

INTEGRAL VISION INC  
Form 10-Q  
May 15, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

□□□□□□  
**FORM 10-Q**  
□□□□□□

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

For the quarterly period ended: March 31, 2008

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

**INTEGRAL VISION, INC.**

(Exact name of registrant as specified in its charter)

**[Michigan]**  
(State or Other Jurisdiction  
of Incorporation)

**[0-12728]**  
(Commission  
File Number)

**[38-2191935]**  
(I.R.S. Employer  
Identification No.)

**49113 Wixom Tech Drive, Wixom, Michigan 48393**

(Address of Principal Executive Office) (Zip Code)

**(248)-668-9230**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

□□□□□□

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.    ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer            ☐

Accelerated filer                ☐

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Non-accelerated filer ☐

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐  
No ☒

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 29,566,409 shares of common stock as of May 14, 2008.

**APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ☐ Yes ☐ No

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INTEGRAL VISION, INC.

**FORM 10-Q Report**  
**March 31, 2008**

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**INTEGRAL VISION, INC.**  
**Condensed Balance Sheets**

	March 31, 2008 (Unaudited) (in thousands)	December 31, 2007
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 231	\$ 11
Accounts receivable	98	75
Inventories - Note B	443	265
Other current assets	106	97
Total current assets	878	448
<b>Property and equipment:</b>		
Building Improvements	4	4
Production and engineering equipment	234	234
Furniture and fixtures	80	80
Computer equipment	190	190
Marketing/demonstration equipment	139	139
	647	647
Less accumulated depreciation	(447)	(431)
Net property and equipment	200	216
<b>Other assets</b> - net of accumulated amortization of \$1,496,000 (\$1,493,000 for 2007)		
	58	34
	\$ 1,136	\$ 698

See notes to condensed financial statements.

**INTEGRAL VISION, INC.**  
**Condensed Balance Sheets** □ **Continued**

	March 31, 2008 (Unaudited) (in thousands)	December 31, 2007
<b>Liabilities and Stockholders' Deficit:</b>		
<b>Current liabilities:</b>		
Notes payable	\$ 3,842	\$ 3,342
Accounts payable	263	75
Customer deposits	370	-
Accrued compensation and related costs	288	298
Accrued interest	274	196
Accrued product warranty	79	82
Other accrued liabilities	71	40
Deferred revenue for product sales	89	-
<b>Total current liabilities</b>	<b>5,276</b>	<b>4,033</b>
<b>Long-term debt</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>5,276</b>	<b>4,033</b>
<b>Stockholders' deficit:</b>		
Preferred stock, 400,000 shares authorized; none issued	-	-
Common stock, without par value, stated value \$.20 per share; 50,000,000 shares authorized; 29,566,409 shares issued and outstanding (29,566,409 in 2007)	5,913	5,913
Additional paid-in capital	39,448	39,407
Accumulated deficit	(49,501)	(48,655)
<b>Total stockholders' deficit</b>	<b>(4,140)</b>	<b>(3,335)</b>
	\$ 1,136	\$ 698

See notes to condensed financial statements.

**INTEGRAL VISION, INC.**  
**Condensed Statements of Operations**

	Three Months Ended March 31, 2008	2007
	(Unaudited) (In thousands, except per share data)	
<b>Revenue:</b>		
Net product sales	\$ 9	\$ 316
Net revenue from product development agreements	-	-
Total revenues (See Note-B)	9	316
<b>Costs of sales:</b>		
Costs of sales for products	43	255
Cost of sales for product development agreements	-	-
Depreciation and amortization	4	6
Total costs of sales	47	261
<b>Gross margin</b>	(38)	55
<b>Other costs and expenses:</b>		
Marketing	148	149
General and administrative - net	332	318
Engineering and development - net	232	316
Total other costs and expenses	712	783
<b>Operating loss</b>	(750)	(728)
Other income (deductions)	(2)	5
Interest expense	(94)	(24)
<b>Net loss</b>	\$ (846)	\$ (747)
Basic and diluted loss per share:		
Net loss	\$ (0.03)	\$ (0.03)
Weighted average number of shares of common stock and common stock equivalents, where applicable	29,566	29,507

See notes to condensed financial statements.

**INTEGRAL VISION, INC.**  
**Statement of Stockholders' Deficit**  
**(Unaudited)**

	Common Stock			Additional Paid-	Accumulated	
	Number of		Amount	In Capital	Deficit	
	Shares					
	Outstanding					
	<i>(in thousands, except number of common shares outstanding)</i>					
<b>Balance at January 1, 2008</b>	29,566,409	\$	5,913	\$ 39,407	\$ (48,655)	\$
Issuance of warrants for settlement of interest on Class 2 Notes (see Note C)				1		
Net loss for the period					(846)	
Share-based compensation				40		
<b>Balance at March 31, 2008</b>	29,566,409	\$	5,913	\$ 39,448	\$ (49,501)	\$

See notes to condensed financial statements

**INTEGRAL VISION, INC.**  
**Condensed Statements of Cash Flows**

	Three Months Ended March 31,	
	2008	2007
	(Unaudited)	
	(in thousands)	
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (846)	\$ (747)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	17	17
Amortization	3	4
Warrants issued in settlement of interest	1	-
Share-based compensation	40	24
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(23)	(123)
Inventories	(178)	8
Prepaid and other	(9)	28
Accounts payable and other current liabilities	654	27
Deferred revenue	89	-
Net Cash Used In Operating Activities	(252)	(762)
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	-	(32)
Additional Patents	(2)	(1)
Net Cash Used In Investing Activities	(2)	(33)
<b>Cash Flows From Financing Activities</b>		
Proceeds from sale of Class 2 Notes - Net	500	774
Debt financing fees	(26)	-
Proceeds from issuance of common stock	-	2
Net Cash Provided By Financing Activities	474	776
Increase (Decrease) in Cash	220	(19)
Cash at Beginning of Period	11	57
Cash at End of Period	\$ 231	\$ 38
<b>Supplemental cash flows disclosure:</b>		
Interest paid	\$ 15	\$ 15

See notes to condensed financial statements.



