INTEGRAL VISION INC
Form 10-Q
November 15, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the Quarterly period ended September 30, 2002.

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from _____________ to _____________.

Commission File Number 0-12728

INTEGRAL VISION, INC.
(Exact name of registrant as specified in its charter)

Michigan (State or other jurisdiction of incorporation or organization)	38-2191935 (I.R.S. Employee Identification Number)
38700 Grand River Avenue, Farmington Hills, Michigan (Address of principal executive offices)	48335 (Zip Code)

Registrant's telephone number, including area code: (248) 471-2660

Former name, former address and former fiscal year, if changed since last report:
Not Applicable

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 the filing requirements for the past 90 days.

YES X NO

The number of shares outstanding of the registrant's Common Stock, no par value, stated value $.20 per share, as of October 31, 2002 was 9,429,901.

PART I

FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS
INTEGRAL VISION, INC. AND SUBSIDIARY

	September 3 2002 (Unaudited
ASSETS	
CURRENT ASSETS	
Cash	$ 25
Accounts receivable, less allowance of $240,000 ($179,000 in 2001)	420
Inventories	242
Prepaid rent - Note J	--
Note receivable - Note M	83
Other current assets	48
TOTAL CURRENT ASSETS	818
PROPERTY, PLANT AND EQUIPMENT	
Production and engineering equipment	661
Furniture and fixtures	458
Vehicles	47
Computer equipment	1,169
	2,335
Less accumulated depreciation	(2,302)
	33
OTHER ASSETS	
Capitalized computer software development costs, less accumulated amortization of $8,038,000 ($7,837,000 in 2001)	565
Patents, less accumulated amortization of $366,000 ($485,000 in 2001)	106
	671
	$ 1,522

See notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS -- CONTINUED
INTEGRAL VISION, INC. AND SUBSIDIARY

	September 2002 (Unaudited
	(
LIABILITIES AND STOCKHOLDERS' EQUITY(DEFICIT)	
CURRENT LIABILITIES	
Notes payable - Notes F & M	$ 941
Accounts payable	833
Accrued compensation and related costs - Note M	329
Accrued state income taxes - Note B	202
Accrued interest - Notes F & M	126
Other accrued liabilities	63
Customer deposits	96
Current maturities of long term debt - Note F	357
TOTAL CURRENT LIABILITIES	2,947
LONG-TERM DEBT, less current maturities and O.I.D. - Note F	596
STOCKHOLDERS' EQUITY(DEFICIT)	
Common stock, without par value, stated value $.20 per share; 20,000,000 shares authorized; 9,429,901 shares issued and outstanding	1,886
Additional paid-in capital	31,362
Retained earnings deficit	(35,200)
Notes receivable from officers - Note M	(69)
Accumulated translation adjustment - Note P	--
Total Stockholders' Equity(Deficit)	(2,021)
	$ 1,522

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
INTEGRAL VISION, INC. AND SUBSIDIARY

	Three
	2002
	(In thousa
Net revenues	$ 55
Costs of sales:	
Direct costs of sales - Note L	28
Depreciation and amortization - Notes J, K & L	15
Total costs of sales	44
Gross margin	11
Other costs and expenses:	
Marketing	14
General and administrative - Note M	20
Engineering and development:	
Expenditures	21
Allocated to capitalized software and direct cost of sales	--
Net engineering and development expenses	21
Total costs and expenses	56
Operating loss	(44
Gain on sales of assets - Notes J & K	11
Interest income and other - Notes B & M	3
Interest expense - Notes F & J	(5
Foreign currency translation gain (loss) - Note P	
Loss from operations before income taxes	(35
Provision (credit) for income taxes	--
Net loss	$ (35
Basic and diluted earnings (loss) per share	$ (0.0
Weighted average number of shares of common stock and common stock equivalents, where applicable	9,43

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS
INTEGRAL VISION, INC. AND SUBSIDIARY

	Nine Months 2002
	(Una
	(In thousands, e
Net revenues	$ 1,382
Costs of sales:	
Direct costs of sales - Note L	756
Depreciation and amortization - Notes J, K & L	339
Total costs of sales	1,095
Gross margin	287
Other costs and expenses:	
Marketing	487
General and administrative - Note M	911
Engineering and development:	
Expenditures	612
Allocated to capitalized software and direct cost of sales	-
Net engineering and development expenses	612
Total costs and expenses	2,010
Operating loss	(1,723)
Gain on sales of assets - Notes J & K	129
Interest income and other - Notes B & M	37
Interest expense - Notes F & J	(172)
Foreign currency translation loss - Note P	(199)
Loss from operations before income taxes	(1,928)
Provision (credit) for income taxes - Note N	(90)
Loss from operations	(1,838)
Loss on sale of note receivable - Note B	-
Net loss	$(1,838)
Basic and diluted earnings (loss) per share:	
Loss from operations	$ (0.19)
Loss on sale of note receivable - Note B	-
Net loss	$ (0.19)
Weighted average number of shares of common stock and common stock equivalents, where applicable	9,430

