InSiteVision
Solutions for Sight

ANNUAL REPORT 2007

ADVANCING OUR VISION

ABOUT InSite Vision

InSite Vision Incorporated develops novel ocular pharmaceutical products using its DuraSite® bioadhesive polymer core technology to enable topical delivery and sustained release of existing drug molecules for reduced frequency of treatment and improved efficacy.

This approach is designed to enable the company to develop products at lower risk and cost than a new chemical entity and is intended to provide patients with product alternatives that will encourage compliance for better treatment outcomes.

By formulating the well-established antibiotic azithromycin in DuraSite, InSite developed the lowest-dosing ocular antibiotic available to the United States ophthalmic market. AzaSite® (azithromycin ophthalmic solution) 1% was launched in the United States in August 2007 by Inspire Pharmaceuticals for the topical treatment of bacterial conjunctivitis (pink eye). InSite is also building a network of international partners for commercialization and distribution of AzaSite outside of the United States.

InSite continues to expand its portfolio of ophthalmic antibiotic products based on the DuraSite-azithromycin product platform. ISV-502 is the next product candidate and is currently in a Phase 3 pivotal trial to treat ocular and eyelid infection and inflammation (blepharoconjunctivitis). There is no approved product in the United States indicated for the treatment of this condition. In addition, InSite is investigating other product and collaboration opportunities with both the DuraSite-azithromycin platform and/or with DuraSite and other molecules.

TO OUR FELLOW

STOCKHOLDERS

Momentum toward building a multiple-product company

S. Kumar Chandrasekaran,
Ph.D., Chairman and CEO

InSite Vision accomplished much over the past year to achieve our goal

of becoming a multiple-product company. In April 2007, the Food and Drug Administration approved AzaSite for commercial sale in the United States for the treatment of bacterial conjunctivitis (pink eye), a condition common among children. Our AzaSite marketing partner, Inspire Pharmaceuticals, launched the product in the United States in August 2007. We filed for regulatory approval of AzaSite in Canada in late November. In addition, we completed Phase 1 and pilot Phase 2 trials, and initiated a pivotal Phase 3 trial of our next product candidate, ISV-502, designed to treat blepharoconjunctivitis, a chronic inflammatory infection of the eyelid and the conjunctiva. We signed an agreement for AzaSite with our first international partner outside of North America. Finally, we further enhanced our senior management team with the addition of Louis Drapeau as our new Chief Financial Officer and Joyce Strand as our Senior Director, Investor Relations and Corporate Communications.

This momentum continued into the first half of 2008.

We completed three more international agreements for AzaSite, bringing the total number of national markets covered outside of the United States to eight; closed a $60 million non-dilutive, non-recourse financing secured by the royalties we receive from Inspire Pharmaceuticals for sales of AzaSite; and added Kamran Hosseini, M.D., Ph.D., as Chief Medical Officer, and Surendra Patel as Vice President, Operations to support our transition to a multiple-product sustainable company.

Such a steady progression of achievements –

fortified by our DuraSite proprietary drug delivery technology – form the foundation of our future growth. Here's why.

Fewer Doses than Alternatives
Dosing Comparison

	Day 1	Day 2	Day 3	Day 4	Day 5	Day 6	Day 7	Total Drops per indicated course
AzaSite®	2	2	1	1	1	1	1	9
Vigamox®	3	3	3	3	3	3	3	21
Tobrex®	4	4	4	4	4	4	4	28
Polytrim®	6	6	6	6	6	6	6	42

The approval of AzaSite demonstrates

the value of the DuraSite-azithromycin product platform as well as our capabilities to drive a product through the FDA approval process. We have taken a widely used oral antibiotic, azithromycin, and enhanced its capability by formulating it with DuraSite. This resulted in AzaSite, the first prolonged-release formulation of a broad-spectrum ocular antibiotic drug with a market-leading reduced dosing frequency, as compared to currently available eye drops.

We are committed to supporting our partner, Inspire Pharmaceuticals, in their promotion and marketing of AzaSite in the United States, and in growing our international network of partners for the marketing of AzaSite worldwide. Since its launch in the United States in August 2007, AzaSite prescriptions have grown steadily and in early 2008 AzaSite became the number three branded product for treatment of bacterial conjunctivitis prescribed in the United States. Further, Inspire Pharmaceuticals is increasingly building market interest through a combination of increased education, new post-approval Phase 4 trials to generate clinically relevant data, and growing insurance reimbursement.