## Notes to Condensed Financial Statements - Integral Vision, Inc.

The condensed financial statements in this report have been prepared by Integral Vision, Inc. without audit, pursuant to the rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America for annual financial statements. These statements should be read in conjunction with the financial statements and notes for the year ended December 31, 2007, included in our Form 10-KSB filed with the Securities and Exchange Commission on March 31, 2008.

In the opinion of management, information included in this report reflects all adjustments, consisting only of normal, recurring adjustments, necessary for fair presentation of results for these interim periods.

The results of operations for the three-month period ended March 31, 2008 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2008.

### Note A □ Nature of Business

Integral Vision, Inc. develops, manufactures, and markets flat panel display inspection systems to ensure product quality in the display manufacturing process. We primarily inspect Microdisplays and small flat panel displays, though the technology used is scalable to allow inspection of full screen displays and components. Our customers and potential customers are primarily large companies with significant investment in the manufacture of displays. Nearly all of our sales originate in the United States, Asia, or Europe. Our products are generally sold as capital goods. Depending on the application, display inspection systems have an indefinite life and are more likely to require replacement due to possible technological obsolescence than from physical wear.

In 2006, we began activity associated with a product development agreement where we are compensated for a portion of our development costs for a certain best efforts product development. We may not be able to find future opportunities like this, but remain open to such development agreements where they facilitate the Company's strategic goals.

### Note B □ Significant Accounting Policies

#### *Use of Estimates*

The preparation of condensed financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Inventories*

Inventories are stated at the lower of first-in, first-out (□FIFO□) cost or market. Cost is computed using currently adjusted standards, which approximates actual costs on a FIFO basis. We assess the recoverability of all inventories to determine whether adjustments for impairment are required. At March 31, 2008 and December 31, 2007, inventories consisted of the following amounts (net of obsolescence reserves of \$79,000 at March 31, 2008 and \$79,000 at December 31, 2007):

	<b>31-Mar-08</b>	<b>31-Dec-07</b>
	<b>(in thousands)</b>	
Raw materials	\$ 257	\$ 265
Work in process	186	-
Finished goods	-	-
	<b>\$ 443</b>	<b>\$ 265</b>

Management periodically performs an analysis of our inventory to determine if its cost exceeds estimated net realizable value.

#### *Deferred Revenue*

Deferred revenue represents amounts periodically invoiced for sales orders in excess of amounts recognized as revenues. At March 31, 2008, there was deferred revenue for product sales of \$88,990. At December 31, 2007, there was no deferred revenue.

#### *Revenue Recognition*

We recognize revenue in accordance with SOP 97-2, Software Revenue Recognition, Staff Accounting Bulletin No. 101 (SAB 101), and Staff Accounting Bulletin No. 104 (SAB 104) Revenue Recognition in Financial Statements. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable and collectibility is reasonably assured.

We account for certain product sales of our flat panel display inspection systems as multiple-element arrangements. If specific customer acceptance requirements are met, the Company recognizes revenue for a portion of the total contract price due and billable upon shipment, with the remainder recognized when it becomes due (generally upon acceptance). We recognize all other product sales with customer acceptance provisions upon final customer acceptance. We recognize revenue from the sale of spare parts upon shipment. Revenue from service contracts is recognized over the life of the contract. Revenue is reported net of sales commissions of \$275 for the three-month period ended March 31, 2008 and \$5,810 for the three-month period ended March 31, 2007.

Revenue is also derived through business agreements for product development. We conduct specified product development projects related to one of our principal technology specializations for an agreed-upon fee. Typically the agreements require a "best efforts" with no specified performance criteria. Revenue from product development agreements, where there are no specific performance terms, are recognized in amounts equal to the amounts expended on the programs. Generally, the agreed-upon fees for product development agreements contemplate reimbursing us, after its agreed-upon cost share, if any, for costs considered associated with project activities including expenses for direct product development and research, operating, general and administrative expenses and depreciation. Accordingly, expenses related to product development agreements are recorded as cost of revenues from product development agreements.

#### *Allocations of General and Administrative Costs and Engineering Costs*

We allocate a portion of general and administrative expense and a portion of engineering expense to cost of sales from product development agreements based on a percentage of direct labor costs. These allocations are limited to the amount of revenues, after direct expenses, under the applicable agreements.

The following is a summary of the allocations made for the three-month periods ended March 31, 2008 and 2007:

	Three Months	
	2008	2007
	(in thousands)	
Gross G&A Expense	\$ 332	\$ 326
Less allocation to cost of sales from product development agreements	-	\$ -
Less allocation to inventory for product development agreements	-	\$ (8)
Remaining G&A Expense	\$ 332	\$ 318

	Three Months	
	2008	2007
	(in thousands)	
Gross Engineering Expense	\$ 232	\$ 336
Less allocation to cost of sales from product development agreements	-	\$ -
Less allocation to inventory for product development agreements	-	\$ (20)
Remaining Engineering Expense	\$ 232	\$ 316

#### *Share-Based Compensation*

We account for our share based compensation plans according to the provisions of SFAS 123R. Accordingly, compensation costs attributable to stock options or similar equity instruments granted are measured at the fair value at the grant date, and expensed over the expected vesting period. SFAS 123R requires excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid.

#### *Recently Issued Accounting Standards*

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157) which defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP 157-2), "Effective Date of FASB Statement No. 157". FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities that are not remeasured at fair value on a recurring basis until fiscal years beginning after November 15, 2008. The Company is currently evaluating the potential impact of this statement on its non-financial assets and non-financial liabilities included in its consolidated financial statements. For financial assets and financial liabilities, SFAS 157 was effective for the Company on January 1, 2008 on a prospective basis. The adoption of SFAS 157 to the Company's financial assets and financial liabilities did not have a material effect on the Company's financial condition or results of operations as of January 1, 2008.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" including an amendment of FASB Statement No. 115 (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS No. 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS No. 157 and SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. There was no material impact from this statement on our financial condition and results of operations.



