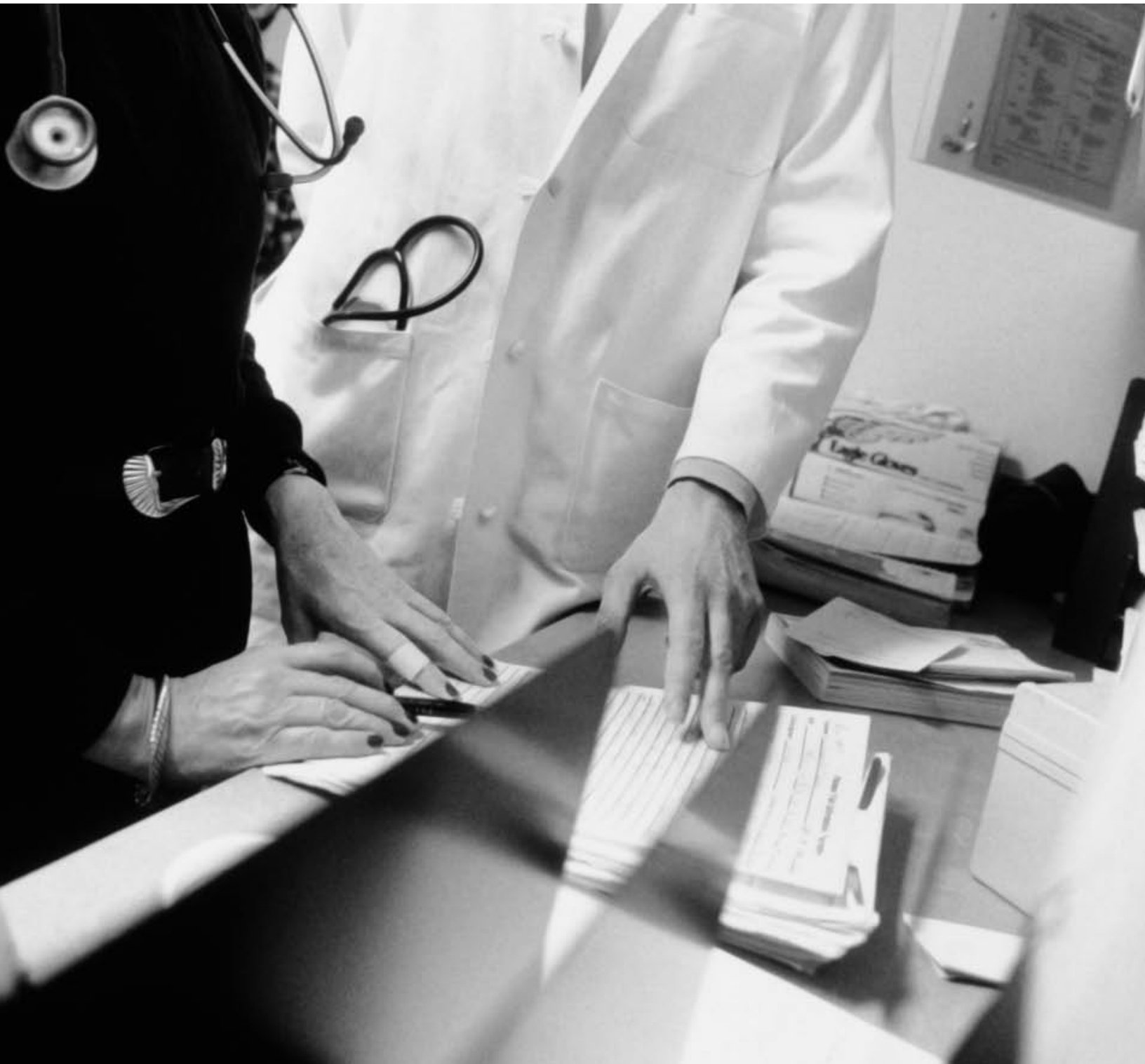
DRRX Durect Corporation

2006 Annual Report

Clinical Advancements
Six programs in product development

Manufacturing Scale-up
Preparing for late-stage trials and launch

Collaborations/Partnerships
Providing financial, developmental and commercialization resources



Clinical Advancements

Accomplishments in 2006

Remoxy™ completes Special Protocol Assessment with the FDA and commences pivotal Phase III study

U.S. IND accepted for POSIDUR™, which enters extensive Phase II program covering soft tissue and orthopedic surgeries

2nd abuse resistant Opioid pain medicine to be commercialized by King Pharmaceuticals – announced positive Phase I studies

TRANSDUR™–Bupivacaine completes Phase I studies and starts Phase II

Manufacturing Scale-Up

Accomplishments in 2006

Technology transfer to Endo's contract manufacturer (3M) for TRANSDUR™–Sufentanil

