DURECT

company founders

A. ___**James E. Brown, D.V.M.** PRESIDENT AND CHIEF EXECUTIVE OFFICER
B. ___**Felix Theeuwes, D.Sc.** CHAIRMAN AND CHIEF SCIENTIFIC OFFICER
C. ___**Thomas A. Schreck** CHIEF FINANCIAL OFFICER

dear fellow stockholders,

DURECT is focused on the development of therapies to treat chronic debilitating diseases and enabling the development of biotechnology products. To date, we have established a company with full development capabilities and a line of technologies that allow for drug administration for periods of days to a year for systemic and site-specific applications. The year 2002 was a very productive year in forging new partnerships. Additionally, we made substantial progress in our development programs.

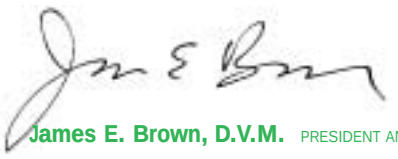
During 2002, we established 6 partnerships, most notably, our agreement with Endo Pharmaceuticals, Inc. for the development and commercialization of our lead product in development, the CHRONOGESIC™ (sufentanil) Pain Therapy System for the U.S. and Canadian markets. When selecting a commercialization partner for CHRONOGESIC, we wanted to maximize the chances that this product would reach the marketplace and that we would receive a fair return on the invested resources. We believe our collaborative arrangement with Endo will accomplish these objectives.

We are very proud to have signed five additional agreements in 2002, which include:

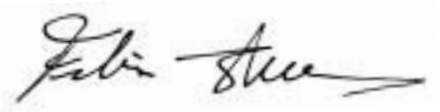
- An agreement with Pain Therapeutics, Inc. to develop and commercialize certain long-acting oral opioid products using our SABER™ delivery system;
- A development and commercialization agreement with Voyager Pharmaceutical Corporation for a DURIN™-based product for Alzheimer's Disease therapy;
- Our first biotechnology partnership is with BioPartners, GmbH in which we are developing a SABER-based sustained release alpha interferon product for the treatment of Hepatitis C;
- An agreement with Cardinal Health Pharmaceutical Technologies and Services Center, Inc. to explore the development of long acting oral gel-cap products using our SABER delivery system;
- We expanded our licensing agreement with Thorn BioScience LLC to develop selected SABER-based veterinary products.

These collaborations help to reduce the risk profile of the company by broadening our product portfolio mix, validating our technology platforms and providing us with a substantial source of potential funding. We expect to continue to forge new collaborations with pharmaceutical and biotechnology companies throughout 2003. Through these collaborations, we are looking for partnerships that will drive near term revenue and help reduce the company's cash burn, while enhancing our product development pipeline with products that have the potential to address significant medical needs, improve patients' quality of life and provide for strong future growth for DURECT.

Sincerely,



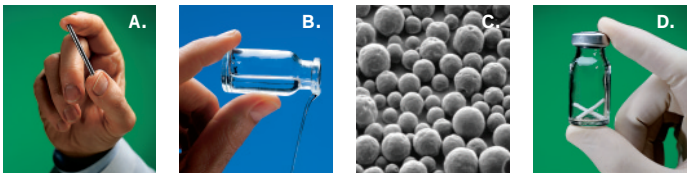
James E. Brown, D.V.M. PRESIDENT AND CHIEF EXECUTIVE OFFICER



Felix Theeuwes, D.Sc. CHAIRMAN AND CHIEF SCIENTIFIC OFFICER

Thomas A. Schreck CHIEF FINANCIAL OFFICER

platform technologies



A. ____DUROS® TECHNOLOGY
B. ____SABER™ DELIVERY SYSTEM
C. ____MICRODUR™ BIODEGRADABLE MICROPARTICULATE TECHNOLOGY
D. ____DURIN™ BIODEGRADABLE IMPLANT TECHNOLOGY

products in development and strategic collaborations

DURECT Corporation is pioneering the development and commercialization of pharmaceutical systems for the treatment of chronic debilitating diseases and enabling biotechnology-based pharmaceutical products. DURECT is developing these pharmaceutical system products based on its solid foundation of four proprietary drug delivery technology platforms. These are the DUROS® SABER™, MICRODUR™ and DURIN™ technology platforms.

