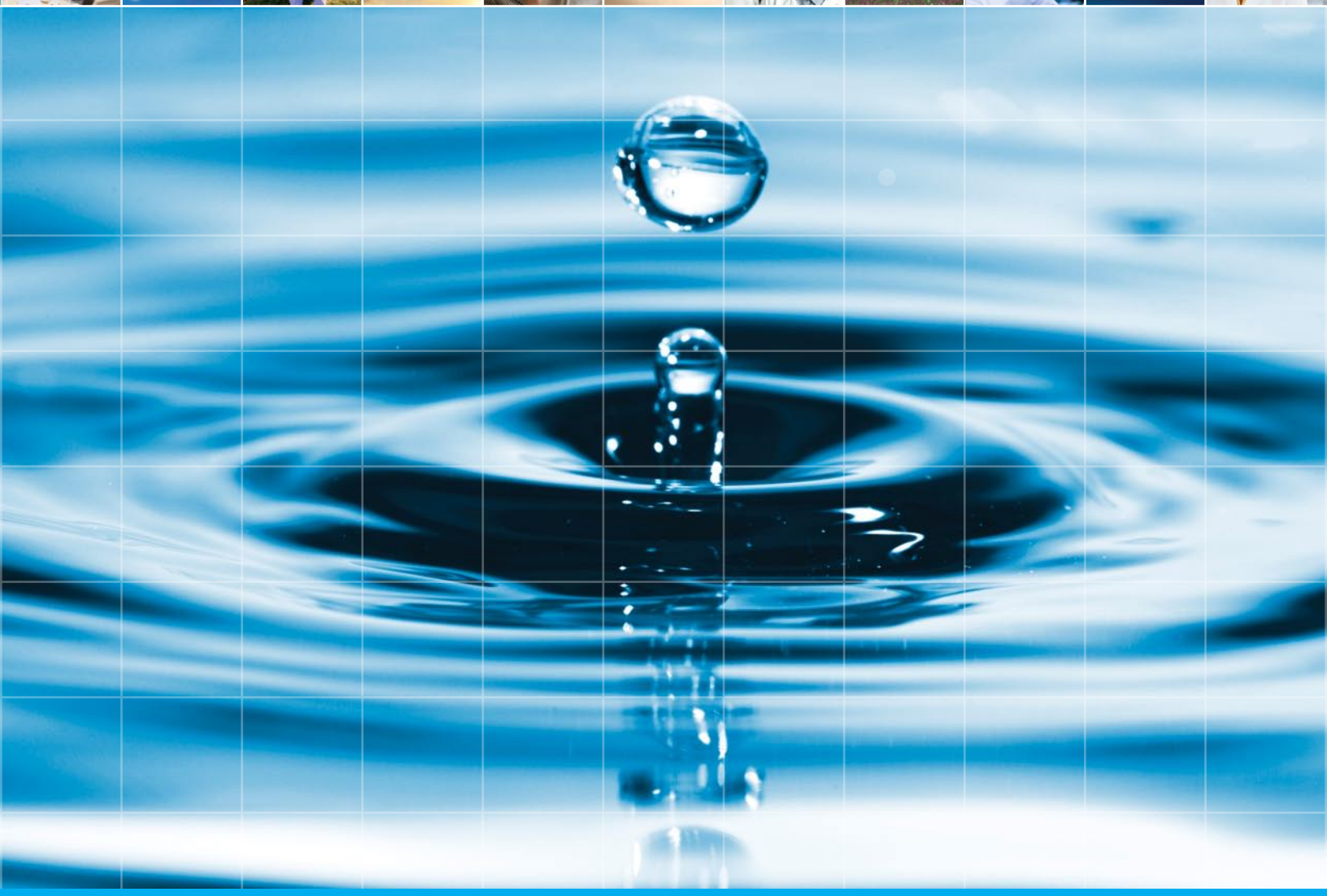
