The first product based on our patented ORADUR™ technology, Remoxy®, has successfully completed pivotal Phase III trials with an NDA filing imminent. Remoxy is an abuse deterrent form of the widely used drug oxycodone, and has the potential to transform the pain medication market. Developed in only five years, Remoxy validates our ORADUR technology and advances DURECT to a new level as a company whereby we begin to reap the commercial benefits of our products and technologies.

DURECT

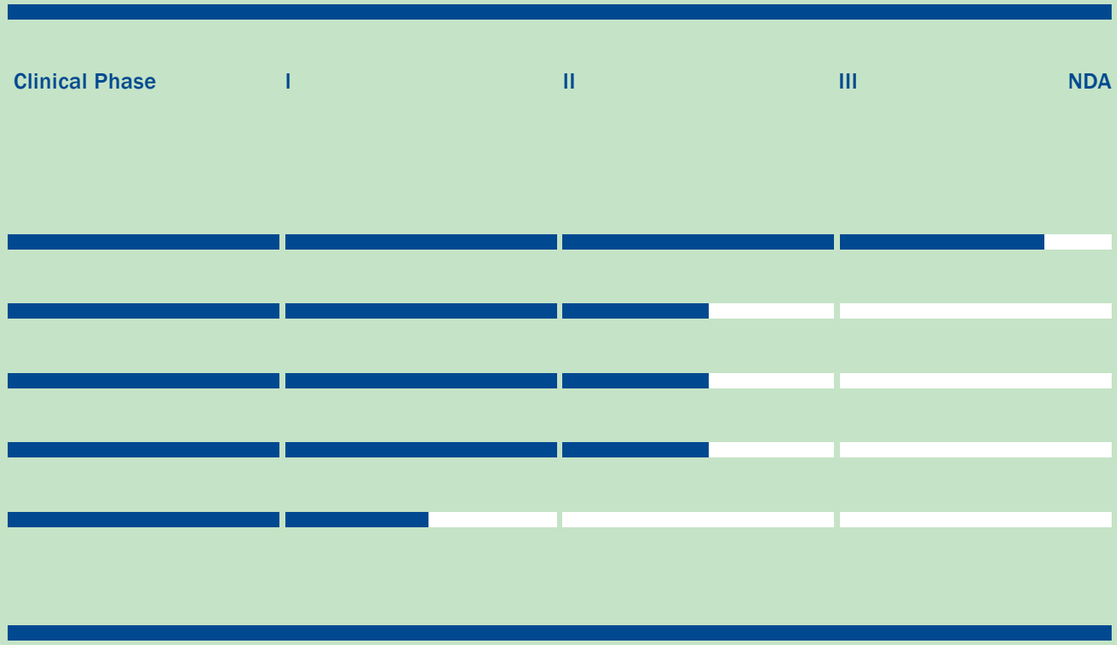
Behind Remoxy is a pipeline of multiple drug candidates advancing through late stage clinical trials, each of which address large markets with improved features compared to existing therapeutics. Certain of these assets are partnered on attractive terms to strong commercialization partners, while others have been retained to form the basis for future collaborations or for commercialization by DURECT.

DURECT's powerful proprietary technologies, infrastructure and capabilities position us as a leader in developing improved therapeutics along multiple parameters.

In addition to the pipeline shown below, we have a number of programs in active research and development. We employ a formal Opportunity Assessment process to select our lead programs from among the many projects we could undertake. This Opportunity Assessment process takes into account various factors including the unmet medical need, technical feasibility to produce a therapeutic that will represent a meaningful improvement to existing treatments, clinical path to approval, intellectual property situation, pharmacoeconomic considerations and overall commercial opportunity. From this process, our goal is to introduce a new clinical development candidate every 12-18 months.

One area of particular interest to our R&D efforts is in the field of proteins and peptides. More new protein drugs have been approved since 2003 than conventional small molecules and these biological agents are a main driver of growth in the industry. Yet the delivery of these drugs is a major challenge, largely accomplished today through short-acting injections. We believe our SABER technology holds substantial potential to deliver these biological drugs in a superior form.