In December 2007, the FASB issued SFAS No. 141(Revised), "Business Combinations" (SFAS No. 141(R)), which replaces SFAS No. 141, "Business Combinations," and requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This statement also requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values. SFAS No. 141(R) makes various other amendments to authoritative literature intended to provide additional guidance or to confirm the guidance in that literature to that provided in this statement. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We expect to adopt this statement on January 1, 2009. SFAS No. 141(R)'s impact on accounting for business combinations is dependent upon acquisitions at that time.

In December 2007, FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements," which amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. SFAS No. 160 establishes accounting and reporting standards that require the ownership interests in subsidiaries not held by the parent to be clearly identified, labeled and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. This statement also requires the amount of consolidated net income attributable to the parent and to the non-controlling interest to be clearly identified and presented on the face of the consolidated statement of income. Changes in a parent's ownership interest while the parent retains its controlling financial interest must be accounted for consistently, and when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary must be initially measured at fair value. The gain or loss on the deconsolidation of the subsidiary is measured using the fair value of any non-controlling equity investment. The statement also requires entities to provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. This statement applies prospectively to all entities that prepare consolidated financial statements and applies prospectively for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We are currently evaluating the effect, if any, of this statement on our financial condition and results of operations

### **Note C - Long-Term Debt and Other Financing Arrangements**

Effective January 2, 2008, certain holders of Class 2 Notes earning 10% interest and warrants requested that all earned but unissued warrants be issued, resulting in the issuance of 568,986 warrants with a conversion price of \$1.60 per share. The value of the warrants issued was \$1,191 as valued using the Black-Scholes option pricing model. On January 18, 2008, the note holders and management amended the terms of the existing Note and Warrant Purchase Agreement to increase the aggregate amount of Notes allowable from \$3,500,000 to \$3,700,000. On March 12, 2008, the Board and Noteholders approved a 5th Amended and Restated Note and Warrant Purchase Agreement. This agreement (i) increased the total allowable secured debt to \$6,000,000; (ii) explicitly allowed for the exchange of one class of note under the agreement for another class of note under the agreement; (iii) committed us to request that shareholders authorize an increase in the number of shares of authorized Common Stock to 70,000,000; (iv) limits anti-dilution rights the Company can agree to in future capital raising transactions; (v) prohibits the Company from committing to issuing securities which exceed or potentially exceed 70,000,000 shares or the current authorized shares, whichever is greater; (vi) limits the number of shares that can be issued to existing employees while Class 2 debt is outstanding; (vii) modifies registration rights to take into account new SEC limitations on registrable shares; (viii) provides for reimbursement of certain expenses; (ix) explicitly allows notes to be purchased under separate agreements to a total of \$6,000,000 of aggregate secured debt, (x) defers interest payments on Class 2 Notes until January 1, 2009; and (xi) modifies the conditions for prepayment of Class 3 Notes.

Class 2 notes have been issued primarily to related parties. The issued Notes have a maturity date of May 31, 2008. See Note I Subsequent Events in the Notes to Condensed Financial Statements for recent activity associated with the issuance of Class 2 Notes.

The Class 2 Notes are working capital notes and are secured by accounts receivable, inventory, and intellectual property. The purchasers of Class 2 Notes receive 10% interest and the option to earn either warrants for the purchase of our common stock or additional interest at the annual rate of 2% for the period such Notes were outstanding. Class 2 Warrants entitle the holder to purchase one share of common stock for each \$1 in value of the Class 2 Note multiplied by a fraction, the numerator of which is the number of days such Class 2 Note is outstanding and the denominator of which is 365. The Board of Directors has approved a \$1.60 strike price for the warrants. The antidilution terms of the warrants earned provide for the conversion price on the warrants to be reduced to the price of new securities sold, but not lower than \$0.25, resulting in significant reduction of the amount of funds that will be realized by the Company in the event of an exercise of the warrants at current market prices. As of March 31, 2008, the note holders had earned 2,513,681 warrants of which 1,609,151 had not been issued. See Note I Subsequent Events in the Notes to Condensed Financial Statements for recent activity associated with the issuance of Class 2 Notes.

As of March 31, 2008, we had \$378,000 in outstanding Class 3 Notes payable that are convertible into our common stock at \$1.00 per share. The Notes are due May 31, 2008, and interest is paid semi-annually at 8%. The Class 3 Notes are secured by our intellectual property. The antidilution terms of the Class 3 Notes provide for their conversion price to be reduced to the price of new securities sold, but not lower than \$0.25, which could result in an increase in the number of shares that would be realized by the note holders in the event of a conversion of the notes if new capital is raised using equity at current market prices. See Note I Subsequent Events in the Notes to Condensed Financial Statements for recent activity associated with the Class 3 Notes.

In the first quarter of 2008 we sold an additional \$500,000 of Class 2 Notes, bringing the aggregate amount of outstanding Class 2 and Class 3 Notes to \$3,842,000 as of March 31, 2008.

A summary of the Company's debt obligations is as follows as of March 31:

	2008	2007
	(in thousands)	
Short Term Debt:		
Class 2 Notes	\$ 3,464	\$ 2,964
Class 3 Notes	\$ 378	\$ 378
Total Short Term Debt	\$ 3,842	\$ 3,342

**Note D □ Loss per Share**

The following table sets forth the computation of basic and diluted loss per share:

	Three Months Ended March 31,	
	2008	2007
	(unaudited)	
	(in thousands, except per share data)	
Numerator for basic and diluted loss per share □ loss available to common stockholders		
Net loss	\$ (846)	\$ (747)
*there was no effect of dilutive securities□see below		
Denominator for basic and diluted loss per share □ weighted average shares		
	29,566	29,507
*there was no effect of dilutive securities□see below		
BASIC AND DILUTED LOSS PER SHARE:		
Net loss	\$ (0.03)	\$ (0.03)

**Note E □ Income Taxes**

On January 1, 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, □Accounting for Uncertainty in Income Taxes□ (□FIN 48□), an interpretation of FASB Statement No. 109 (□SFAS 109□). There was no impact on our financial statements upon adoption. Because of our historical significant net operating losses, we have not been subject to income tax since 1995. There were no unrecognized tax benefits during all the periods presented.

