CEOCFO
Interviews & News!

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DURECT Is Well Positioned With POSIDUR, A First-In-Class Post-Operative Pain Product In Phase II And Three Other Products In Either Phase II Or III, As Well As Collaborations In Place To Finance, Manufacture And Help Bring These Products To Market In The US And Internationally

Healthcare
Drug Manufacturers - Other
(DRRX-NASDAQ)

DURECT Corporation

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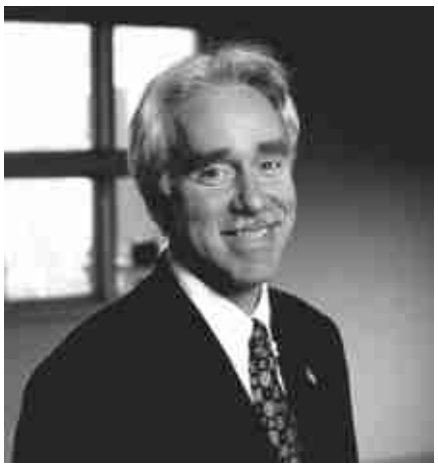

Dr. James E. Brown, D.V.M.
Co-Founder, President and CEO

Matt Hogan
Chief Financial Officer

Interview conducted by:
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BIO:

James E. Brown, D.V.M., President and CEO. Prior to co-founding DURECT Corporation in 1998, Dr. Brown worked at ALZA Corporation as Vice President of Biopharmaceutical and Implant Research and Development from 1995 to 1998. Prior to that, Dr. Brown held various positions at Syntex Corporation, a pharmaceutical company, including Director of Business Development from 1994 to 1995, Director of Joint Ventures for Discovery Research from 1992 to 1995, and held a number of positions including Program Director for Syntex Research and Development from 1985 to 1992. Dr. Brown holds a B.A. from San Jose State University and a D.V.M. (Doctor of Veterinary Medicine) from the University of California, Davis where he also conducted post-graduate work in pharmacology and toxicology.

Matthew J. Hogan, Chief Financial Officer. Mr. Hogan joined DURECT in 2006 from Ciphergen Biosystems, where he was the Chief Financial Officer from 2000 to 2006. Prior to joining Ciphergen, he was the Chief Financial Officer at Avocet Medical from 1999 to 2000. From 1996 to 1999, Mr. Hogan was the Chief Financial Officer at Microcide Pharmaceuticals. From 1986 to 1996, he held various positions in the investment banking group at Merrill Lynch & Co., most recently as a Director focusing on the biotechnology and pharmaceutical sectors. Mr. Hogan holds a B.A. in economics from Dartmouth College and an M.B.A. from the Amos Tuck School of Business Administration.

Company Profile:

DURECT Corporation is an emerging specialty pharmaceutical company developing pharmaceutical systems based on its proprietary drug delivery platform technologies. The Company currently has multiple 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.

CEOCFO: Dr. Brown, please tell us about your vision for DURECT Corporation, where it started from and how it has evolved?

Dr. Brown: "Before I begin, let me mention that I'll undoubtedly make forward looking statements that have risks and uncertainties that may make actual results differ from my statements, so I'd like to direct all readers to review our SEC filings for a full discussion of these risk factors. DURECT was founded in 1998 as a spinout from ALZA Corporation. As a reminder, ALZA was the pioneering company that was responsible for developing what became the drug delivery industry and it then made the transition into a specialty pharmaceutical company, selling products it had developed, then culminating in its sale to J&J for $12 billion in 2001. DURECT is following a similar path in that we are developing a specialty pharma company with internally developed products based on our proprietary drug delivery technologies. Today we've advanced to the point where we

have five products in clinical development, four of which are in Phase II or III. These initial products are all in the field of pain management, but we also have multiple research programs in other fields, encompassing both small molecules as well as biological drugs."

CEOCFO: Are your products based on delivery for any drug, or are you targeting specific health concerns?

Dr. Brown: "Our business model is that we don't broadly license out our technologies, but instead apply them to specific drugs and then look to license these products after we've taken them to a more advanced stage of development or, in some cases, we may take them all the way to market our self. For the most part, we take existing medicines that have already been approved by the FDA, give them new patent life and improve their applications through our delivery technologies. We have in our arsenal injectable technologies, oral gel cap control release technologies, and transdermal technologies."

CEOCFO: Do you partner to develop these drugs with your delivery mechanisms, or do you outright acquire the drugs?

Dr. Brown: "We actually developed all of these products internally and then we have established collaborations for certain of these products. Probably our most exciting product is called POSIDUR, which would be used to treat post-operative pain by releasing a local anesthetic, in this case bupivacaine, in and around a wound. A surgeon applies POSIDUR when closing up after surgery. POSIDUR then controls the wound pain locally for the next three days, meaning there is much less need to resort to systemic drugs such as narcotics."

CEOCFO: I had knee surgery while in college and what caused the most pain was the incision, so it sounds like an exciting product to me.