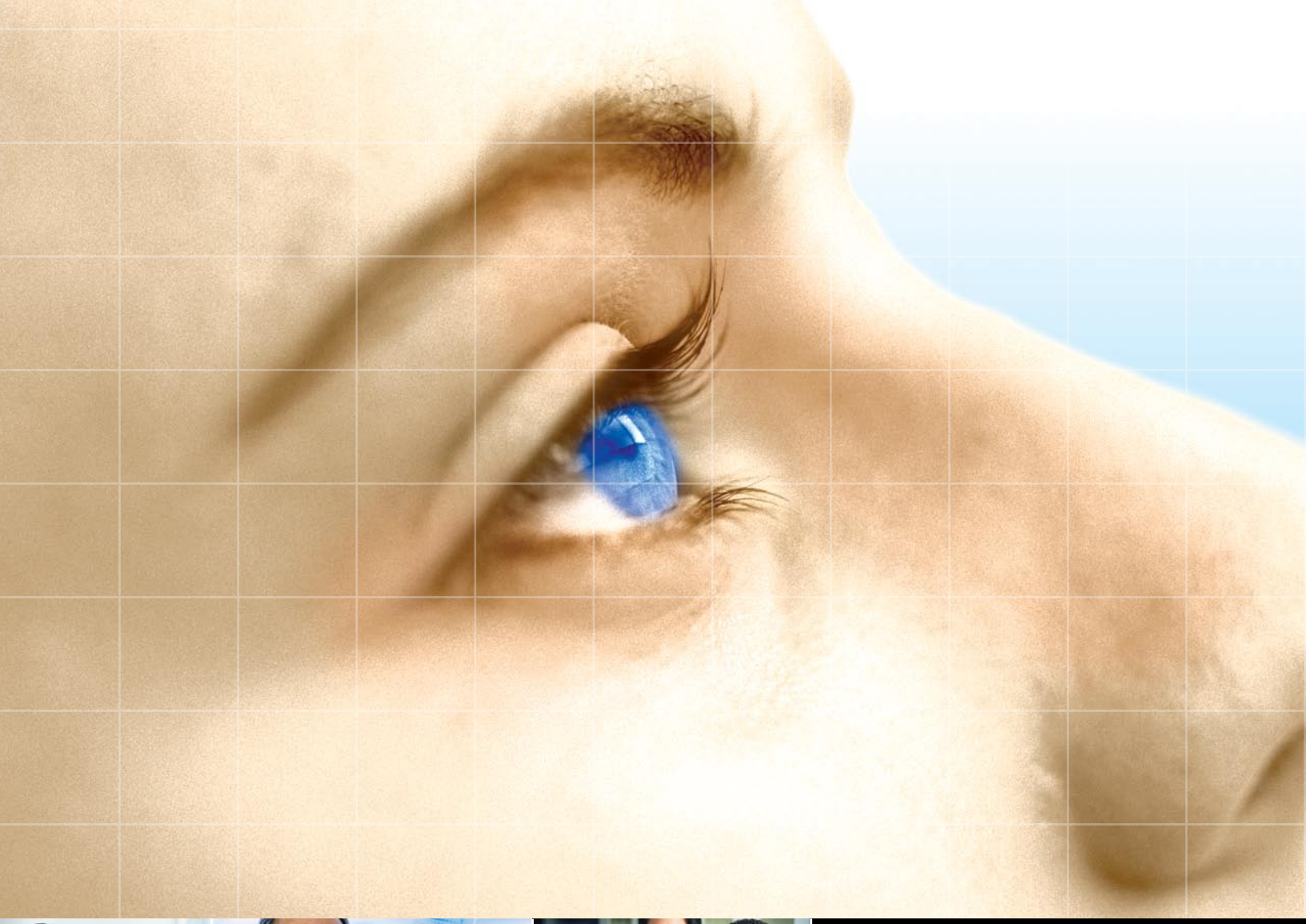
InSiteVision
Solutions for Sight