We classify all interest and penalties as income tax expense. We did not have any accrued interest and penalties related to uncertain tax positions as of March 31, 2008.

We file income tax returns in the United States federal jurisdiction and various state jurisdictions. The tax years 2004 through 2007 remain open to examination by taxing jurisdictions to which we are subject. As of March 31, 2008, we did not have any tax examinations in process.

We maintain deferred tax assets that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. These deferred tax assets include net operating loss carry forwards and credit carry forwards. The net deferred tax asset has been fully offset by a valuation allowance because of our history of losses.

**Note F □ Share-Based Compensation**

On March 21, 2008, the Board approved the 2008 Integral Vision, Inc. Equity Incentive Plan (the □Plan□). The shareholders ratified the Plan at our Annual Shareholder Meeting May 14. The Plan is designed to promote the interests of the Company and its shareholders by providing a means by which the Company can grant equity-based incentives to eligible employees of the Company or any Subsidiary as well as non-employee directors, consultants, or advisors who are in a position to contribute materially to the Company□s success (□Participants□). The Plan permits the Compensation Committee of the Company□s Board of Directors to grant Incentive Stock Options, Non-Qualified Stock Options, Restricted Stock, and Shares. The maximum number of shares cumulatively available is 4,828,000 plus (i) any shares that are forfeited or remain unpurchased or undistributed upon termination or expiration of the awards from the Plan or options from the 2004 Employee Stock Option Plan and (ii) any shares exchanged as full or





partial payment for the exercise price of any award under the plan. See Note I – Subsequent Events for activity associated with this Plan since March 31, 2008.

The Compensation Committee of the Board of Directors granted 129,000 options and exchanged 942,000 options in the first quarter of 2008. We did not grant any options to employees during the first quarter of 2007. See Note I – Subsequent Events for activity associated with stock options since March 31, 2008.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model with the assumptions noted in the following table. The fair value of all awards is amortized on a straight-line basis over the requisite service periods. The expected life of all awards granted represents the period of time that they are expected to be outstanding. The expected life is determined using historical and other information available at the time of grant. Expected volatilities are based on historical volatility of our common stock, and other factors. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. We use historical data to estimate pre-vesting option forfeitures.

	March 31	
	2008	2007
	<i>(in thousands)</i>	
Expected Life (in years)	5.0	6.0
Expected volatility	83.6%	82.9%
Risk-free interest rate	2.7%	4.90%
Expected dividend yield	0%	0%
Expected forfeiture rate	0%	0%

A summary of option activity under all plans for the quarters ended March 31, 2008 and 2007 follows:

	Shares	2008 Weighted Average Exercise Price (number of shares in thousands)	Shares	2007 Weighted Average Exercise Price
Outstanding at January 1	1,496	\$ 0.71	1,309	\$ 0.95
Granted	1,071	0.24	0	0.00
Exercised	0	0.00	(20)	0.10
Expired or cancelled	(979)	0.74	0	0.00
Outstanding at March 31 (\$ .10 to \$1.71 per share)	1,588	\$ 0.31	1,289	\$ 0.97
Exercisable (\$ .10 to \$1.71 per share)	517	\$ 0.43	1,079	\$ 0.91

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A summary of the status of our non-vested shares as of March 31, 2008 and 2007, and changes during quarters ended March 31, 2008 and 2007, is presented below:

	2008		2007	
	Shares	Weighted Average Grant- Date Fair Value	Shares	Weighted Average Grant- Date Fair Value
Nonvested at January 1	650,000	\$0.47	210,000	\$0.60
Granted	1,071,000	0.24	0	0.00
Forfeited	(650,000)	0.73	0	0.00
Vested	0	0.00	0	0.00
Nonvested at March 31	1,071,000	\$0.24	210,000	\$0.60

The following table summarizes share-based compensation expense for the quarters ended March 31, 2008 and 2007 related to share-based awards under SFAS No. 123R as recorded in the statement of operations in the following expense categories:

	March 31	
	2008	2007
	(in thousands)	
Marketing	\$ 10	\$ 5
Engineering and Development	20	13
General and Administrative	10	6
Total share-based compensation expense	\$ 40	\$ 24

On January 22, 2008, the Compensation Committee of the Board of Directors approved the issuance of 129,000 options at \$0.13 per share to certain officers of the Company. The issuance resulted in an expense of \$11,278, which will be recognized ratably as compensation expense over the one-year vesting period.

On February 15, 2008, the Compensation Committee of the Board of Directors approved a plan to offer key employees the opportunity to surrender certain 2004 plan options in exchange for replacement 2004 plan options effective February 15, 2008. The replacement options [cliff vest] 50% after 1 year and the balance after 2 years. The program received 100% participation. 942,000 options with an average exercise price of \$0.75 were surrendered and 942,000 options with an exercise price of \$0.26 were issued as replacements. The exchange resulted in an additional expense of \$53,513 which will be recognized ratably as compensation expense over the remaining vesting period from February 15, 2008 to February 15, 2010 along with the remaining \$85,438 of unamortized compensation expense for the unvested portion of the options exchanged.

As of March 31, 2008, we had \$135,192 of unrecognized expense related to un-vested share-based compensation, which will be recognized ratably as compensation expense over the remaining vesting period from April 2008 through February 2010.