See notes to consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
INTEGRAL VISION, INC. AND SUBSIDIARY

	Nine Months En
	2002
	(Unaudited
OPERATING ACTIVITIES	
Net loss	$(1,838)
Loss on sale of note receivable	--
Loss from operations	(1,838)
Adjustments to reconcile loss from operations to net cash used in operating activities:	
Depreciation	122
Amortization	340
Gain on sales of assets	(129)
Deemed compensation	
Changes in operating assets and liabilities:	
Accounts receivable	(88)
Inventories	(34)
Prepaid and other	212
Accounts payable and other current liabilities	(147)
NET CASH USED IN OPERATING ACTIVITIES	(1,562)
INVESTING ACTIVITIES	
Payments received on note receivable	--
Proceeds from the sale of a portion of note receivable	--
Repurchase of portion of note receivable	--
Sale (Purchase) of property and equipment	40
Investment in capitalized software	--
Proceeds from sale of packaging technology	--
Proceeds from sale of disc technology	100
Other	(7)
NET CASH PROVIDED BY INVESTING ACTIVITIES	133
FINANCING ACTIVITIES	
Repayments of mortgage note payable	--
Repayments on revolving line of credit	--
Proceeds from sale of Class 2 Notes, net of repayments	528
Proceeds from sale of debentures, net of discount	493
Proceeds from sale of warrants	97
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,118
EFFECT OF EXCHANGE RATE CHANGES	211
DECREASE IN CASH	(100)
CASH AT BEGINNING OF PERIOD	125
CASH AT END OF PERIOD	$ 25

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See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
INTEGRAL VISION, INC. AND SUBSIDIARY
SEPTEMBER 30, 2002
(Unaudited)

Note A -- Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. For further information, refer to the consolidated financial statements and notes thereto included in Integral Vision's Annual Report on Form 10-K for the year ended December 31, 2001.

Note B -- Sale of Welding Controls Division

On June 30, 1999, the Company completed an agreement to sell substantially all the assets of its Welding Controls division for $25.7 million, net of costs of the sale, for cash, the assumption of certain liabilities, and a subordinated note (WTC note). The interest bearing portion of the note, approximately $1.9 million, carried an interest rate approximating prime plus 1% and required quarterly payments beginning on February 15, 2000, with a February 15, 2001 maturity date. The non-interest bearing portion of the note, $1.5 million, was discounted using an imputed interest rate of 9% and matured on February 15, 2001.

In January 2001, the Company sold 19.9% of the $1.7 million then outstanding under the note agreement to third party investors in exchange for consideration of $300,000. In May 2001, the Company completed a transaction whereby it repurchased the portion of the note previously sold to the investors and then sold the entire note receivable, which had an outstanding balance of $1.1 million at April 30, 2001, to a third party for $750,000. The Company recognized a loss on sale of the note receivable of $441,000 in the quarter ended March 31, 2001.

The Company incurred both Federal and State income tax liabilities as a result of the sale of the assets of it Welding Controls division. The Company paid approximately $90,000 for its 1999 alternative minimum tax liability, which resulted primarily from the gain on the sale of the Welding Controls Division. This amount was refunded to the Company in 2002 (see Note N to consolidated financial statements). Additionally, the Company incurred a Michigan Single Business Tax (SBT) liability of approximately $120,000 for the 1999 tax year as a result of the transaction. At September 30, 2002, this liability was not yet paid and was included in accrued state income taxes in the consolidated balance sheet. Approximately $82,000 for interest and penalties on this obligation have also been accrued and included in accrued state income taxes in the consolidated balance sheet.

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Note C -- Comprehensive Income

The components of comprehensive income(loss) for the three and nine-month periods ended September 30, 2002 and 2001 are as follows (see Note P to consolidated financial statements):

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Se 2002
	(unaudited, in thousands)		
Net loss	$ (353)	$ (2,507)	$ (1,838)
Translation adjustments	-	17	211
	$ (353)	$ (2,490)	$ (1,627)

The components of accumulated comprehensive income(loss) at September 30, 2002 and December 31, 2001 are as follows:

	September 30, 2002 (unaudited)	December 31, 2001
	(in thousands)	
Accumulated translation adjustments	$ -	$ (211)

Note D -- Inventories

Inventories are stated at the lower of first-in, first-out cost or market, and the major classes of inventories at the dates indicated were as follows:

	September 30, 2002 (Unaudited)	December 31, 2001
	(in thousands)	
Raw materials	$ 1	$ 43
Work-in-process	228	81
Finished goods	13	84
	$ 242	$ $ 208

Note E -- Costs and Estimated Earnings in Excess of Billings on Incomplete Contracts

Contracts whose duration overlap an accounting quarter reporting period, are non-repetitive and exceed $100,000 are accounted for under the percentage-of-completion accounting method.

