 2/3% of the base salary and cash bonuses deferred by the key employee under the plan or 4% of the key employee's base salary and cash bonuses for the applicable year that are in excess of such annual compensation limit.

Amounts deferred or surrendered by any participating key employee under the Executive Deferred Compensation Plan and any related Company match are credited to the account of the participant under the plan and are assumed to be invested in various mutual funds or other investments (including common shares) as designated by the participant, except that any restricted stock that is surrendered under the plan is generally assumed to be invested in common shares until at least six months after the date on which the restrictions applicable to such shares would otherwise have lapsed and that any common share awards that are deferred under the plan are assumed to be invested in common shares.

The accounts under the Executive Deferred Compensation Plan are not funded in a manner that would give any participant a secured interest in any funds, and benefits are paid from the assets of the Company and its subsidiaries (or from a trust that the Company has established and that remains subject to the Company's creditors).

The amounts credited to the account of any participant under the Executive Deferred Compensation Plan are generally distributed, as so elected by the participant, in one to ten annual installments (in cash and/or common shares), that begin at some date after his or her termination of employment with the Company and its subsidiaries or a fixed date that occurs at least six years after the start of the first calendar year in which he or she participates in the plan, except that any amounts credited to his or her account under the plan that are attributable to his or her surrender of restricted shares (not including amounts that were credited to such account as assumed cash dividends on such shares) are forfeited if the restricted shares would have been forfeited at the time of the participant's termination of employment had such shares not been surrendered under the plan. In addition, as a

special rule, in the event of a change in control of the Company, all of the amounts then credited under the plan to a participant's account under the plan are generally paid in a lump sum on the day after the change in control.

The Executive Deferred Compensation Plan must comply with the requirements of the American Jobs Creation Act of 2004 in order to retain its ability to defer federal income tax on certain amounts credited to a participant's account under the plan. The Company intends to amend the plan on a timely basis in order to meet such requirements and to administer the plan in accordance with such requirements.

The 2005 match for Mr. Callaghan under the Executive Deferred Compensation Plan is reflected in the Summary Compensation Table on page 25 under the All Other Compensation column. None of the other named executives participated in the Executive Deferred Compensation Plan during 2005.

Defined Benefit or Actuarial Plan Disclosure

All of the named executive officers of the Company participated during 2005 in the Cincinnati Bell Management Pension Plan (the Management Pension Plan), which is a tax-qualified defined benefit pension plan. Mr. Cassidy also participates in the Cincinnati Bell Inc. Pension Program (the Pension Program).

The basic benefit formula under the Management Pension Plan is a cash balance formula. Under this formula, each participant has an account to which pension credits are allocated at the end of each year based upon the participant's attained age and plan compensation for the year (with such plan compensation being subject to a maximum legal annual compensation limit, which limit was \$210,000 for 2005 and \$205,000 for 2004). To the extent that a participant's plan compensation exceeds the aforementioned annual compensation limitation, additional pension credits are given for such additional compensation under a non-tax-qualified retirement plan that is operated in conjunction with the Management Pension Plan (the Excess Benefit Plan). The following chart shows the 2005 annual pension credits that are given at the ages indicated:

<u>Attained Age</u>	<u>Pension Credits</u>
Less than 30 years	3.00% of total plan compensation plus 3.00% of excess compensation for 2005*
30 but less than 35 years	3.25% of total plan compensation plus 3.25% of excess compensation for 2005
35 but less than 40 years	3.75% of total plan compensation plus 3.75% of excess compensation for 2005
40 but less than 45 years	4.50% of total plan compensation plus 4.50% of excess compensation for 2005
45 but less than 50 years	5.25% of total plan compensation plus 5.25% of excess compensation for 2005
50 but less than 55 years	6.50% of total plan compensation plus 6.50% of excess compensation for 2005

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55 or more years	8.00% of total plan compensation plus 8.00% of excess compensation for 2005
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* For purposes of the above charge, "excess compensation" means the portion of a plan participant's total plan compensation for 2005 that exceeds the Social Security old-age retirement taxable wage base for 2005.

A participant's account under the Management Pension Plan is also generally credited with assumed interest for each calendar year at a certain interest rate. Such interest rate was 4.0% per annum for 2005 with respect to a participant while he or she is still employed by the Company or a Company subsidiary and 3.5% (or 4.0% if a participant elects out of a pre-retirement death benefit) for a participant while he or she is not so employed. (In the case of a participant who was a participant in the Management Pension Plan on December 31, 1993 or who has benefits transferred from other plans to the Management Pension Plan, the participant's account also was credited with pension credits equivalent to the participant's accrued benefit under the plan or such other plans on that date or when such benefits are transferred, as the case may be.)