Additional information regarding the range of exercise prices and weighted average remaining life of options outstanding at March 31, 2008 and 2007 follows:

Range of Exercise Prices	Number Outstanding (number of shares in thousands)	2008 Weighted Average Remaining Life	Number Exercisable	Number Outstanding (number of shares in thousands)	2007 Weighted Average Remaining Life	Number Exercisable
\$ .10 to \$.60	1,430	8.5	359	685	6.4	
\$1.03 to \$1.71	158	1.6	158	604	5.7	
\$ .10 to \$1.71	1,588	7.8	517	1,289	6.1	

A summary of the outstanding warrants, options, and shares available upon the conversion of debt at March 31, 2008 and 2007 is as follows:

		2008				2007		
		Weighted Average Exercise Price	Number Outstanding (number of shares in thousands)	Weighted Average Remaining Life		Weighted Average Exercise Price	Number Outstanding (number of shares in thousands)	Weighted Average Remaining Life
Warrants	\$	1.60	3,500	2.03		\$	1.60	3,500
Class 2 Notes	\$	1.44	1,226	2.83		\$	1.00	321
Class 3 Notes	\$	1.00	378	0.08		\$	1.00	378
1995 Employee Stock Option Plan	\$	0.54	312	2.83		\$	0.99	360
1999 Employee Stock Option Plan	\$	0.24	283	5.80		\$	0.27	335
2004 Employee Stock Option Plan	\$	0.25	993	9.88	-	\$	1.34	594
	\$	1.23	6,692	3.43	5,621	\$	1.37	5,488

## Note G – Contingencies and Litigation

### Product Warranties

We provide standard warranty coverage for most of our products, generally for one year from the date of customer acceptance. We record a liability for estimated warranty claims based on historical claims and other factors. We review these estimates on a regular basis and adjust the warranty reserves as actual experience differs from historical estimates or other information becomes available. This warranty liability primarily includes the anticipated cost of materials, labor and travel, and shipping necessary to repair and service the equipment.

The following table illustrates the changes in our warranty liability for the years ended March 31, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
	<b>(in thousands)</b>	
Balance as of January 1	\$ 87	\$ 49
Charges/(credits) to expense	-	16
Utilization/payment	(8)	(1)
Balance as of March 31	\$ 79	\$ 64

#### **Note H □ Going Concern Matters**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, we incurred losses in the first quarters of 2008 and 2007 of \$846,000 and \$747,000 respectively. Additionally, we incurred losses from operations in the years of 2007 and 2006 of \$3.0 million each year. The continuing losses raise substantial doubt about our ability to continue operating as a going concern.

We are currently working with a number of large customers who are using our technologies to evaluate their microdisplay production or are evaluating our technology for the inspection of LCD displays and components. We expect that additional sales orders will be placed by these customers throughout 2008 and into 2009 provided that markets for these products continue to grow and the customers continue to have interest in our technology-assisted inspection systems. Ultimately, our ability to continue as a going concern will be dependent on these large companies getting their emerging display technology products into high volume production and placing sales orders with us for inspection products to support that production. However, there can be no assurance that we will be successful in securing sales orders sufficient to continue operating as a going concern.

From November 2006 through May 14, 2008, we have used \$3,664,000 of Class 2 Notes to fund operations. All of these Notes mature May 31, 2008. We need to raise additional funds in the second quarter of 2008 in order to sustain operations beyond that time frame. We expect that we will need to raise a minimum of \$1.6 million to fund operations through the second quarter of 2009. We are in ongoing discussions with the existing Class 2 Note holders and expect the debt will be restructured and the maturity date will be extended as part of our plan to raise additional capital in the second quarter of 2008 to fund operations through at least the second quarter of 2009 and provide working capital for anticipated orders, however there can be no assurance that will happen. Additionally, terms of the 2005 Securities Purchase Agreement provide antidilution protection for the 3,500,000 warrants outstanding and grant a right to holders of the 6,200,000 outstanding shares of stock purchased at \$1.00 per share under the agreement to swap the stock they purchased for new securities being offered in the future by the Company if the terms of the new securities are more favorable to the holders than the terms of the 2005 Securities Purchase Agreement. The antidilution protection on the warrants sets the conversion price of the warrant at the price of the new securities being issued and increases the total number of shares available under the warrant such that the total value of the warrant is kept constant. These terms would result in significant dilution if securities were sold at current market prices. Though there can be no assurance they will be successful, management expects to negotiate these terms as part of its plan to raise additional capital in the second and third quarters of 2008.

For further information regarding our obligations, see Note C – Long Term Debt and Other Financing Arrangements and Note I – Subsequent Events in the Notes to Condensed Financial Statements.

The financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

#### **Note I – Subsequent Events**

On April 3, 2008, the Compensation Committee of the Board of Directors approved a plan to offer key employees the opportunity to surrender 128,000 options in exchange for replacement options effective April 3, 2008. The replacement options – cliff vest – 50% after 1 year and the balance after 2 years. The program received 100% participation. The exchange resulted in an expense of \$13,193 which will be recognized ratably as compensation expense over the vesting period from April 3, 2008 to April 3, 2010.

In April, we sold an additional \$200,000 of Class 2 Notes, bringing the aggregate amount of outstanding Class 2 and Class 3 Notes to \$4,042,000.

The maturity dates of the outstanding Class 2 Notes were extended on various dates so that all are presently due on May 31, 2008. \$5,000 of the \$378,000 of Class 3 Notes outstanding as of March 31, 2008 was not extended and was paid on its maturity date of April 30, 2008. The maturity dates of the remaining \$373,000 of outstanding Class 3 Notes were extended on various dates such that all are presently due May 31, 2008.

On May 1, 2008, the Compensation Committee of the Board of Directors granted options on 97,000 shares to certain key employees. The options vest in 1 year and resulted in an expense of \$15,037 which will be recognized ratably as compensation expense over the vesting period from May 1, 2008 to May 1, 2009.

On May 14, 2008, the shareholders increased the authorized outstanding shares from 50,000,000 to 70,000,000.