Building On Success

2006 ANNUAL REPORT

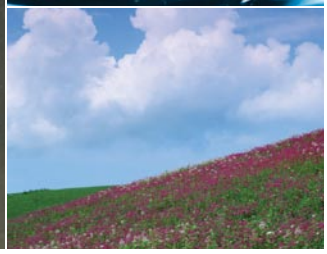




InSite Vision develops novel ophthalmic products designed to treat a growing range of common eye problems, including ocular infection, glaucoma, and retinal disease. Our goal is to provide patients and physicians worldwide with improved treatment options that help preserve and improve vision.

Based on our proprietary DuraSite® drug delivery technology, we are creating alternative ocular anti-infective therapies, such as AzaSite™, AzaSite Plus™ and AzaSite Xtra™ with the potential to provide significant advantages currently not available with conventional treatment options. In addition, AzaSite Otic™ is being developed for ear infections.

To Our Fellow Stockholders



While 2006 was the year of preparing for success by filing AzaSite for FDA regulatory approval, 2007 is the year of building on the success of its approval and launch. We now have a product in the marketplace that we believe will generate a significant potential revenue stream. We have a stronger balance sheet. And we have made progress toward building our pipeline for long-term revenue growth.

The approval and launch of AzaSite have highlighted the value of our core technology, DuraSite, and strengthened our resolve to leverage AzaSite across multiple indications to lead us to long-term revenue growth. To that end, we are developing additional products based on DuraSite and azithromycin, including anti-infective and anti-inflammatory eye therapies to enable us to more fully penetrate the $2 billion anti-infective, anti-inflammatory eye therapy market.

OUR PRODUCT PIPELINE: THE AZASITE FAMILY

AzaSite (azithromycin ophthalmic solution) 1% was approved by the Food and Drug Administration (FDA) in April 2007 for the treatment of bacterial conjunctivitis. AzaSite is formulated with DuraSite, InSite Vision's patented drug delivery vehicle, which is designed to enhance the retention time of the antibiotic on the surface of the eye. Our objective is to provide both the patient and the physician with a convenient and highly effective alternative for the treatment of bacterial conjunctivitis.

We are pleased to have Inspire Pharmaceuticals as our commercialization partner for AzaSite in the United States and Canada. As part of our agreement with them, we received a total of $32 million in combined licensing and milestone payments; and are entitled to receive a royalty on net sales.

Outside the United States and Canada we are investigating commercialization partners for AzaSite primarily in Europe and Japan, the two largest markets other than the United States. An important component of our strategy to penetrate international markets is AzaSite Xtra, a product candidate in early development

with a higher percentage of azithromycin as part of the formula. We believe it is valuable to be able to offer a higher-concentration product along with AzaSite in order to provide a variety of bacterial infection treatment options.

To further leverage the development of AzaSite and our DuraSite core technology, we are developing AzaSite Plus, a product candidate for the treatment of conditions such as *blepharoconjunctivitis* that involve both bacterial infection and inflammation. Blepharoconjunctivitis, which affects tens of millions of people worldwide, causes symptoms such as redness, irritation, and scaly skin at the edges of the eyelids.

AzaSite Plus is a fixed-dose combination of azithromycin and dexamethasone, an anti-inflammatory corticosteroid. Like AzaSite, AzaSite Plus is formulated with our DuraSite drug delivery technology.

In addition to our ocular AzaSite products, we are developing AzaSite Otic for ear infections. AzaSite Otic contains both azithromycin and dexamethasone and is formulated with DuraSite, to enable a differentiated product in this market. The primary indication is for acute otitis media with tympanostomy tube (AOMT). Otitis media is an infection of the middle ear usually caused by an infection that spreads from a sore throat, cold or respiratory problem. It is one of the most common childhood illnesses and can cause significant pain and discomfort. Our strategy for this product is to license or partner it early in the clinical process to a company with expertise in ear infections and with the need for an ear-therapy product.

PATH TO PROFITABILITY: GOALS AND MILESTONES

With the approval and launch of AzaSite, we are at a pivotal point in our business.