Product Candidate	DURECT Technology	Collaborator
Remoxy™	ORADUR™ System	King Pharmaceuticals/Pain Therapeutics
POSIDUR™	SABER™ System	Nycomed (Europe and other select countries)
TRANSDUR™-Sufentanil	TRANSDUR™ System	Endo Pharmaceuticals (U.S. and Canada)
ELADUR™	TRANSDUR™ System	DURECT retains all rights
2nd ORADUR-Opioid	ORADUR™ System	King Pharmaceuticals/Pain Therapeutics



Remoxy™

Delivery System
Oral Gel-Cap

DURECT Technology
ORADUR™ System

Targeted Indication
Chronic Pain

Commercialization Partner
King Pharmaceuticals

Potential Market
$1+ Billion

Our Remoxy drug candidate is an extended release formulation of oxycodone in gelatin capsules. Remoxy is formulated with our ORADUR technology and incorporates several abuse-deterrent properties with the convenience of twice-a-day dosing. Oxycodone is also the active ingredient in OxyContin®, a widely prescribed narcotic painkiller with annual sales exceeding $1.5 billion in 2007.

2007 Accomplishments

Successful pivotal Phase III study:

- Met Primary Endpoint: Reduction in pain scores over 3 months compared to placebo ($p < 0.01$)
- Met Secondary Endpoints: Quality of Analgesia ($p < 0.01$) Global Assessment ($p < 0.01$)

Near-Term Goals (12-18 Months) as controlled by Pain Therapeutics and King Pharmaceuticals

File NDA in 2nd Quarter of 2008

Upon NDA approval, product launch via King Pharmaceuticals

Remoxy Case Study

Validates ORADUR™ Technology

- Platform for future products

Exemplifies Advantages of Drug Delivery vs. New Chemical Entities:

- Can create improved products with blockbuster potential
- Roughly one-half the development time
- About one-tenth the development costs

POSIDUR™

Delivery System
Depot Injectable

DURECT Technology
SABER™ System

Targeted Indication
Post-Operative Pain

Commercialization Partner
Nycomed
(Europe, CIS and selected countries)

Potential Market
$1+ Billion

Our POSIDUR (SABER-Bupivacaine) drug candidate is a long-acting local anesthetic being developed for the treatment of post-surgical pain. It is applied to the surgical site prior to closure, where it continuously releases therapeutic levels of bupivacaine in a controlled fashion, providing up to three days of uninterrupted pain control and reducing the need for systemic agents such as narcotics.

2007 Accomplishments

Announced commercial supply agreement with Hospira

Presented positive Phase IIb clinical data

Received $8 million milestone from Nycomed

Held End of Phase II meeting with FDA

Near-Term Goals (12-18 Months)