Dr. Brown: "Well we believe POSIDUR has significant potential advantages extending beyond reducing incisional pain; it actually also includes the substructures as well. In fact, we recently completed a Phase IIb study in hernia patients in which we demonstrated significantly better pain control than the placebo group in this 122 patient trial. Patients on POSIDUR experienced 30% less pain on average across the duration of the 3 days of the study. This improvement is especially striking when you consider that the placebo group could take all of the narcotics that they requested. When we measured the amount of narcotics taken by the placebo group compared to the POSIDUR group, 3½ times less narcotics were taken in day 1 by the POSIDUR group. In day 2, there were 2.9 times less narcotics taken and even on day 3, there were 3.6 times less narcotics taken. So in summary, more than 3 times less narcotics were taken by the POSIDUR group and yet we also got 30% better pain control. In fact, across the entire study, 47% of our patients in the hernia trial woke up from surgery and never took a single narcotic."

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CEOCFO: Is POSIDUR considered your flagship product right now?

Dr. Brown: "POSIDUR is our flagship that we are developing and looking forward to selling ourselves. With a surgical suite sales force, we think that we can get there with 100 to 150 sales reps. POSIDUR is actually not the first product that should get to the marketplace for us. The product that we look forward to being approved first is a product called Remoxy, which is an oral gel cap of a narcotic called oxycodone, and this product will be commercialized by King Pharmaceuticals. Remoxy is substantially more difficult to abuse than the market leader that is out there called Oxycontin. Oxycontin is a very successful product for Purdue Frederick and its sales were about $1.2 billion in 2006. The final Phase III trial has completed enrollment and if things continue forward in a favorable way, the NDA for Remoxy will be filed in 2008. We will receive royalties on King Pharmaceuticals' sales that start at 6% and scale up to 11.5%, which will be at around $1 billion in sales. In addition, we also get a manufacturing markup on one of the key excipients in the final product."

CEOCFO: When will the final Phase III for Remoxy be reported?

Dr. Brown: "The final Phase III for Remoxy will be reported out in December 2007."

CEOCFO: Tell us about the postoperative pain relief product and if there are any side effects.

Dr. Brown: "POSIDUR is based on our SABER injectable technology and it is applied at the time of closure after surgery. Surgeons today often apply bupivacaine in and around the wound. Our product looks and feels like the product that they apply today, however the product that they use today lasts and numbs the wound for about 4 to 6 hours, while ours lasts for 3 days."

CEOCFO: Is there any other competition for your flagship product?

Dr. Brown: "We are a first-in-class therapy, so at this point; we really don't have any other direct competition out there. There is no other product that can be applied to the wound at the time of closure that allows you to control wound pain for days. There are many advantages to this type of product, because if you can reduce the need for narcotics, you can reduce the side effects of narcotics, which include constipation, nausea, dizziness and vomiting. If one can reduce the use of narcotics, you can reduce respiratory suppression and, especially with the elderly, you may be able to reduce post-op pneumonias. From an overall safety standpoint, in the Phase II program for POSIDUR, we have dosed about 450 patients, of which about 300 received active drug and about 150 received a placebo. If we compare the side effect profiles between the active and the placebo groups, we see no

differences, so that helps us feel good about the safety profile of the drug. The only side effect that we have seen is a reduction in narcotics side effects, as you would expect, if you are taking three times less narcotics in our active group."

CEOCFO: Do you have a partner for POSIDUR?

Dr. Brown: "Nycomed is our European partner. While Nycomed is a privately held company, they actually are the 25th largest pharmaceutical company in the world and they sell a number of hospital-based products throughout Europe. We signed them on about a year ago and they have been great to work with."

CEOCFO: Will they be bringing it to the marketplace in Europe?

Dr. Brown: "Yes, Nycomed will be commercializing our POSIDUR product in Europe and the former Soviet states and also in a number of smaller countries around the world. The deal is one where we received $14 million on signing, another $8 million on the results from our Phase IIb hernia study. We also have the potential to receive another $180 million in milestones from this deal. We receive a tiered royalty on their sales that starts at 15% and goes to 40%. In addition, we each pay for half of the development costs for the program, even though they have no rights in the US, Canada or Asia."

CEOCFO: Have you set in place the production of your products?

Dr. Brown: "We actually have. With regard to the POSIDUR post-surgery pain product, our worldwide manufacturing partner is Hospira, the former Abbott manufacturing group. They have been making parenteral injectable products for well over 70 years. For the Remoxy product that will be sold by King Pharmaceuticals, Mallinckrodt will be the manufacturer."

CEOCFO: You also have two other products that we haven't discussed yet.