On May 14, 2008 the shareholders approved the 2008 Integral Vision, Inc. Equity Compensation Plan (the “Plan”). The Plan is designed to promote the interests of the Company and its shareholders by providing a means by which the Company can grant equity-based incentives to eligible employees of the Company or any Subsidiary as well as non-employee directors, consultants, or advisors who are in a position to contribute materially to the Company’s success (“Participants”). The Plan permits the Compensation Committee of the Company’s Board of Directors to grant Incentive Stock Options, Non-Qualified Stock Options, Restricted Stock, and Shares. The maximum number of shares cumulatively available is 4,828,000 plus (i) any shares that are forfeited or remain unpurchased or undistributed upon termination or expiration of the awards from the Plan or options from the 2004 Employee Stock Option Plan and (ii) any shares exchanged as full or partial payment for the exercise price of any award under the plan.

#### **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations Forward - Looking Statements**

*This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, risks and uncertainties. Generally, the words “anticipate”, “expect”, “intend”, “believe” and similar expressions identify forward-looking statements. The information included in this Form 10-Q is as of the filing date with the Securities and Exchange*

*Commission and future events or circumstances could differ significantly from the forward-looking statements included herein. Accordingly, we caution readers not to place undue reliance on such statements.*

## Overview

Integral Vision, Inc., a Michigan corporation (or the "Company"), was incorporated in 1978. We develop, manufacture and market flat panel display inspection systems to ensure product quality in the display manufacturing process. We primarily inspect microdisplays and small flat panel displays, though the technology used is scalable to allow inspection of full screen displays and components. Our products primarily use machine vision to evaluate operating displays for cosmetic and functional defects, but can also provide electrical testing if required for a given application. Our customers and potential customers are primarily large companies with significant investment in the manufacture of displays. Nearly all of our sales originate in the United States, Asia, or Europe. Our products are generally sold as capital goods. Depending on the application, display inspection systems have an indefinite life and are more likely to require replacement due to possible technological obsolescence than from physical wear.

Automated inspection has become a necessity for manufacturers who need to continually improve production efficiency to meet the increasing demand for high quality products. Our automatic inspection systems can inspect parts at a lower cycle time and with greater repeatability than is possible with human inspectors. While we have several large companies as customers, these customers are working with new microdisplay technologies. Our success will be substantially dependant on these customers getting their emerging display technologies into high volume production.

## Products

**SharpEye** Our SharpEye product provides Flat Panel Display (FPD) inspection for reflective, emissive and transmissive display technologies. SharpEye is designed for the detection of functional and cosmetic defects in LCOS, OLED, MEMS, 3LCD/HTPS, LCD and other emerging display technologies. These technologies are applied to consumer products such as camcorders, rear projection computer monitors, digital still cameras, HDTV, projectors, video headsets and video telephones. The core technology of SharpEye inspection algorithms is the ability to quantize data to the level of a single display pixel. SharpEye can be configured for production inspection or for display evaluation in a laboratory based on the equipment configuration selected.

**LumenEye** Our LumenEye product provides an "out of the box" solution designed for a low skill level user to setup and acquire images from an FPD panel. It is targeted at manufacturers of FPD products who need to inspect for inherent Image Retention (Image Sticking) defects in their displays prior to shipment. The software provided with LumenEye will perform an evaluation of the panel based on the acquired images to VESA 305-2 specification. Integral Vision can also provide the customer unique Image Retention analysis as part of its software offering. Custom panel evaluation software is also available to meet the FPD manufacturer customer test pattern requirements.

**IVSee** Our IVSee provides FPD inspection for applications which still require manual handling. IVSee is designed for the detection of functional and cosmetic defects in LCOS, OLED, MEMS, 3LCD/HTPS, LCD and other emerging display technologies. IVSee is configured to be integrated into existing manual inspection stations allowing them to receive the benefits of computer aided optical inspection without the need to modify the manufacturing process to automate handling of the display. The operator's interface provides essential views of results, images, and statistics for production floor personnel.

## Results of Operations

### Three Months Ended March 31, 2008 Compared with Three Months Ended March 31, 2007

Net revenues decreased \$307,000 (97.2%) to \$9,000 in the first quarter of 2008 from \$316,000 in the first quarter of 2007. The decrease in net revenue was primarily attributable to a decrease of \$306,000 in revenue from sales of our flat panel display inspection products in the first quarter of 2008.

In the three months ended March 31, 2008, we shipped approximately \$89,000 of flat panel display inspection products which was not recognized in the period's revenue because final acceptance had not been received from the customer.

Costs of sales decreased \$214,000 (82%) to \$47,000 (522% of sales) in the first quarter of 2008 compared to \$261,000 (82.6% of sales) in the first quarter of 2007. This was primarily due to a decrease in material costs of \$194,000 as a result of the lower sales of flat panel display inspection products in the 2008 period.

Marketing costs remained essentially constant at \$148,000 in the first quarter of 2008 compared to \$149,000 in the first quarter of 2007.

General and administrative costs increased \$14,000 (4.4%) to \$332,000 in the first quarter of 2008 compared to \$318,000 in the first quarter of 2007. We were not required to allocate any general and administrative costs to inventory or cost of goods sold for product development agreements in the first quarter of 2008. We did allocate \$8,000 of general and administrative costs to inventory for product development agreements for the first quarter of 2007. (For more information on the allocation of certain general and administrative costs to cost of goods sold, see Note B to the condensed financial statements.) Without this allocation, general and administrative costs would have been \$326,000 for 2007. Expense allocated to G&A for amortization of share based compensation as required for SFAS 123R for 2008 was approximately \$10,000 for the first quarter of 2008 and \$6,000 for the first quarter of 2007.

Engineering and development expenditures decreased \$84,000 (26.6%) to \$232,000 in the first quarter of 2008 compared to \$316,000 in the first quarter of 2007. In the first quarter of 2007, \$20,000 of engineering cost was allocated to inventory for product development agreements. We were not required to allocate any engineering and development costs for the first quarter of 2008. (For more information on the allocation of certain engineering costs to cost of goods sold, see Note B to the financial statements.) Without this allocation, gross engineering costs would have decreased by \$104,000 (32.9%) over the first quarter of 2007. This decrease is primarily attributable to a reduction in staffing and related costs and outside services.