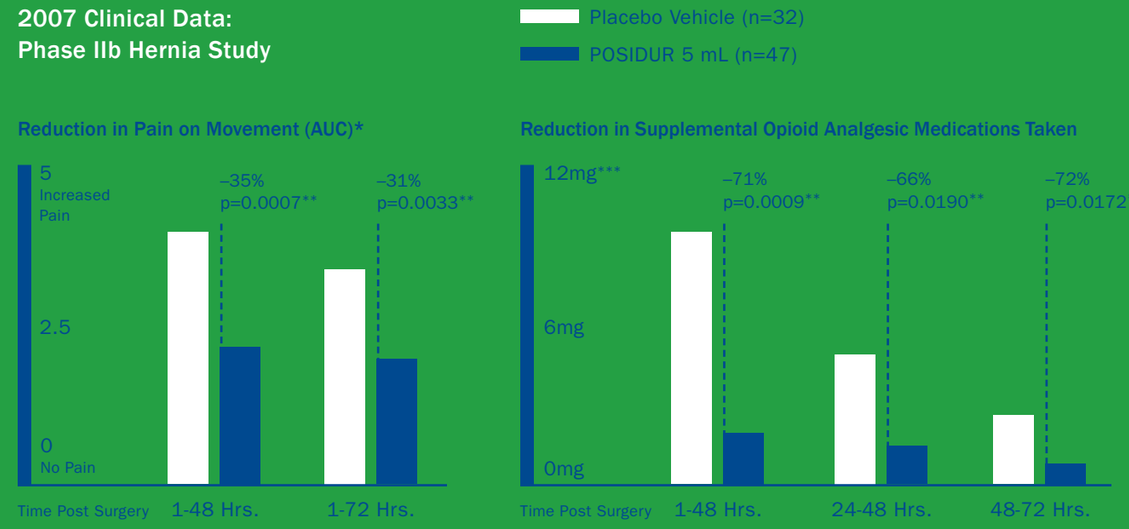
Define Phase III program

Conduct Phase III program

Define commercialization strategy

Potential commercialization deal for Japan/Asia

2007 Clinical Data: Phase IIb Hernia Study



* Normalized AUC based on a numerical ratings scale for pain intensity of 0-10, with 0 being no pain.
** Using ANCOVA model.
*** Total mean daily consumption in morphine equivalents.

TRANSDUR™-Sufentanil

Delivery System
Transdermal Patch

DURECT Technology
TRANSDUR™ System

Targeted Indication
Chronic Pain

Commercialization Partner
Endo Pharmaceuticals
(U.S. and Canada)

Potential Market
$1+ Billion

Our TRANSDUR-Sufentanil drug candidate is a next-generation patch designed for the treatment of moderate-to-severe chronic pain. Our patches contain sufentanil, a highly potent opioid currently used in hospitals. Our intended pathway with TRANSDUR-Sufentanil is similar to that of Duragesic®– in that instance, the formulation of the in-hospital analgesic fentanyl into a transdermal patch took this pain product outside the hospital and into widespread use. Worldwide sales for Duragesic were approximately $1.2 billion in 2007.

2007 Accomplishments

Phase II supplies from 3M

Additional Phase II clinical studies initiated by Endo

Near-Term Goals (12-18 Months)

Initiation of Phase III trials

Intended Product Attributes

Longer Duration From a Single Application

- 7-day drug delivery versus 3-day alternatives available today
- Enhanced patient compliance and convenience

Smaller Patch Size

- About 1/5th that of existing fentanyl patches
- Potentially reduced skin irritation
- Increase in available skin sites for application

New Application of a Highly Regarded Opioid

ELADUR™

Delivery System
Transdermal Patch

DURECT Technology
TRANSDUR™ System

Targeted Indication
Post-Herpetic Neuralgia (PHN)

Commercialization Partner
Full rights retained by DURECT

Potential Market
$700+ Million

Our ELADUR™ (TRANSDUR-Bupivacaine) drug candidate is intended to provide up to 3 days of continuous pain relief from a single patch for patients suffering from PHN, as compared to a wearing time limited to 12 hours with currently available patches. ELADUR's patch design is particularly patient-friendly for superior wearability.

2007 Accomplishments

Announced commercial supply agreement with Corium

Presented positive Phase IIa clinical data

Near-Term Goals (12-18 Months)

Conduct Phase II / III program

Potential commercialization collaboration

2007 Clinical Data: Positive Phase IIa Results

Trial Results

- Improved pain control versus placebo during 3-day treatment period
- Well tolerated
- Similar safety profile to placebo

Trial Design

- Randomized, multi-center, double blind, placebo-controlled, two-way crossover trial in 60 PHN patients
- Objectives: assess safety as well as the magnitude, duration and characteristics of analgesic activity of ELADUR

Dear Fellow Shareholders,

DURECT made significant progress in 2007, particularly by achieving positive clinical trial results for three programs in Phase II or III.

- Remoxy. In December, our collaborators King Pharmaceuticals and Pain Therapeutics announced that the pivotal Phase III trial for Remoxy successfully met its primary endpoint ($p<0.01$) that was prospectively defined by the U.S. Food and Drug Administration (FDA) during the Special Protocol Assessment (SPA) process. In addition, the study achieved statistically significant results in secondary endpoints such as Quality of Analgesia ($p<0.01$) and Global Assessment ($p<0.01$). No drug related safety issues were noted in the study.
- POSIDUR. In July, we announced positive results from a 122 patient Phase IIb clinical trial in which POSIDUR at a dose of 5 mL demonstrated statistically significant reductions in post-operative pain (by ~30% versus placebo) and in total consumption of supplemental opioid analgesic medications (~3x less versus placebo) in patients undergoing inguinal hernia repair. These successful results triggered an $8 million milestone payment by Nycomed to DURECT under the parties' international collaborative agreement.
- ELADUR. In December, we announced positive results from a 60 patient Phase IIa clinical trial. In this study of patients suffering from post-herpetic neuralgia, ELADUR showed improved pain control versus placebo during the 3-day continuous treatment period. In addition, ELADUR appeared to be well tolerated overall, and patients treated with ELADUR and placebo exhibited similar safety profiles.