Dr. Brown: "Yes, we also have a 7 day sufentanil patch for treating chronic pain called TRANSDUR-Sufentanil. This product candidate is in Phase II clinical trials and would compete with J&J's Duragesic product, which had peak sales of about $2.1 billion. These are both patches, but the difference is that our product lasts for 7 days instead of 3 days and is about one-fifth the size of the J&J patch. Our marketing partner for the US and Canada for TRANSDUR-Sufentanil is Endo Pharmaceuticals and 3M is manufacturing patches for Endo. We have retained commercialization rights to the rest of the world and expect to establish additional commercialization partners for Europe and Asia for this product. Sales of Duragesic and other fentanyl patches were about $1.4 billion in 2006, of which over $800 million were outside the US. Therefore, it is a valuable opportunity for us going forward. We also have another transdermal product called ELADUR, which is a 3-day patch delivering bupivacaine. We are in Phase II clinical trials with this one. ELADUR is intended to treat post-herpetic neuralgia or post-shingles pain and we will be competing in the marketplace with a product from Endo Pharmaceuticals called Lidoderm. Lidoderm this year should have about $700 million in sales. The difference between our ELADUR patch and Lidoderm is that ELADUR is a 3-day patch while Lidoderm is a 12-hour patch, meaning that a patient should wear it for 12 hours on, then 12 hours off to let the skin rest. We have designed a longer lasting patch with potentially less skin irritation."

CEOCFO: Which of these products has the greatest market potential?

Dr. Brown: "POSIDUR would probably be the largest. As part of our market research, we surveyed 275 surgeons and identified from their feedback that there was a potential for over 30 million procedures per year, just in the US alone. We also did market research with hospitals that suggested that below $250 per procedure, price had limited impact on penetration. Therefore, if you take those two numbers together, it shows you an opportunity that is huge at well over $7 billion. I'm not saying that it is a $7 billion product, but that the potential is quite large. For the Remoxy product with King Pharmaceuticals, that is going into a marketplace where Oxycontin had sales in 2006 of about $1.2 billion. Oxycontin has been called the Hillbilly heroin, with celebrities like Rush Limbaugh having abused this product. However, our product is much more difficult to abuse. Our product is a gel cap filled with a Vaseline type of substance that contains the drug, and if you crush the gel cap, you can't snort or inject something that has the viscosity of Vaseline. If you dissolve Remoxy in alcohol or water and try to drink it, only about 20-30% of the drug comes out compared to Oxycontin. Hence, it takes about 3-4 times more of these gel caps to get the same high that you would get from Oxycontin. So Remoxy is a more difficult to abuse version of this effective drug and we are optimistic that our partner King Pharmaceuticals can capture a meaningful share of the existing market with these abuse resistant properties. ELADUR is going into a marketplace where the market leader should do around $700 million in sales this year. TRANSDUR-Sufentanil is a 7-day patch competing against a 3-day patch, and a system that is one-fifth the size of the

"What you get with DURECT Corporation, should you invest, is a company that has a platform of multiple proprietary advanced drug delivery technologies. For the most part we are working with drugs that are known to be safe and efficacious, so the probability of successful development should be higher with our company than with many biotech companies that are focused on developing completely novel compounds. What DURECT has today is a pipeline that consists of 4 products that are in Phase II or III and, if you project out a year, potentially our first NDA is on file with perhaps two more products in Phase III. Therefore, an investor in DURECT gets a number of shots-on-goal, each of which address large market opportunities with differentiated product features."

- Matt Hogan

market leader. So the question here is what share of a roughly $1.4 billion worldwide market can Endo capture in the US and what share our future partners capture in the rest of the world given those product advantages. As you can see, all the products we've chosen to work on address quite large market opportunities with various product advantages over what exist today."

CEOCFO: Even with financial support from partners, bringing products through clinical trials is quite expensive; what is the current financial position of the company?

Mr. Hogan: "We are in the fortunate position of ending the 3rd Quarter with about $67 million in cash and as you alluded to, we receive considerable financial support from our collaborators in supporting our programs. By having a balanced portfolio between programs that are partnered and yet in other cases retaining programs to either commercialize ourselves or license at later stages for more attractive terms, we think we are in a pretty good financial position to pay for future development activities as well as ramping up a commercial organization. We have a history of showing that we can successfully strike collaborations on attractive terms, so I'm confident that over the next 12 to 24 months, we will be able to announce other collaborations that provide further financial support."

CEOCFO: Do you see a need to go to the Street to raise funds or borrow if needed?

Mr. Hogan: "At the present time, we don't feel the need to raise additional capital and at today's stock price, we would not be inclined to do so. Down the road, besides corporate collaborations as a potential source of funding, I'm confident that if we wanted to structure a debt facility we could do so. At the moment, we don't feel any pressing need for additional capital."

CEOCFO: In closing, please address potential investors and why should they consider DURECT Corporation.

Mr. Hogan: "What you get with DURECT Corporation, should you invest, is a company that has a platform of multiple proprietary advanced drug delivery technologies. For the most part we are working with drugs that are known to be safe and efficacious, so the probability of successful development should be higher with our company than with many biotech companies that are focused on developing completely novel compounds. What DURECT has today is a pipeline that consists of 4 products that are in Phase II or III and, if you project out a year, potentially our first NDA is on file with perhaps two more products in Phase III. Therefore, an investor in DURECT gets a number of shots-on-goal, each of which address large market opportunities with differentiated product features."

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