The DUROS system is an osmotically driven miniature drug-dispensing pump, which is made out of titanium and can be as small as a wooden matchstick. Once a DUROS system is placed under a patient's skin it can deliver medicine to a specific organ via a catheter or to the body as a whole, for periods of months to a year. We licensed the DUROS technology, a proven and patented drug delivery platform, for specified fields of use from ALZA Corporation. The patented SABER biodegradable drug delivery platform is a versatile controlled release injectable useful for protein and small molecule delivery. From a single injection, it can achieve up to 3 months delivery of small molecules or 30 days delivery of proteins. The SABER matrix can also be used as the core formulation in oral gel-caps to deliver drugs for once, or twice a day dosing. MICRODUR is a biodegradable microparticlulate controlled release injectable, typically designed to deliver drugs for periods of weeks to months. Our DURIN technology is a proprietary biodegradable implant that enables parenteral delivery of drugs from several weeks to six months or more. The DURIN technology can deliver a wide variety of drugs including small and large molecule compounds. At the end of its delivery life, the body absorbs what remains of the DURIN implant.

chronic pain

With our lead product, the CHRONOGESIC™ (sufentanil) Pain Therapy System, we intend to target patients with opioid responsive chronic pain that results from a variety of causes, ranging from failed back surgery to chronic cancer pain. The CHRONOGESIC product delivers sufentanil continuously within the therapeutic window, at physician prescribed doses for three months of uninterrupted pain therapy from a single application. Sufentanil is an opioid that is currently used in hospitals as an analgesic agent. The CHRONOGESIC product uses the DUROS® technology.

The CHRONOGESIC product addresses the potential problems of peaks (too much medication) and troughs (too little medication) associated with pills and patches. If approved for marketing and sale, this product will provide an alternative to current therapies for the treatment of chronic pain such as pills and patches, as well as ensuring improved patient compliance and convenience. We are developing our CHRONOGESIC product in conjunction with our partner ENDO Pharmaceuticals, Inc. for the U.S. and Canadian markets.

The chronic pain market is a large and growing market with over $3 billion in annual sales. We have completed an initial Phase I clinical trial, a Phase II clinical trial, a pilot Phase III clinical trial and a pharmacokinetic trial for our CHRONOGESIC product.

In addition to our lead product, we have an agreement with Pain Therapeutics, Inc. to develop and commercialize certain long-acting oral opioid products using our SABER delivery system.

local post-operative pain

We are developing a sustained release formulation of a local anesthetic using our SABER delivery system for the treatment of post surgical pain. The physician would administer this product at the time of surgery. We believe that by delivering effective amounts of a potent analgesic to the location from which the pain originates, adequate pain control can be achieved with minimal exposure to the remainder of the body, and hence minimal side effects. The duration of local delivery of the anesthetic by the product is expected to be a few days, which coincides with the typical timeline by which post surgical pain resolves in most patients. We are currently conducting preclinical studies on this product.

hepatitis c

Together with BioPartners, we are developing an injectable controlled release version of the therapeutic protein alpha interferon for the treatment of Hepatitis C based on our SABER drug delivery platform.

alzheimer's disease

With our partner Voyager Pharmaceutical, we are developing a biodegradable implant system for the treatment of Alzheimer's Disease based on our DURIN technology. This system will be designed to deliver a therapeutic peptide for months of therapy.

highlights for the year

03.18 ___ DURECT ANNOUNCES POSITIVE RESULTS OF PILOT PHASE III STUDY FOR THE CHRONOGESIC™ PRODUCT

03.27 ___ DURECT AND CARDINAL HEALTH ANNOUNCE COLLABORATION TO RESEARCH AND DEVELOP LONG ACTING GEL-CAP PRODUCTS USING DURECT'S SABER™ DELIVERY SYSTEM