First, given the approval of our first AzaSite product, we are today in a better position to develop follow-on products in order to generate long-term revenue for the company.

Second, we plan to spend our cash carefully with the intention of maintaining our expenses for 2007 at the same level as 2006. We will continue to invest our cash resources in the development of the product candidates that will provide the foundation upon which our future growth will be built.

I would like to take this opportunity to thank the employees of InSite Vision for their continued dedication and hard work in building the DuraSite platform and AzaSite product family. Through our continuing efforts to complete the clinical trials and successfully negotiate agreements for the AzaSite family both in the United States and internationally, we are all dedicated to maximizing stockholder value.

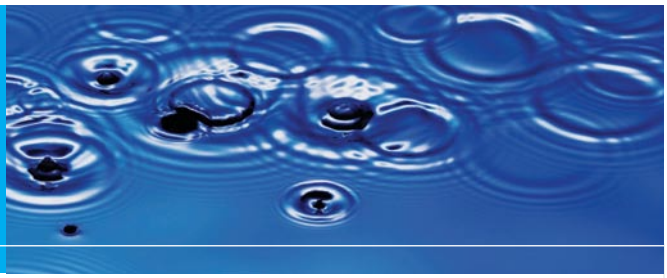
On behalf of our Board of Directors and employees, we thank you for your continued support of InSite Vision, and look forward to reporting our progress throughout the year.

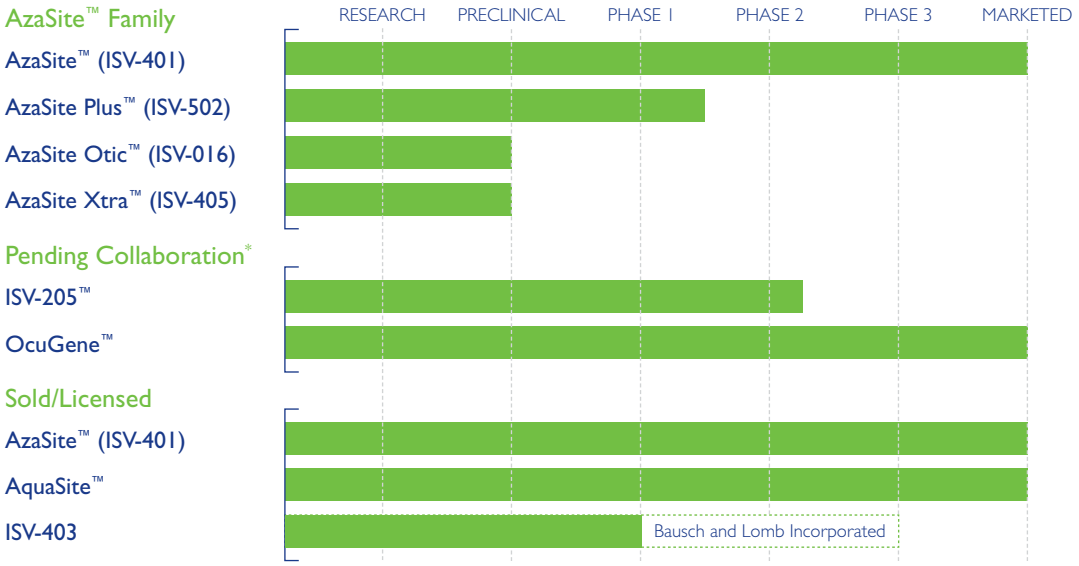
Sincerely,

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

August 17, 2007

Product Pipeline





* Further development pending collaboration agreement with as yet unidentified partner.

AzaSite

Our lead product is AzaSite (azithromycin ophthalmic solution) 1%, a topical anti-infective approved by the Food and Drug Administration (FDA) in April 2007 for the treatment of bacterial conjunctivitis, a common form of eye infection also known as "pink eye".