Other income for the three months ended March 31, 2008 decreased by \$7,000 compared to the three months ended March 31, 2007 primarily as result of changes in the gains and loss on currency conversions.

Interest expense increased \$70,000 to \$94,000 in the first quarter of 2008 compared to \$24,000 in the first quarter of 2007. The increase is primarily attributable to the issuance of Class 2 Notes through the first quarter of 2008.

## Liquidity and Capital Resources

Operating activities for the first quarter of 2008 used cash of approximately \$252,000 primarily due to our loss from operations of \$846,000 and increase in inventory of 178,000 which was offset by an increase in accounts payable and other current liabilities of \$654,000 and an increase in deferred revenue of \$89,000. Our investing activities included \$2,000 for legal and patent office fees.

Our financing activities included net proceeds of \$500,000 from the issuance of Class 2 Notes and accrual of \$26,000 for legal fees associated with our debt.

We paid \$15,000 of interest in the first quarter of 2008 on Class 3 Notes.

Management has made arrangements to issue up to \$5,622,000 of Class 2 Notes under the terms of the Company's existing Note and Warrant Purchase Agreement as amended. The Class 2 Notes are working capital notes and are secured by accounts receivable, inventory, and intellectual property. The purchasers of Class 2 Notes receive 10% interest and the option to receive either warrants for the purchase of the Company's stock or an additional 2% interest. Class 2 Warrants entitle the holder to purchase one share of Common Stock for each \$1 in value of the Class 2 Note multiplied by a fraction, the numerator of which is the number of days such Class 2 note is outstanding and the denominator of which is 365. The Board of Directors has approved a \$1.60 strike price for the warrants. The Notes will mature May 31, 2008. As of March 31, 2008, the Company had issued \$3,64,000 of Class 2 Notes, primarily purchased by related parties. Management anticipates issuing the balance of these notes during the first quarter of 2008. As of March 31, 2008, the note holders have earned 2,513,681 warrants, 904,530 of which are issued. The Company's present cash position requires us to secure additional funding for the immediate future as well as funding to provide working capital for anticipated orders. See Note I Subsequent Events for recent activity associated with Class 2 Notes. Management expects to refinance these notes as part of our plan to raise additional capital in the second or third quarter of 2008 to fund operations through at least the second quarter of 2009 and provide working capital for anticipated orders.

Terms of the 2005 Securities Purchase Agreement provide antidilution protection for the 3,500,000 warrants outstanding and grant a right to holders of the 6,200,000 outstanding shares of stock purchased at \$1.00 per share under the agreement to swap the stock they purchased for new securities being offered in the future by the Company if the terms of the new securities are more favorable to the holders than the terms of the 2005 Securities Purchase Agreement. The antidilution protection on the warrants sets the conversion price of the warrant at the price of the new securities being issued and increases the total number of shares available under the warrant such that the total value of the warrant is kept constant. These terms would result in significant dilution if securities were sold at current market prices. Though there can be no assurance they will be successful, management expects to negotiate these terms as part of our plan to raise additional capital in the second quarter of 2008. Further, the terms of the 5th Amended Note and Warrant Purchase Agreement provides for the conversion price on outstanding warrants to be reduced to the price of new securities offered, but not lower than \$0.25, resulting in a significant reduction of the amount of funds that will be realized by the Company in the event of an exercise of the warrants at current market prices. See Note I Subsequent Events for additional information regarding potential dilution.

For further discussion regarding our obligations, see Note C Long Term Debt and Other Financing Arrangements and Note I Subsequent Events.

## Management's Discussion of Critical Accounting Policies

Our condensed financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of



contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The accounting policies discussed below are considered by management to be the most important to an understanding of our financial statements, because their application places the most significant demands on management's judgment and estimates about the effect of matters that are inherently uncertain. Our assumptions and estimates were based on the facts and circumstances known at March 31, 2008; future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. These policies are also described in Note B of the Condensed Financial Statements included in this Form 10-Q.

#### *Revenue Recognition*

We recognize revenue in accordance with SOP 97-2, Software Revenue Recognition and Staff Accounting Bulletin No. 101 (SAB 101), Revenue Recognition in Financial Statements. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable and collectability is reasonably assured.

We account for certain product sales of its flat panel display inspection systems as multiple-element arrangements. If specific customer acceptance requirements are met, we recognize revenue for a portion of the total contract price due and billable upon shipment, with the remainder recognized when it becomes due (generally upon acceptance). We recognize all other product sales with customer acceptance provisions upon final customer acceptance. We recognize revenue from the sale of spare parts upon shipment. Revenue from service contracts is recognized over the life of the contract. Revenue is reported net of sales commissions.

Revenue is also derived through business agreements for product development. We conduct specified product development projects related to one of its principal technology specializations for an agreed-upon fee. Typically the agreements require a "best efforts" with no specified performance criteria. Revenue from product development agreements, where there are no specific performance terms, are recognized in amounts equal to the amounts expended on the programs. Generally, the agreed-upon fees for product development agreements contemplate reimbursing us, after its agreed-upon cost share, if any, for costs considered associated with project activities including expenses for direct product development and research, operating, general and administrative expenses and depreciation. Accordingly, expenses related to product development agreements are recorded as cost of revenues from product development agreements.

#### *Inventories*

Inventories are stated at the lower of standard cost, which approximates actual cost determined on a first-in, first-out basis, or market. Inventories are recorded net of allowances for unsalable or obsolete raw materials, work-in-process and finished goods. We evaluate on a quarterly basis the status of our inventory to ensure the amount recorded in our financial statements reflects the lower of our cost or the value we expect to receive when we sell the inventory. This estimate is based on several factors, including the condition and salability of our inventory and the forecasted demand for the particular products incorporating these components. Based on current backlog and expected orders, we forecast the upcoming usage of current stock. We record reserves for obsolete and slow-moving parts ranging from 0% for active parts with sufficient forecasted demand up to 100% for excess parts with insufficient demand or obsolete parts. Amounts in work-in-process and finished goods inventory typically relate to firm orders and, therefore, are not subject to obsolescence risk.