Our strategy for expanding product sales overseas is designed to penetrate the growing $600 million ocular antibiotic market outside the United States by maximizing AzaSite sales as quickly and cost-effectively as possible. Therefore we have aligned ourselves with commercial partners who know their national markets well and who will manage the regulatory process and bear the local regulatory and product registration expenses, allowing InSite to invest its resources in further product development. Pricing in these international markets is typically considerably lower than in the United States market. Thus, we anticipate modest up-front payments from these international partners and royalties in the low double digits.

As of mid-2008, we have signed agreements with companies covering markets in Argentina, Canada, Chile, China, Korea, Paraguay, Turkey, and Uruguay, and we are actively engaged in negotiations for other markets.



To help us become more competitive in certain international markets, we have developed a preclinical package for a new product candidate, called AzaSite Xtra, which has a higher concentration of azithromycin designed for once-daily administration for three days. This unique and lower cost unit-dose product will be offered as an option in the AzaSite product family to our international partners in countries more interested in a higher-concentration, reduced-dose ocular antibiotic.

Another component of our growth strategy is to build a pipeline of topical anti-infective products by leveraging our DuraSite-azithromycin product platform. While AzaSite is primarily a therapy for an acute ocular infection such as bacterial conjunctivitis, our next product, ISV-502, is directed at chronic ocular conditions. It is being developed to treat blepharoconjunctivitis and lid margin disease typically prevalent in and a chronic malady of adults rather than children. Blepharoconjunctivitis is a common ocular disorder and is an inflammatory disease impacting both the inside and outside of the eyelid, as well as the white part of the eye. We are developing ISV-502 to treat both infection and inflammation by using DuraSite to formulate azithromycin, the antibiotic to treat infection, and dexamethasone, a corticosteroid, to treat the inflammation. Although this is an unmet need, making it challenging to estimate market opportunity, sales of ophthalmic antibiotic/corticosteroid combination products were approximately $500 million for indications of conjunctivitis, eye trauma, keratitis, blepharitis and ocular allergy.* We started the first Phase 3 trial for ISV-502 in the United States in December 2007 and plan to initiate the second Phase 3 trial in India.

In addition to maximizing our product portfolio and forming agreements for international relationships for AzaSite, we are also investigating other product and collaboration opportunities for the treatment of ocular infections with the DuraSite-azithromycin platform. Further, we are also exploring various molecules that could benefit from topical, sustained-release application as a result of formulation with our DuraSite core technology.

To enable us to adequately fund clinical trials of our pipeline products, we successfully secured a $60 million non-dilutive, non-recourse financing in February 2008. We anticipate supplementing these funds over the next several years by out-licensing ISV-502, as well as through our international collaborations for AzaSite and/or AzaSite Xtra.

We believe that with much of our foundation in place and the prudent use of our current resources, we are well-positioned to grow from a research and development-based organization to a revenue-generating, multiple-product company.

On behalf of the Board of Directors and our employees, we thank you for your support, and look forward to reporting our progress throughout the year.

Sincerely,

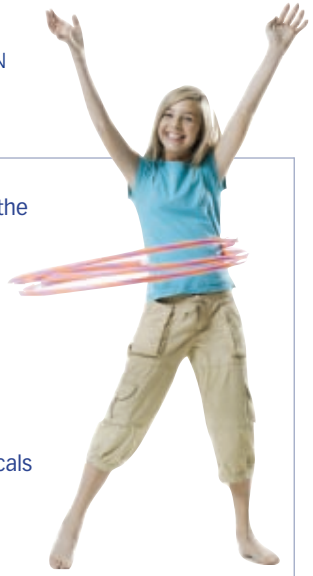
S. Kumar Chandrasekaran, Ph.D.
Chairman and Chief Executive Officer

August 4, 2008

*Sources: Navigant Consulting, Inc.; IMS Health; Wachovia Securities "Ophthalmic Pharma Year-End Review and Forecast" January 2005.