After retirement or other termination of employment, a participant under the Management Pension Plan is entitled to elect to receive a benefit under the plan in the form of a lump sum payment or as an annuity, generally based on the balance credited to the participant's cash balance account under the plan when the benefit begins to be paid (but also subject to certain transition or special benefit formula rules in certain situations).

Under the Pension Program, each current active participant's pension at retirement, if paid in the form of a single life annuity, generally will be an amount equal to the difference between 50% of the participant's average monthly compensation (for the 36-month period that occurs during the 60-month period preceding retirement that produces the highest compensation amount) and the sum of the participant's benefits payable under the

Management Pension Plan (including for this purpose amounts payable under the Excess Benefit Plan and any other amounts which are intended to supplement or be in lieu of benefits under the Management Pension Plan) and Social Security benefits. Also, there is a reduction in such pension amount of 2.5% for each year by which the sum of the participant's years of age and years of service at retirement total less than 75, and no benefits are payable if the participant terminates employment (other than by reason of his or her death) prior to attaining age 55 and completing at least 10 years of service credited for the purposes of the plan.

If Messrs. Cassidy, Ross, Dir, Callaghan and Wilson were to continue in employment and retire at the normal retirement age of 65, their estimated straight life annuity annual pension amounts under the Management Pension Plan (plus the Pension Program combined prior to the deduction for Social Security in the case of Mr. Cassidy) would be: \$709,500 for Mr. Cassidy; \$198,500 for Mr. Ross; \$140,800 for Mr. Dir; \$60,500 for Mr. Callaghan; and \$165,700 for Mr. Wilson. These annual pension amounts would be reduced: in the case of Mr. Cassidy (age 51 and 9 years of service), if he retires prior to age 58; in the case of Mr. Ross (age 48 and 7 years of service), if he retires prior to age 65; in the case of Mr. Dir (age 48 and 0 years of service), if he retires prior to age 65; in the case of Mr. Callaghan (age 58 and 11 years of service), if he retires prior to age 65; and in the case of Mr. Wilson (age 40 and 7 years of service), if he retires prior to age 65.

Effect of Change in Control on Certain Executive Compensation Plans

Under the Long Term Incentive Plan, in the event of a change in control, all outstanding stock options will become immediately exercisable, all restrictions applicable to restricted share awards will lapse and a pro rata portion of all accrued incentive awards will be paid in cash (unless the applicable participant otherwise consents in any of such cases). Under the Executive Deferred Compensation Plan, the present value of all deferred amounts will generally be paid in cash in a lump sum in the event of a change in control. The present values of all accrued unfunded benefits under the Excess Benefit Plan and the Pension Program will be funded in a certain trust within five days after a change in control but any amounts while held in such trust will still be subject to creditors of the Company and will not represent a fund in which the participants in such plans have a secured interest.

STOCK PERFORMANCE GRAPH

The graph below shows the cumulative total shareholder return assuming the investment of \$100 on December 31, 2000 (and the reinvestment of dividends thereafter) in each of (i) the Company's common shares (ii) the S&P 500® Stock Index, (iii) the Custom Composite Index and (iv) the S&P® Integrated Telecommunications Services Index. The Company believes that the S&P® Integrated Telecommunications Services Index will be more accessible to its shareholders and will provide a more meaningful benchmark for the Company's performance than previously used indices.

	<u>Dec-00</u>	<u>Dec-01</u>	<u>Dec-02</u>	<u>Dec-03</u>	<u>Dec-04</u>	<u>Dec-05</u>
Cincinnati Bell Inc.	\$ 100	\$ 42	\$ 15	\$ 22	\$ 18	\$ 15
S&P 500®	\$ 100	\$ 88	\$ 69	\$ 88	\$ 98	\$ 103
Custom Composite Index	\$ 100	\$ 92	\$ 71	\$ 71	\$ 80	\$ 73
S&P® Integrated Telecommunications Services	\$ 100	\$ 91	\$ 63	\$ 63	\$ 71	\$ 68

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The Custom Composite Index consists of ALLTEL Corporation, Bellsouth Corp., Commonwealth Telephone Enterprises Inc., Century Tel Inc., Citizens Communications Co., AT&T Corp. (formerly SBC Communications, Inc.) and Verizon Communications.