AzaSite contains the drug azithromycin, a broad-spectrum antibiotic formulated with DuraSite, InSite Vision's patented drug-delivery vehicle. This is the first time azithromycin has been formulated successfully for use in the eye. AzaSite offers a reduced dosing frequency compared to currently available eye drops for the treatment of bacterial conjunctivitis with a favorable safety and efficacy profile.

Inspire Pharmaceuticals has the responsibility to commercialize AzaSite in the U.S. and Canada in accordance with the parties' out-licensing agreement. InSite plans to pursue additional commercial partnerships to address AzaSite market opportunities outside the U.S. and Canada. To help penetrate international markets, InSite is developing AzaSite Xtra, a product candidate with a higher percentage of azithromycin as part of the formula, in order to provide a variety of bacterial infection treatment options.

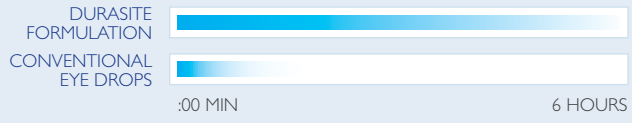
Our Core Technology: DuraSite

The DuraSite system is a patented synthetic polymer-based formulation designed to extend the residence time of a drug relative to conventional eye drops. Safety studies have shown DuraSite drug delivery to be non-toxic, biocompatible, and biodegradable.* The topical ophthalmic solution can be described as a gel-forming drop that also stabilizes small molecules in an aqueous matrix.

In addition to these properties, 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 2-6 hours, during which time the release of the active drug is sustained.

The increased time that DuraSite remains in the eye allows lower concentrations of a drug to be administered over a longer period of time. This minimizes the inconvenience of frequent dosing, reduces the potential of related adverse side effects, and may lead to improved patient compliance.

Potency Through 6 Hours of Blinking

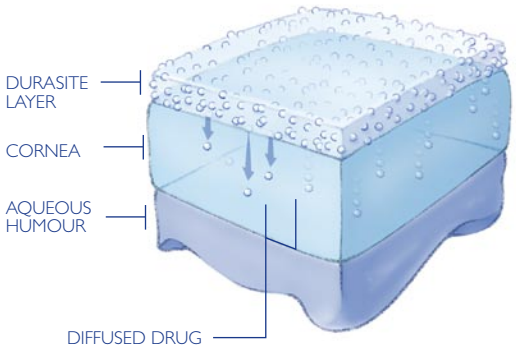


COMBINING DURASITE WITH AZITHROMYCIN: THE AZASITE FAMILY

To leverage the combination of DuraSite and azithromycin that we developed with AzaSite, we are developing a family of anti-infective therapies. AzaSite Plus is an antibiotic and corticosteroid combination product candidate that has completed Phase 1 trials and is next entering Phase 3 trials for the treatment of bacterial infection and inflammation (ophthalmic).

In pre-clinical development are: AzaSite Otic, a product candidate for the treatment of bacterial ear infections; and AzaSite Xtra, a product candidate for expanding the treatment of ocular infection outside the United States and Canada.

DuraSite Matrix



- 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.

** Final Assessment Report of the Safety of Carbomers 934, 934P, 940, 941, and 962. J Amer College Toxicol . 1982;1(2):109-141. Br. J. Ophthalmol 2003, 87:436-440.*

Corporate and Stockholder Information

Board of Directors

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

Mitchell H. Friedlaender, M.D.
Head, Division of Ophthalmology and Director, LaserVision 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 Board of Directors of Sciele Pharma, Inc., PDL, SciClone Pharmaceuticals, Inc., Durect, Inc. and Entelos, Inc.

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

Officers and Senior Management

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

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

Ronald H. Carlson, Ph.D.
Vice President, Regulatory Affairs and Quality

Sandra C. Heine
Vice President, Finance and Administration

David Heniges
Vice President and General Manager, Commercial Opportunities

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

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

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Fax: 510.865.5700

Corporate Counsel
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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, New York 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/A as filed with the Securities and Exchange Commission is included 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/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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