AZITHROMYCIN OPHTHALMIC SOLUTION

AZASITE



Marketed product in the United States for the treatment of pink eye, a contagious, acute bacterial infection of the conjunctiva

Profile: Azithromycin formulated with InSite's DuraSite polymer

Dosing regimen: Once-a-day dosing after the first two days of treatment

Marketing partners: Inspire Pharmaceuticals for United States and Canada. Growing network of international partners with agreements for Argentina, Chile, China, Korea, Paraguay, Turkey, and Uruguay.

AzaSite is a topical eye drop of the antibiotic azithromycin formulated with InSite's DuraSite to treat bacterial conjunctivitis, or pink eye. It is the first ocular formulation of azithromycin, a popular antibiotic marketed as an oral drug. Bacterial conjunctivitis is generally more common in children than adults. Children with pink eye experience inflammation of the delicate skin and mucosa on the inside of the eyelids generally accompanied by irritation, itching, foreign body sensation, watering, mucus discharge and redness. More than 15 million prescriptions are written annually in the United States to treat bacterial conjunctivitis and ocular infection.

The AzaSite eye drop is designed to enable superior bactericidal activity against common ocular pathogens. The key advantages of AzaSite include its once-a-day dosing after the first two days of treatment and the high and sustained levels of azithromycin achieved in the tissues of the eye resulting in a wide spectrum of activity.

"Blepharoconjunctivitis is one of the most common ocular disorders. . . Currently there are no approved treatments for chronic blepharoconjunctivitis and this is certainly an unmet need"

Dr. Mark Abelson, Senior Clinical Scientist at the Schepens Eye Research Institute, Associate Clinical Professor at Harvard Medical School and Chairman and Chief Medical Officer at ORA Clinical Research and Development.*

**ORA Clinical Research and Development is managing the clinical trials for ISV-502 in the United States and India*

AZITHROMYCIN PLUS DEXAMETHASONE OPHTHALMIC SOLUTION

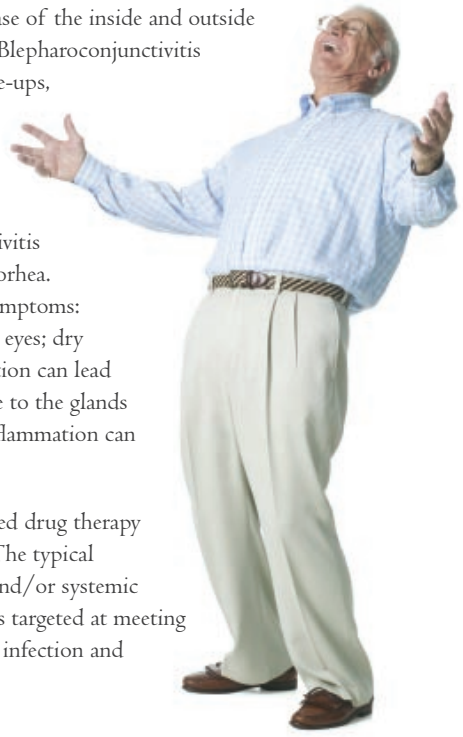
ISV-502

In Phase 3 pivotal trials for the treatment of blepharoconjunctivitis, for chronic ocular and eyelid infection and inflammation

Profile: Combination of azithromycin and dexamethasone, designed to conveniently treat both ocular infection and inflammation, formulated with InSite's DuraSite

Dosing regimen: One drop in the eye and one on the eyelid, two times a day for 14 days.

The product candidate ISV-502 is a therapy directed at blepharoconjunctivitis, an infection of the eyelid and the conjunctiva, and one of the most common eye problems in adults. It is an inflammatory disease of the inside and outside of the eyelid, as well as the white part of the eye. Blepharoconjunctivitis is characterized by chronic inflammation with flare-ups, similar to arthritis. It frequently leads to associated ocular surface inflammation, including conjunctivitis, function tear deficiency, and keratitis, an inflammation of the cornea that can develop into corneal ulcers. Blepharoconjunctivitis commonly accompanies dry eye, rosacea and sebborhea. What makes it so troublesome are its signs and symptoms: red, swollen lids; eyelash loss; irritated eyelids; red eyes; dry eyes; and ocular irritation. This chronic inflammation can lead to scarring of the eyelid margin, including damage to the glands that produce part of the tear film. The chronic inflammation can also lead to structural changes of the eyelid.