#### *Impairment of Long-lived Assets*

We review our long-lived assets, including property, equipment and intangibles, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when estimated undiscounted future cash

flows expected to result from the use of the asset and its eventual disposition are less than the carrying amount of the asset.

#### *Share Based Compensation*

We account for our share based compensation plans according to the provisions of SFAS 123-R. Accordingly, compensation costs attributable to stock options or similar equity instruments granted are measured at the fair value at the grant date and expensed over the expected vesting period.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. The fair value of all awards is amortized on a straight-line basis over the requisite service periods. The expected life of all awards granted represents the period of time that they are expected to be outstanding. The expected life is determined using historical and other information available at the time of grant. Expected volatilities are based on historical volatility of our common stock, and other factors. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. We use historical data to estimate pre-vesting option forfeitures.

#### *Contingencies and Litigation*

We make an assessment of the probability of an adverse judgment resulting from current and threatened litigation. We accrue the cost of an adverse judgment if, in management's estimation, an adverse settlement is probable and management can reasonably estimate the ultimate cost of such litigation. We have made no such accruals as of March 31, 2008.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

This Item 3 is not applicable to the Company as Item 305 of Regulation S-K was not applicable to the Company for the Company's prior fiscal year.

### **Item 4. Controls and Procedures**

The Company's chief executive officer and chief financial officer have each reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on that evaluation, the chief executive officer and chief financial officer have each concluded that the Company's current disclosure controls and procedures are effective to ensure that information required to be disclosed in its periodic reports filed under the Exchange Act is recorded, processed, summarized, and reported, in each case, within the time period specified by the SEC's rules and regulations. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

### **Changes in Internal Controls Over Financial Reporting**

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's first quarter of the fiscal year that materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description of Document</u>
3.1	Articles of Incorporation, as amended (filed as Exhibit 3.1 to the registrant's Form 10-K for the year ended December 31, 1995, SEC file 0-12728, and incorporated herein by reference).
3.2	Bylaws of the Registrant, as amended (filed as Exhibit 3.2 to the registrant's Form 10-K for the year ended December 31, 1994, SEC file 0-12728, and incorporated herein by reference).
3.3	Certificate of Designation effective April 11, 2005 and amendment to the By-Laws of the Registrant effective March 23, 2005 (filed as Exhibit 4(b) to the registrant's foirm 8-K dated April 14, 2005, SEC file 0-12728, and incorporated herein by reference).
3.4	Certificate of Amendment of Restated Articles of Incorporation, filed with the Secretary of State of the State of Michigan on May 27, 2005 (filed as Exhibit 3.4 to the registrant's Registration Statement on Form SB-2 filed on June 9, 2005, SEC File No. 333-125669, and incorporated herein by reference).
3.5	Certificate of Amendment of Restated Articles of Incorporation, filed with the Secretary of State of the State of Michigan on April 19, 2007 (file as Exhibit 3.5 to the registrant's Registration Statement on Form S-1 filed on April 18, 2008, SEC file No. 333-125669, and incorporated herein by reference).
4.1	Form of Fourth Amended Note and Warrant Purchase Agreement including Form of Integral Vision, Inc. Class 3 Note (filed as Exhibit 4.8 to registrant's Form 10-K for the year ended December 31, 2003, SEC file 0-12728, and incorporated herein by reference).
4.2	Securities Purchase Agreement, Effective April 12, 2005 (filed as Exhibit 4.(A) to registrant's Form 8-K filed April 14, 2005, SEC file 0-12728, and incorporated herein by reference).
4.3	Form of Consent to Modifications dated November 14, 2006 modifying the terms of the Fourth Amended Note and Warrant Purchase Agreement including Form of Integral Vision, Inc. Class 2 Warrant (filed as Exhibit 4.9 to registrant's Form 10-Q for the quarter ended September 30, 2006, SEC file 0-12728, and incorporated herein by reference).
4.4	Form of Consent to Modifications dated August 13, 2007 modifying the terms of the Fourth Amended Note and Warrant Purchase Agreement (filed as Exhibit 4.4 to registrant's Form 10-QSB for the quarter ended June 30, 2007, SEC file 0-12728, and incorporated herein by reference).
4.5	Form of Consent to Modifications dated October 10, 2007 modifying the terms of the Fourth Amended Note and Warrant Purchase Agreement (filed as Exhibit 4.7 to registrant's Form 10-QSB for the quarter ended September 30, 2007, SEC file 0-12728, and incorporated herein by reference).
10.1	Integral Vision, Inc. Employee Stock Option Plan (filed as Exhibit 10.5 to the registrant's Form 10-Q for the quarter ended September 30, 1995, SEC file 0-12728, and incorporated herein by reference).
10.2	Form of Confidentiality and Non-Compete Agreement Between the Registrant and its Employees (filed as Exhibit 10.4 to the registrant's Form 10-K for the year ended December 31, 1992, SEC File 0-12728, and incorporated herein by reference).

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- 10.3 Integral Vision, Inc. 1999 Employee Stock Option Plan (filed as exhibit 10.5 to the registrant's Form 10-Q for the quarter ended June 30, 1999 and incorporated herein by reference).
- 10.4 Integral Vision, Inc. 2004 Employee Stock Option Plan (filed as exhibit 10.11 to the registrant's Form 10-Q for the quarter ended June 30, 2004 and incorporated herein by reference).
- 10.5 Integral Vision, Inc. 2008 Equity Incentive Plan (filed as exhibit 10.5 to the registrant's Form 10-KSB for the year ended December 31, 2008 and incorporated herein by reference).
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEGRAL VISION, INC.

Dated: May 15, 2008

By: /s/ Charles J. Drake  
Charles J. Drake  
Chairman of the Board and  
Chief Executive Officer

Dated: May 15, 2008

By: /s/ Mark R. Doede  
Mark R. Doede  
President, Chief Operating Officer  
and Chief Financial Officer