Agreement with Hospira to manufacture POSIDUR™

Agreement with Corium to manufacture TRANSDUR–Bupivacaine

Collaborations /Partnerships

Accomplishments in 2006

Entered agreement with Nycomed to develop and commercialize POSIDUR™ in Europe and other select countries

Nycomed, based in Europe, is now the 25th largest pharmaceutical company in the world

Key Terms:

- $202 million in fees and milestones
- Blended royalties on net sales of 15-40%
- Equally responsible for US/Europe R&D expenses
- Retained all commercial rights to the US, Canada, and Asia

Progress with existing programs with Endo Pharmaceuticals and King Pharmaceuticals/ Pain Therapeutics

2007 Goals

Objectives listed by product candidate

REMOXY

- Complete pivotal Phase III clinical trial for Remoxy
- File NDA approximately 3 quarters later

POSIDUR

- Present additional Phase II data
- Initiate Phase III clinical trials
- Potential commercialization deal for Japan/Asia

TRANSDUR-Sufentanil

- Initiate additional Phase II clinical studies
- Potential commercialization deal for outside US

TRANSDUR-Bupivacaine

- Present Phase II clinical data
- Potential commercialization partner

We are focused on moving our lead products forward in the clinic and supporting our partners in the regulatory process and in manufacturing. Currently we have six product candidates derived from our pharmaceutical systems in development, a number of which should report results from clinical trials during the year. In addition, our business development team continues to pursue additional development and commercialization collaborations in order to fully exploit the potential of our products on a worldwide basis.

Clinical Pipeline and Delivery Technologies

Clinical Phase I

2ND ORADUR–Opioid

Indication:
Pain

Drug:
Undisclosed

Partner:
King Pharmaceuticals and Pain Therapeutics

Technology:
ORADUR

Clinical Phase II

POSIDUR™

Indication:
Post-Operative Pain

Drug:
Bupivacaine

Partner:
Nycomed (Europe, CIS, and selected other countries)

Technology:
SABER

TRANSDUR™–Bupivacaine

Indication:
Post-Herpetic Neuralgia

Drug:
Bupivacaine

Partner:
None

Technology:
TRANSDUR

TRANSDUR™–Sufentanil

Indication:
Chronic Pain

Drug:
Sufentanil

Partner:
Endo Pharmaceuticals (US and Canada)

Technology:
TRANSDUR

Clinical Phase III

REMOXY™

Indication:
Chronic Pain

Drug:
Oxycodone

Partner:
King Pharmaceuticals and Pain Therapeutics

Technology:
ORADUR

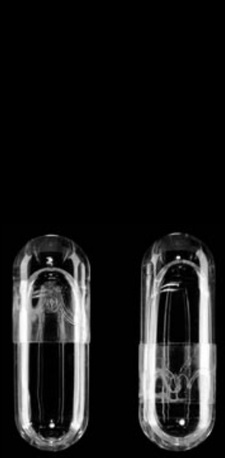
Memryte™

Indication:
Alzheimer's Disease

Drug:
Leuprolide Acetate

Partner:
Voyager Pharmaceuticals

Technology:
DURIN



ORADUR™
Oral Gel-Cap

An oral, sustained release technology with several potential abuse deterrent properties.

SABER™
Delivery System

A patented and versatile depot injectable useful for proteins, peptides and small molecule delivery.

TRANSDUR™
Transdermal Patch

Medicated adhesive patch that is placed on the skin to deliver a time released dose topically or systemically.

TRANSDUR™
Transdermal Patch

TRANSDUR patches are formulated to allow small sizes to deliver therapeutic doses for up to 7 days.

ORADUR™
Oral Gel-Cap

ORADUR gel-caps provide controlled-release for up to 12 hours

DURIN™
Biodegradable Implant

Drug-loaded implant system that can deliver active agents from a few weeks to several months, and where the release profile can be tailored for continuous or delayed release.

DURECT made significant progress in 2006 on a number of fronts:

- Corporate Partnering, with the establishment of our landmark collaboration with Nycomed covering POSIDUR™, which provides half the funding for product development worldwide, upfront and milestone payments of $202 million and royalties of 15-40%, with Durect retaining marketing rights in the US, Canada and Asia;
- Clinical Development, with two new programs successfully completing Phase I and our most advanced product (Remoxy™) commencing a pivotal Phase III trial under a Special Protocol Assessment with the FDA;
- Manufacturing Scale-up in preparation for late stage clinical trials and launch, with the establishment of scale-up/supply agreements with Hospira, 3M and Corium;
- Management, with the strengthening of our clinical/regulatory capabilities through the addition of Dr. Peter Langecker as our Chief Medical Officer as well as several other key hires in that group, and our financial team with the addition of Matt Hogan as our Chief Financial Officer; and
- Financial, where we burned less than $10 million for the second year in a row while reducing our convertible debt by $20 million and ended the year with $81.6 million in cash and investments.

