

CHARTER OF THE AUDIT COMMITTEE
of the
BOARD OF DIRECTORS
of
INSITE VISION INCORPORATED

1. **Purpose; Limitations on Duties.** The purpose of the Committee is to assist the Board of Directors (the “*Board*”) of InSite Vision Incorporated (the “*Company*”) in overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company and to prepare the annual report of the Audit Committee required by applicable Securities and Exchange Commission (“*SEC*”) disclosure rules. Among the matters the Committee will oversee are (a) the integrity of the Company’s financial statements, (b) the Company’s compliance with legal and regulatory requirements, (c) the independent auditor’s qualifications and independence, (d) the performance of Company’s internal audit function and independent auditor and (e) the appointment of the Company’s independent auditor and the approval of audit and non-audit services performed by such auditor.
2. **Membership; Appointment; Financial Expert.** The Committee will consist of three or more directors of the Company’s Board. All members of the Committee must be directors who meet the knowledge requirements and the independence requirements of applicable law and the rules of the SEC and the American Stock Exchange in effect from time to time (subject to any exceptions allowed by such rules and any waivers granted by such authorities). The members of the Committee will be appointed by and serve at the discretion of the Board. The Chairperson of the Committee will be appointed by the Board. If the Board fails to appoint a Chairperson, the members of the Committee shall designate a Chairperson by majority vote of the full Committee. If practicable and appropriate taking into account the Company’s business, finances and complexity among other factors, at least one member of the Committee must qualify as an “*audit committee financial expert*” (as defined by the SEC). The Company will disclose in its annual report required by Section 13(a) of the Securities Exchange Act of 1934 (the “*1934 Act*”) whether or not it has at least one member who is an audit committee financial expert. In any event, the Committee must include at least one member who has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background that results in the individual’s financial sophistication, such as being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.
3. **Specific Responsibilities and Duties.** The Board delegates to the Committee the express responsibility and authority to:
 - 3.1 **Independent Auditor**
 - (a) **Selection; Fees.** Be solely and directly responsible for the appointment, compensation, retention, evaluation, and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company and, where appropriate, the termination and replacement of such firm. Such independent auditor shall report directly to and be ultimately accountable to the Committee. The Committee has the ultimate authority to approve all audit engagement fees and terms, with the costs of all engagements to be borne by the Company.
 - (b) **Audit Team.** Review the experience and qualifications of the senior members of the independent auditor’s team.
 - (c) **Scope of Audit.** Review, evaluate and approve the annual engagement proposal of the independent auditor (including the proposed scope and approach of the annual audit).
 - (d) **Lead Audit Partner Review, Evaluation and Rotation.** Ensure that the lead audit partner having primary responsibility for the audit and the reviewing audit partner of the

independent auditor are rotated at least every five years and that other audit partners (as defined by the SEC) are rotated at least every seven years.

- (e) **Pre-Approval of Audit and Non-Audit Services.** Pre-approve all audit services and all non-audit services permitted to be performed by the independent auditor. Such pre-approval may be given as part of the Committee's approval of the scope of the engagement of the independent auditor or on an engagement-by-engagement basis or pursuant to pre-established policies. In addition, the authority to pre-approve non-audit services may be delegated by the Committee to one or more of its members, but such member's or members' non-audit service approval decisions must be reported to the full Committee at the next regularly scheduled meeting. The Company shall disclose in its Annual Reports on Form 10-K and its Quarterly Reports on Form 10-Q any approval of non-audit services during the period covered by the applicable report.
- (f) **Statement from Independent Auditor; Oversight of Independent Auditor.** At least annually, obtain and review a report from the independent auditor describing all relationships between the independent auditor and the Company (to assess the independent auditor's independence), consistent with Independence Standards Board Standard 1. The Committee shall actively engage in a dialog with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor and shall take, or recommend that the Board take, appropriate action to oversee the independence of the independent auditor.
- (g) **Related Party Transactions.** Review and approve all related-party transactions.

3.2 Financial Reporting

- (a) **Annual Financials.** Review and discuss with management and the independent auditor the Company's annual audited financial statements, (including the Company's disclosures under "*Management's Discussion and Analysis of Financial Condition and Results of Operations*"), any unusual or non-recurring items, the nature and substance of significant reserves, the adequacy of internal controls and other matters that the Committee deems material, prior to the public release of such information. Recommend to the Board whether the annual audited financial statements should be included in the Company's Annual Report on Form 10-K.
- (b) **Quarterly Financials.** Review and discuss with management and the independent auditor the Company's quarterly financial statements (including the Company disclosure under "*Management's Discussion and Analysis of Financial Condition and Results of Operations*"), the results of the independent auditor's reviews of the quarterly financial statements, and other matters that the Committee deems material prior to the public release of such information.
- (c) **Accounting Principles.** Review with management and the independent auditor major issues regarding accounting principles and financial statement presentations, including any material changes in the selection or application of the principles followed in prior years and any items required to be communicated by the independent auditor in accordance with AICPA Statement of Auditing Standards ("SAS") 61.
- (d) **Press Releases; Conference Calls.** Discuss earnings press releases with management (including the type and presentation of information to be included in earnings press releases) and the Company's policies relating to disclosures in earnings conference calls.