OTHER MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors, executive officers and persons who own more than 10% of a registered class of the Company's equity securities to file reports of ownership and changes in ownership with the SEC and the NYSE and the National Stock Exchange (f/k/a the Cincinnati Stock Exchange). Directors, executive officers and greater than 10% shareholders are required by regulations of the SEC to furnish the Company with copies of all Section 16(a) reports they file. Such reports are filed on Forms 3, 4 and 5 under the Exchange Act. Based solely on the Company's review of the copies of such forms received by it, the Company believes that, during the period commencing January 1, 2005 and ending December 31, 2005, all such persons complied on a timely basis with the filing requirements of Section 16(a), except for the following, all of which were inadvertently filed late as a result of administrative errors by the Company: a Form 4 for Mark W. Peterson reporting the grant of stock options which was filed on July 28, 2005 and a Form 4 for Gary A. Cornett reporting the grant of stock options which was filed on April 5, 2005.

Shareholder Proposals for Next Year's Annual Meeting

Shareholder proposals intended for inclusion in next year's Proxy Statement should be sent to Christopher J. Wilson, General Counsel and Secretary, Cincinnati Bell Inc., 201 East Fourth Street, Cincinnati, Ohio 45202, and must be received by November 24, 2006. Any such proposal must comply with Rule 14a-8 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended. Any shareholder, who intends to propose any other matter to be acted upon at the 2007 annual meeting of shareholders without inclusion of such proposal in the Company's Proxy Statement, must inform the Company no later than February 7, 2007. If notice is not provided by that date, the persons named in the Company's proxy for the 2007 annual meeting will be allowed to exercise their discretionary authority to vote upon any such proposal without the matter having been discussed in the Proxy Statement for the 2007 annual meeting of shareholders.

Shareholders may propose director candidates for consideration by the Governance and Nominating Committee of the Board of Directors. Any such recommendations should be directed to Christopher J. Wilson, General Counsel and Secretary, Cincinnati Bell Inc., 201 East Fourth Street, Cincinnati, Ohio 45202, and must be received no later than November 24, 2006 for the 2007 annual meeting of shareholders.

Other Matters to Come Before the Meeting

At the time this Proxy Statement was released for printing on March 20, 2006, the Company knew of no other matters that might be presented for action at the meeting. If any other matters properly come before the meeting, it is intended that the voting shares represented by proxies will be voted with respect thereto in accordance with the judgment of the persons voting them.

Financial Statements and Corporate Governance Documents Available

The Cincinnati Bell Annual Report on Form 10-K for the year ended December 31, 2005, which includes the consolidated financial statements of the Company and its subsidiaries, and the Company's Summary Annual Report 2005 have been mailed to shareholders in the package of materials that includes this combined Proxy Statement, Annual Report on Form 10-K and Summary Annual Report. If you would like a copy of the combined Proxy Statement, Annual Report on Form 10-K and Summary Annual Report as filed with the SEC, or any other document incorporated by reference into this Proxy Statement, please write to Christopher J. Wilson, General Counsel and Secretary, Cincinnati Bell Inc., 201 East Fourth Street, Cincinnati, Ohio 45202, and the Company will send you one free of charge. You may also obtain a copy of any of the following corporate governance documents from the Company's website, www.cincinnati-bell.com, in the Corporate Governance Section of the Corporate Information webpage or by writing Christopher J. Wilson, General Counsel and Secretary, Cincinnati Bell Inc., 201 East Fourth Street, Cincinnati, Ohio 45202, for a free copy: the Audit and Finance Committee Charter, the Compensation Committee Charter, the Governance and Nominating Committee Charter, the Code of Business Conduct, the Code of Ethics for Senior Financial Officers, the Code of Ethics for Directors and the Corporate Governance Guidelines.

Proxy Statements for Shareholders Sharing the Same Household Mailing Address

As part of the Company's efforts to reduce costs and increase efficiency, when possible, only one copy of this combined Proxy Statement, Annual Report on Form 10-K and Summary Annual Report has been delivered to multiple shareholders sharing the same household mailing address, unless the Company has received contrary instructions from one or more of the shareholders at that address.