04.02 ___ DURECT FILES IND FOR THE LONG-TERM TREATMENT OF ASTHMA

07.29 ___ DURECT AND VOYAGER PHARMACEUTICAL SIGN DEVELOPMENT AND COMMERCIALIZATION AGREEMENT TO DEVELOP TREATMENT FOR ALZHEIMER'S DISEASE

11.11 ___ DURECT AND ENDO PHARMACEUTICALS ANNOUNCE COLLABORATION ON THE DEVELOPMENT AND COMMERCIALIZATION OF DURECT'S CHRONOGESIC™ (SUFENTANIL) PAIN THERAPY SYSTEM FOR THE U.S. AND CANADA

11.12 ___ DURECT AND ALZA AMEND LICENSING AGREEMENT

11.14 ___ DURECT AND THORN BIOSCIENCE EXPAND EXISTING LICENSING AGREEMENT TO DEVELOP VETERINARY PRODUCTS USING DURECT'S SABER™ DELIVERY SYSTEM

11.19 ___ DURECT AND BIOPARTNERS ENTER INTO AGREEMENT FOR DEVELOPMENT OF A SUSTAINED RELEASE INTERFERON ALPHA PRODUCT

12.27 ___ DAVID R. HOFFMANN APPOINTED TO THE BOARD OF DIRECTORS OF DURECT CORPORATION

1.14.03 __ PAIN THERAPEUTICS AND DURECT CORPORATION ANNOUNCE EXCLUSIVE AGREEMENT TO FORMULATE CERTAIN LONG-ACTING OPIOID DRUGS

asthma / allergic rhinitis

We are researching and developing a product for the treatment of asthma and allergic rhinitis utilizing one of our proprietary drug delivery platforms. Cromolyn sodium, a non-steroidal anti-allergy medication, is an FDA-approved drug for the management of mild-to-moderate persistent asthma. In 2002, we completed an initial clinical feasibility study where we infused the drug intravenously to test the efficacy of delivery of cromolyn sodium when delivered parenterally (i.e., not by inhalation as the drug is conventionally administered). We anticipate that we will be pursuing additional clinical testing of this product concept.

central nervous system disorders

Millions of people suffer from chronic diseases and disorders of the central nervous system (CNS), including brain and spinal cord tumors, chronic pain, psychosis, epilepsy, spasticity, spinal meningitis, Parkinson's disease, and multiple sclerosis.

We are currently researching the development of minimally invasive drug delivery to the brain in collaboration with the Johns Hopkins University, Department of Neurology/Neurosurgery.

We are developing the DUROS platform technology in combination with various catheter systems for targeted treatment of select CNS disorders and are also developing our biodegradable platform technologies for systemic and targeted delivery of drugs to treat select CNS disorders.

cardiovascular disease

We are working to develop methods for treating ischemic heart disease and other chronic cardiovascular diseases through continuous delivery of drugs to the pericardial sac of the heart. In collaboration with the University of Maastricht in The Netherlands, our pre-clinical research suggests that ischemic heart disease may be treated by continuously delivering an angiogenic factor to spur new blood vessel growth, thereby increasing blood flow and restoring function to the diseased heart.

long acting gel-caps

DURECT is working with Cardinal Health to investigate the use of our SABER drug delivery platform to extend the use of liquid gel-caps from immediate release to periods of 12-24 hour release. We are conducting this work initially with over the counter oral pain and cough cold medicines.

veterinary products

With Thorn BioScience, we are developing a number of injectable veterinary products using our SABER drug delivery platform. The efficacy portion of the New Animal Drug Application (NADA) for the first of these products has been approved by the FDA. The safety portion of the NADA has also been submitted and approval is pending. The remainder of this NADA is expected to be submitted to the FDA this year. This is the first SABER-based product to be reviewed by the FDA for market approval.