3.3 Financial Reporting Processes; CEO and CFO Certifications.

- (a) **Internal and External Controls.** In consultation with the independent auditor and the Company's internal auditors and financial and accounting personnel, review the integrity,

adequacy and effectiveness of the Company's accounting and financial controls, both internal and external, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable.

- (b) **Reports from Independent Auditor.** Obtain and review timely reports from the independent auditor regarding:
 - (i) all critical accounting policies and practices to be used by the Company;
 - (ii) all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
 - (iii) all other material written communications between the independent auditor and management, including any management letter or schedule of unadjusted differences.

Such reports may be oral or in writing, but must be provided to the Committee before any auditor's report is filed with the SEC.

- (c) **CEO and CFO Certifications.** Discuss with the Chief Executive Officer and the Chief Financial Officer the processes involved in and any material changes or disclosures that are advisable or required as a result of the Form 10-K and 10-Q certification process concerning deficiencies in design or operation of internal controls or any fraud involving management or employees with a significant role in the Company's internal controls.

3.4 Legal and Regulatory Compliance

- (a) **SEC Report.** Prepare the annual report included in the Company's proxy statement as required by the proxy rules under the 1934 Act.
- (b) **Reports from Others.** Obtain such reports from management, auditors, the general counsel or outside legal counsel, tax advisors or any regulatory agency as the Committee deems necessary regarding regulatory compliance, transactions with affiliates, and other legal matters that may have a material effect on the Company's financial statements and the consideration of those matters in preparing the financial statements.
- (c) **Code of Conduct; Waivers.** Approve and monitor the Company's compliance with a code of conduct or ethics required by applicable law or exchange listing standards and covering the conduct and ethical behavior of directors, officers and employees, and approve in advance any amendments to it or waivers of it for directors, executive officers and senior financial officers.
- (d) **Complaints.** Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by Company employees of concerns regarding questionable accounting, auditing or legal matters.

3.5 Annual Evaluation of Committees and Charter.

- (a) **Evaluation of Committee.** Annually evaluate the performance of the Committee.
- (b) **Review and Publication of Charter.** Review and reassess the adequacy of this Charter at least annually and recommend any proposed changes to the Board, as appropriate, and publish this Charter and file this Charter with the SEC as required by applicable law.

4. **Reports to Board; Meetings, Minutes.**
 - 4.1 **Recommendations; Reports.** Regularly report to the Board on the Committee's activities, and its conclusions with respect to the independent auditor, and make appropriate recommendations to the Board.
 - 4.2 **Executive Sessions.** The Committee may meet periodically (with such frequency as it determines) with each of the independent auditor, internal auditors (or other personnel responsible for the Company's internal audit function) and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately.
 - 4.3 **Other Meetings.** Other meetings will be with such frequency, and at such times, as its Chairperson, or a majority of the Committee, determines, but the Committee shall meet at least quarterly. Special meetings of the Committee may be called by the Chairperson and will be called promptly upon the request of any two Committee members. The agenda of each meeting will be prepared by the Chairperson and circulated, if practicable, to each member prior to the meeting date. Unless the Committee or the Board adopts other procedures, the provisions of the Company's Bylaws applicable to meetings of Board committees will govern meetings of the Committee.
 - 4.4 **Minutes.** Minutes of each meeting will be kept.
5. **Subcommittees.** The Committee has the power to appoint and delegate matters to subcommittees, but no subcommittee will have any final decision-making authority on behalf of the Board or the Committee (except as permitted pursuant to Section 3.1(e) above).
6. **Advisors and Counsel; Reliance; Investigations; Cooperation.**
 - 6.1 **Retention of Advisors and Counsel.** The Committee has the power, in its sole discretion, to obtain advice and assistance from, and to retain at the Company's expense, such independent or outside legal counsel, accounting or other advisors and experts as it determines necessary or appropriate to carry out its duties, and in connection therewith to receive appropriate funding, determined by it, from the Company.
 - 6.2 **Determine Administrative Expenses.** The Committee has the power to determine the level and cost of ordinary administrative expenses necessary or appropriate in carrying out its duties, with such costs to be borne by the Company.
 - 6.3 **Reliance Permitted.** The Committee will act in reliance on management, the Company's independent auditor, internal auditors, and advisors and experts, as it deems necessary or appropriate.
 - 6.4 **Investigations.** The Committee has the power, in its discretion, to conduct any investigation it deems necessary or appropriate to enable it to carry out its duties.
 - 6.5 **Required Participation of Employees.** The Committee shall have unrestricted access to the Company's employees, independent auditor, internal auditors, internal and outside counsel, and may require any employee of the Company or representative of the Company's outside counsel or independent auditor to attend meetings of the Committee or to meet with any members of the Committee or representative of the Committee's counsel, advisors or experts.
7. **Rules and Procedures.** Except as expressly set forth in this Charter or the Company's Bylaws or Corporate Governance Guidelines, or as otherwise provided by law or the rules of the American Stock Exchange, the Committee shall establish its own rules and procedures.

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