Upon written or oral request, Cincinnati Bell will promptly provide a separate copy of this combined Proxy Statement, Annual Report on Form 10-K and Summary Annual Report to a shareholder at a shared address to which a single copy was delivered. If your household mailing address is shared with other shareholders and you did not receive a combined Proxy Statement, Annual Report on Form 10-K and Summary Annual Report, but would like to receive a separate copy of this item as well as future Company communications, please contact the following:

For beneficial owners, please contact your broker.

For shareholders of record, please contact our transfer agent, Computershare, at the following address:

Computershare Investor Services, LLC

Shareholder Services

7550 Lucerne Drive, Suite 103

Cleveland, Ohio 44130-6503

If shareholders residing at the same household mailing address are currently receiving multiple copies of Company communications but would like to receive only one in the future, please send written notice to your broker (for beneficial owners) or to Computershare (for shareholders of record) at the above address. In the written notice, please indicate the names of all accounts in your household, and you will be forwarded the appropriate forms for completion.

Each shareholder participating in the householding program will, however, continue to receive a separate proxy card or voting instruction card.

Electronic Delivery of Materials

Edgar Filing: DURECT CORP - Form SC 13G

Shareholders can also enroll for electronic delivery of the Company's future Proxy Statements, Annual Report on Form 10-Ks and Summary Annual Reports by registering on our website, www.cincinnati-bell.com, in the Electronic Shareholder Communications Enrollment section of the Investor Relations webpage.

Each shareholder participating in the electronic delivery of materials will, however, continue to receive a separate proxy card or voting instruction card.

Shareholder Communications with the Board of Directors

Shareholders or other interested parties may communicate with the board of directors, any individual director, the non-management directors as a group, or the director who presides at meetings of the non-management directors. Cincinnati Bell has established procedures for such shareholder communications. Shareholders should send any communications to Christopher J. Wilson, General Counsel and Secretary, Cincinnati Bell Inc., 201 East Fourth Street, Cincinnati, Ohio 45202, and identify the intended recipient or recipients. All communications addressed to the board of directors or any identified director or directors will be forwarded to the identified person or persons.

By Order of the Board of Directors

Christopher J. Wilson

General Counsel and Secretary

March 15, 2006

SOLICITATION OF PROXY

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 28, 2006.

THE BOARD RECOMMENDS VOTING FOR EACH NOMINEE AND FOR EACH PROPOSAL

The undersigned hereby appoints Bruce L. Byrnes, Robert W. Mahoney and Daniel J. Meyer, each or any of them, as proxies, with full power of substitution, to represent and to vote all common shares and 6³/₄% Cumulative Convertible Preferred Shares of Cincinnati Bell Inc. held of record by the undersigned at the close of business on February 28, 2006, at the Annual Meeting and at any adjournment or postponement thereof, notice of which Annual Meeting together with the related Proxy Statement has been received. The proxies are directed to vote the shares as follows:

ITEM 1	Authority to vote for the election of three Class I directors whose terms expire in 2009.	FOR / /	WITHHELD / /
		ALL NOMINEES LISTED (EXCEPT AS MARKED TO THE CONTRARY BELOW)	

TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE, STRIKE A LINE THROUGH THE NOMINEE'S NAME IN THE LIST BELOW:

Carl Redfield

David B. Sharrock

Alex Shumate

ITEM 2	The ratification of the appointment of Deloitte & Touche LLP as the independent registered public accounting firm to audit the financial statements of the Company for the year 2006.	FOR / /	AGAINST / /	ABSTAIN / /
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(CONTINUED ON REVERSE SIDE)

[LOGO]

CINCINNATI BELL INC.

c/o Computershare Investor Services, LLC

Shareholder Services

7550 Lucerne Drive, Suite 103

Cleveland, Ohio 44130-6503

FOLD AND DETACH HERE

Please vote, date and sign below and return this proxy card promptly in the enclosed envelope. If you attend the meeting and wish to change your vote, you may do so by revoking your proxy card and casting your vote at the meeting. This proxy form, when properly executed, will be voted in accordance with the directions given by the shareholder. If no directions are given hereon, the proxy card will be voted FOR the election of directors and FOR the ratification of the appointment of Deloitte & Touche LLP as the independent registered public accounting firm to audit the financial statements of the Company for the year 2006. This proxy delegates discretionary authority with respect to any other matters which may come before the meeting.

Dated _____, 2006

SIGNATURE

Please sign exactly as your name(s) appears on this Proxy. If held in joint tenancy, all persons must sign. Trustees, administrators, etc. should include title and authority. Corporations should provide the full name of the corporation and the title of authorized officer signing the proxy.