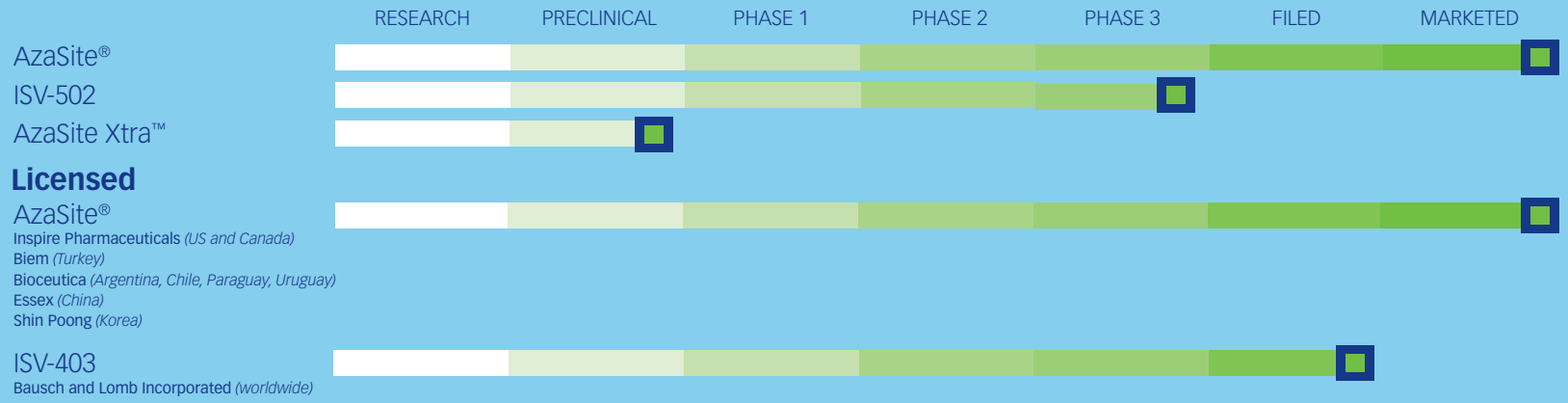


Blepharoconjunctivitis is a disease with no approved drug therapy indicated for the relief of its chronic symptoms. The typical treatment is eye hygiene using lid scrubs, topical and/or systemic antibiotics, and topical corticosteroids. ISV-502 is targeted at meeting this unmet need by conveniently treating both the infection and inflammation with one, easy-to-use product.

PRODUCT

PIPELINE

Marketed products and clinical development



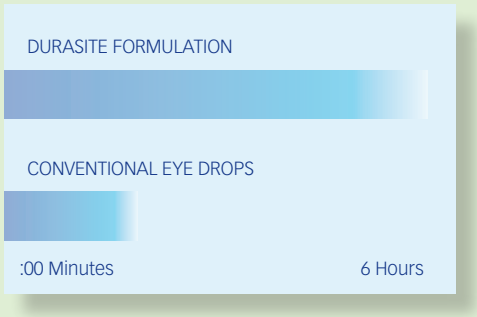
OUR CORE TECHNOLOGY

DURASITE

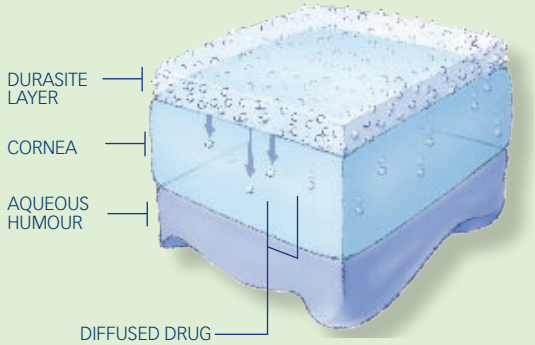
DuraSite is a bioadhesive polymer that enables topical delivery drug agents and provides their sustained release. Using DuraSite, drugs can be formulated into a variety of topical forms, including solution, suspension, gel, or a cream. Drugs formulated in DuraSite have increased solubility, residence time, absorption, and bioavailability with the intent of producing drug agents with less frequent dosing for better compliance and better efficacy for positive outcomes.