We enter 2007 with our advanced drug delivery technologies having generated a rich pipeline of five programs in Phase II or III clinical trials and a sixth program through Phase I. Each of our product candidates address large market opportunities and strive to confer significant patient benefits over existing products on the market.

While we have a number of programs licensed on attractive terms to commercialization partners such as Nycomed, Endo Pharmaceuticals and King Pharmaceuticals, we have also retained US (and Asian) rights to POSIDUR, worldwide rights to the Bupivacaine patch and certain US co-promotion rights to the Sufentanil patch. These rights provide us the pathway to becoming a specialty pharmaceutical company by marketing selected products in the US, thereby capturing more of the value we create through our technology and scientists.

Our objectives for 2007 are clear and revolve principally around clinical development for our lead programs. At least four programs should complete significant clinical trials during the year and report results. These programs include Remoxy (completing a pivotal Phase III trial), Memryte (completing a truncated Phase III trial), as well as POSIDUR and the Bupivacaine patch (reporting on Phase II studies). In addition, Endo Pharmaceuticals has stated that they intend to commence Phase II trials in the first half of 2007 for our Sufentanil patch with supplies from 3M, with whom Endo has contracted to perform commercial scale-up development. Finally, we will remain active on the business development front where we will continue to pursue collaborations to fully exploit our technologies and to commercialize our products on a worldwide basis.

On behalf of everyone at DURECT, we thank you for your continued support and look forward to reporting on our continued progress in 2007.

Pictured from left
James E. Brown, D.V.M., President and Chief Executive Officer
Felix Theeuwes, D.Sc., Chairman and Chief Scientific Officer

Corporate Directory

Corporate Officers

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

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

Matthew Hogan
Chief Financial Officer

Peter J. Langecker, MD, PhD.
Chief Medical Officer

Paula Mendenhall, Pharm D.
Executive Vice President
of Operations and Administration

Su IL Yum, Ph.D.
Executive Vice President,
Pharmaceutical Systems R&D

Jean I Liu
Senior Vice President,
General Counsel
and Corporate Secretary

Nacer E. Dean Abrouk, Ph.D.
Vice President
Biostatistics

Harry Guy
Vice President,
Engineering and Safety

Jian Li
Vice President, Finance
and Corporate Controller

Thomas P. McCracken
Vice President
and Chief Patent Counsel

Andrew R. Miksztal, Ph.D
Vice President,
Pharmaceutical Research
and Development

Board of Directors

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

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

Dr. Terrence F. Blaschke
Director

Simon X. Benito
Director

Michael D. Casey
Director

David R. Hoffmann
Director

Armand P. Neukermans, Ph.D.
Director

Jon S. Saxe
Director

Corporate Secretary

Jean I Liu
Senior Vice President
and General Counsel

For more information, please contact:

Matthew Hogan
Chief Financial Officer
Tel: 408.777.4936
Fax: 408.777.3577

Mailing Address:
2 Results Way
Cupertino, CA 95014

Annual Meeting

The company's annual meeting of stockholders will be held at 10:00 A.M. local time June 26, 2007 at Company Headquarters

Independent Auditors

Ernst & Young LLP
1001 Page Mill Road
Palo Alto, CA 94304
Phone 650.496.1600
Fax 650.496.4660

Corporate Counsel

Heller, Ehrman,
White & McAuliffe, LLP
275 Middlefield Road
Menlo Park, CA 94025
Phone 650.324.7000

Transfer Agent

Computershare
250 Royall Street
Canton, MA 02021
Tel: 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
2 Results Way
Cupertino, CA 95014

Concept and Design: extralarge, a design studio (www.xlstudios.com)

Corporate Profile

DURECT Corporation is an emerging specialty pharmaceutical company developing pharmaceutical systems based on its proprietary drug delivery platform technologies. The Company currently has a number of late-stage pharmaceutical products in development addressing large markets in pain management, with a number of research programs underway targeting chronic disease and other therapeutic areas. For more information, please visit www.durect.com.

Forward Looking Statement The statements in this annual report regarding DURECT's and its collaborative partners' products in development, anticipated product benefits, anticipated product markets, and clinical trial results and plans, and DURECT's future business plans and projected financial results are forward-looking statements involving risks and uncertainties that can 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 (and that of its third-party collaborators', where applicable) abilities to successfully enroll and complete clinical trials, complete the design, development, and manufacturing process development of the product candidates, obtain product and manufacturing approvals from regulatory agencies and manufacture and commercialize the product candidates and marketplace acceptance of the product candidates, as well as DURECT's ability to fund its growth and operations. Further information regarding these and other risks is included in DURECT's most recent Quarterly Report on Form 10-Q filed with the SEC under the heading "Risk Factors."

DURECT CORPORATION

2 Results Way
Cupertino, CA 95014
Tel: 408.777.1417
Fax: 408.777.3577
www.durect.com

NASDAQ: DRRX