strategic collaborations

PARTNER	INDICATION	PRODUCT	STATUS
Endo	CHRONIC PAIN	CHRONOGESIC	PHASE II/III
Cardinal Health	PAIN & OTHERS	LONG ACTING GEL-CAPS	CLINICAL FEASIBILITY
BioPartners	HEPATITIS C	CONTROLLED RELEASE INJECTION	PRE-CLINICAL
Voyager Pharmaceutical	ALZHEIMER'S DISEASE	BIODEGRADABLE IMPLANT	PRE-CLINICAL
Thorn BioScience		VARIOUS VETERINARY PRODUCTS	NADA PENDING
Pain Therapeutics	CHRONIC PAIN	ORAL CONTROLLED RELEASE OPIOIDS	PRE-CLINICAL

corporate directory and information

executive officers

Felix Theeuwes, D.Sc.
Chairman and
Chief Scientific Officer

James E. Brown, D.V.M.
President,
Chief Executive Officer and Director

Thomas A. Schreck
Chief Financial Officer and Director

Judy A. Magruder
Senior Vice President,
Regulatory and Development

Tai Wah Chan, Ph.D.
Vice President, Pharmaceutical
Research and Development

Edward M. Gillis
Vice President, Product Engineering

Randolph M. Johnson, Ph.D.
Vice President, Preclinical Research

Jean I Liu
Vice President,
Legal and General Counsel

Timothy S. Nelson
Vice President, Business
and Commercial Development

Lew Peterson
Vice President, Manufacturing

Wallace B. Smith, Ph.D.
Vice President, Birmingham Operations

Arthur J. Tipton, Ph.D.
Vice President, SABER Technologies

board of directors

Felix Theeuwes, D.Sc.
Chairman and
Chief Scientific Officer

James E. Brown, D.V.M.
President,
Chief Executive Officer and Director

Thomas A. Schreck
Chief Financial Officer and Director

James R. Butler
Director

John L. Doyle
Director

David R. Hoffmann
Director

Armand P. Neukermans, Ph.D.
Director

Albert L. Zesiger
Director

additional information

For more information please contact:
Schond L. Greenway
Senior Director, Investor Relations
and Strategic Planning

Tel: 408.777.1417
Fax: 408.777.3577
Email: schond.greenway@durect.com

Mailing Address:
DURECT Corporation
10240 Bubb Road
Cupertino, CA 95014

Corporate Website:
www.durect.com

annual meeting

The company's annual meeting of stockholders will be held at 9:00 A.M. local time June 4, 2003 at Company Headquarters.

auditors

Ernst & Young LLP
Palo Alto, CA

legal counsel

Venture Law Group
Menlo Park, CA

transfer agent

EquiServe Trust Company, N.A.
150 Royall Street
Canton, MA 02021 USA
Phone (781) 575-3400

sec form 10-k

A copy of the Company's annual report to the United States Securities and Exchange Commission on Form 10-K is available without charge upon written request to:
DURECT Corporation
Attn: Investor Relations
10240 Bubb Road
Cupertino, CA 95014

trademarks

The statements in this annual report regarding DURECT's products in development, product development plans, or expected product benefits or anticipated product markets, are forward-looking statements involving risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. Potential risks and uncertainties include, but are not limited to, DURECT's ability to develop, manufacture and commercialize its products, successfully complete clinical trials and obtain product and manufacturing approvals from regulatory agencies, as well as marketplace acceptance of DURECT's products. Further information regarding these and other risks is included in the company's quarterly and annual reports filed with the SEC, including Annual Report on Form 10K filed with the SEC on March 14, 2003 under the heading "Factors that may affect future results."

The CHRONOGESIC™ (sufentanil) Pain Therapy System is under development by DURECT and has not been submitted or approved for commercialization by the US Food and Drug Administration or other health authorities.

design : Artemis®Creative, Inc. (Palo Alto, CA)

durect corporation 10240 BUBB ROAD CUPERTINO, CA 95014 PHONE 408.777.1417 FAX 408.777.3577 WWW.DURECT.COM

DURECT