We believe in maintaining a balanced business model. Certain programs have been licensed to strong commercialization partners (Nycomed, Endo Pharmaceuticals and King Pharmaceuticals) on attractive terms, thereby providing financial, developmental and commercialization resources to DURECT and these programs. We have retained worldwide or territorial rights to other programs, which provide the basis for future partnering and financing of product development as well as a pathway for us to build our own specialty pharmaceuticals business in North America to capture the full value of these product candidates.

Over the next 12-18 months, we expect to remain active on the business development front where we have multiple late stage programs that are the subject of partnering discussions. These include ELADUR (worldwide), TRANSDUR-Sufentanil (ex-US), POSIDUR (Asia), as well as various other programs, some of which are internally funded and some of which are funded by third parties under feasibility agreements.

We remain highly focused on advancing our various lead programs:

- Remoxy: Our collaborator, Pain Therapeutics, has stated that they expect to file the NDA for Remoxy in Q2 2008.
- POSIDUR: We are continuing our dialogue with the FDA regarding our Phase III program, upon completion of which we plan to commence that program.
- ELADUR: We are conducting manufacturing scale-up and processing to secure Phase II and Phase III supplies, developing our clinical and regulatory strategy, and executing on our partnering activities.
- TRANSDUR-Sufentanil: Endo Pharmaceuticals, our partner for the U.S. and Canada, is continuing to conduct Phase II studies with TRANSDUR-Sufentanil designed to evaluate the conversion of patients on oral opioids to TRANSDUR-Sufentanil. In addition, we are progressing toward partnering this product candidate outside of the U.S. and Canada.

Over the next 12-18 months, we expect the profile of our company to substantially change with the anticipated approval and launch of the first product based on our technology, and as we advance three other programs into Phase III.

On behalf of everyone at DURECT, we thank you for your continued support and look forward to reporting on our continued progress in 2008 and beyond.

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

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

Corporate Highlights

Multiple Late-Stage Development Programs

- 5 Products in Development, 4 in Phase II or III
- Addressing large market opportunities
- Differentiated product features

Maturing Pipeline and Productive R&D

- 1st NDA in preparation
- Products moving from Phase II to Phase III
- Undisclosed programs leading to additional development candidates

Balanced Business Model

- Certain programs licensed to strong partners on attractive terms
  - Providing financial, developmental and commercialization resources
- Other programs owned by DURECT
  - Basis for future partnering transactions
  - Pathway to Specialty Pharmaceuticals business to capture full value

Concept and Design: Extralarge, A Design Studio (www.xlstudios.com)

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 J. Hogan
Chief Financial Officer

Peter J. Langecker, M.D., Ph.D.
Chief Medical Officer

Paula Mendenhall
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

John W. Gibson
Vice President,
Principal Scientist

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 Systems R&D

Board of Directors

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

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

Terrence F. Blaschke, M.D.
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 J. 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 25, 2008 at Company Headquarters

Independent Auditors

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

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

Forward Looking Statement: The statements in this annual report regarding the anticipated filing of an NDA for Remoxy, our anticipated commencement of the Phase III program for POSIDUR, our possible entry into future collaborative agreements as well as other statements regarding DURECT's products in development, product development plans, anticipated regulatory, clinical and development milestones and timing thereof, future clinical trial results, our business development intentions and DURECT's emergence as a specialty pharmaceutical company 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 obtain approvals from regulatory agencies with respect to its development activities and products, design, enroll, conduct and complete clinical trials, complete the design, development, and manufacturing process development of the referenced product candidates, consummate collaborative agreements relating to our product candidates and technologies, manufacture and commercialize the referenced product candidates, obtain marketplace acceptance of the referenced product candidates and manage and obtain capital to fund its growth, operations and expenses. Further information regarding these and other risks is included in DURECT's Form 10-Q filed with the SEC under the heading "Risk Factors."

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