DuraSite can be customized for delivering a wide variety of potential drug candidates. The loading capacity of DuraSite ensures therapeutic doses, and the DuraSite matrix is capable of residing on the ocular surface for two to six hours, during which time the release of the active drug is sustained.

POTENCY THROUGH 6 HOURS OF BLINKING



- The DuraSite polymer forms a matrix in which a drug is either suspended or dissolved.
- In the aqueous environment of the eye, these drugs are released from the polymer matrix and diffuse into the tear film where they wash over the cornea and the conjunctiva.
- When the eye lids blink, a layer of DuraSite formulation and dissolved drug is exposed to the cornea and conjunctiva.
- With each blink, the DuraSite layer and drug are refreshed, maintaining the drug concentration and solution, and the unused polymer and drug are removed via the tear-film into the lacrimal sac, without impeding normal tear drainage.
- Due to their high molecular weight, the insoluble DuraSite polymer particles do not penetrate the eye or other mucous membranes.



INSITE VISION

CORPORATE AND STOCKHOLDER INFORMATION

Board of Directors

S. Kumar Chandrasekaran, Ph.D.
Chairman of the Board, Chief Executive Officer
InSite Vision Incorporated

Francis Chen, Ph.D.
Private Investor and Venture Partner
WI Harper Group
Serves on Boards of Directors of Dermacia,
Trace Live Sciences, LogicEase Solutions,
Interactive Digital Publishing Group, and SB2, Inc.

Mitchell H. Friedlaender, M.D.
Head, Division of Ophthalmology
and Director, Laser Vision Center
Scripps Clinic

John L. Mattana
Retired – Investment Vice President,
New York Life Insurance Co.

Jon S. Saxe, Esq.
Retired President, PDL BioPharma, Inc.
Serves on Boards of Directors of Sciele Pharma, Inc., SciClone
Pharmaceuticals, Inc., Durect, Inc. and Entelos, Inc.

Anders P. Wiklund
President and Director, EFFRx, Inc.

Senior Management

S. Kumar Chandrasekaran, Ph.D.
Chairman of the Board, Chief Executive Officer

Lyle M. Bowman, Ph.D.
Vice President, Development

Louis Drapeau
Vice President and Chief Financial Officer

Sandra C. Heine
Vice President, Finance and Administration

David Heniges
Vice President and General Manager,
Commercial Opportunities

Kamran Hosseini, M.D., Ph.D.
Vice President, Clinical Affairs and
Chief Medical Officer

Surendra Patel
Vice President, Operations

Erwin Si, Ph.D.
Senior Director, Preclinical Research

Joyce Strand, Ph.D.
Senior Director, Investor Relations and
Corporate Communications

Corporate Headquarters

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Alameda, CA 94501
Phone: 510.865.8800
Fax: 510.865.5700

Corporate Counsel

O'Melveny & Myers, LLP
Menlo Park, California

Independent Auditors

Burr, Pilger, & Mayer LLP
Palo Alto, California

Transfer Agent and Registrar

For change of address, lost stock certificates and related matters, please direct inquiries to:

American Stock Transfer & Trust Company
Barry S. Rosenthal, Vice President
6201 15th Avenue
Brooklyn, NY 11219
Phone: 718.921.8380
Fax: 718.765.8718

Annual Report on Form 10-K

A copy of the Company's Annual Report on Form 10-K, as amended and filed with the Securities and Exchange Commission is included herewith and is also available by contacting the Investor Relations department at the Company.

Common Stock Listing

InSite Vision's Common Stock is listed on the American Stock Exchange under the symbol ISV.

InSite Vision has not paid any cash dividends on its Common Stock and does not anticipate paying any dividends in the foreseeable future.

Except for the historical information contained herein, the discussion in this Annual Report contains certain forward-looking statements that involve risks and uncertainties, such as statements of our plans, beliefs, objectives, expectations and intentions. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include those discussed under "Risk Factors" and elsewhere in our Annual Report on Form 10-K and 10-K/A included herewith and most recent Quarterly Report on Form 10-Q. The cautionary statements made in these documents should be read as applicable to all related forward-looking statements wherever they appear in this document. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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