The Company had no long-term contracts at September 30, 2002 or at December 31, 2001.

Note F -- Long-Term Debt and Other Financing Arrangements

In March 2001, the Company's board of directors approved the issuance of up to $1.5 million of senior debentures (increased to $2.0 million in May 2002). At June 30, 2001, $120,000 of the debentures had been placed of which $24,000 was deemed a discount on the note based on a $.10 per share value assigned to the warrants received by the purchaser. The debentures had maturities of up to four years and an interest rate of 15%. The holders of the debentures received warrants for the purchase of two Integral Vision shares for each $1 in principal value of the debentures purchased. The warrants have a conversion rate of $.50 per share. In July 2001, the Company's board of directors and the holder of the previously outstanding debentures approved an amendment to the terms of its debentures. As a result of the amendment, the debentures, including the $120,000 placed prior to the amendment, have an interest rate of 10% and continue to have maturities of up to four years. Additionally, the directors will determine the conversion rate at the date of issuance, subject to change in the event additional shares are issued in the future. In the nine months ended September 30, 2002, an additional $590,000 of the debentures were placed, $350,000 of which were purchased by the Company's chairman Charles J Drake. Additionally, $40,000 of these debentures were purchased by Max A. Coon, the Company's vice chairman and secretary, pursuant to an agreement between Mr. Coon and the Company on March 5, 2002. When given proper notice that the Company required cash to meet its obligations, the agreement obligated Mr. Coon to provide cash to the Company in exchange for debentures and warrants, the terms of which were established on the date of the agreement. As part of the purchase, Mr. Coon received warrants for the purchase of 120,000 shares of Integral Vision common stock at a conversion price of $0.35 per share. At September 30, 2002, a total of $1,100,000 of the debentures had been placed. The purchasers of these debentures received warrants for the purchase of 240,000 shares of the Company's common stock at a conversion price of $.50 per share, 2,790,000 shares at a conversion price of $.35 per share and 50,000 shares at a conversion price of $.80 per share. At September 30, 2002, there was approximately $145,000 in principal and interest due to the debenture holders under the terms of the agreement. Although these payments are past due, the debenture holders have not given the Company a written notice of default and, subsequent to September 30, 2002, four of the prior note purchasers invested in an additional $200,000 in Class 2 Notes. The Company is negotiating with the debenture holders to extend the payment dates of the Notes and expects to reach an agreement before the end of the year.

Effective May 1, 2002, the Note and Warrant Purchase Agreement was amended to provide for "Class 2 Notes" and "Class 2 Warrants" which are subordinated to the prior purchasers. Class 2 Notes are working capital notes which are secured by accounts receivable of the Company. The number of Class 2 Warrants to be obtained is based on the length of time the related Class 2 Note is outstanding. In the nine months ended September 30, 2002, $550,000 of the Class 2 Notes were purchased by the prior note purchasers. The outstanding principal balance on the Class 2 Notes was $528,000 at September 30, 2002. Subsequent to September 30, 2002, $200,000 of additional Class 2 Notes were purchased by the prior note purchasers.

In May 2002, the Company's board of directors approved an increase to the amount of debentures that can be issued under the 2001 debenture plan from $1.5 million to $2.0 million. The increase gives the Company added flexibility in its efforts to meet its working capital needs.

At September 30, 2002, the Company had short-term notes payable to related parties of approximately $413,000. The Company's notes to related parties included the following: a $139,000 obligation to Maxco, Inc. (a 25% owner of the Company); a $158,000 obligation to Warren, Cameron, Faust & Asciutto, P.C. (the Company's corporate counsel); a $79,000 obligation to 2161 Limited Partnership (a partnership in which J. Michael Warren of Warren, Cameron, Faust & Asciutto, P.C. is a partner); an $18,000 obligation to Mark R. Doede (an officer of the Company); and a $19,000 obligation to Charles J. Drake (an officer of the Company). These notes have interest rates ranging from 5.5% to 8.0% and are due on demand.

Note G -- Earnings per Share

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

	Three Months Ended September 30,	
	2002	200
	(in thous	

NUMERATOR FOR BASIC AND DILUTED EARNINGS PER SHARE - INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS		
Loss from operations	$ (353)	$(2,5
Loss on sale of note receivable	--	--
Net loss	$ (353)	$(2,5
*there was no effect of dilutive securities see below		
DENOMINATOR FOR BASIC AND DILUTED EARNINGS (LOSS) PER SHARE - WEIGHTED AVERAGE SHARES	9,430	9,2
*there was no effect of dilutive securities see below		
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE:		
Loss from operations	$ (0.04)	$ (0.
Loss on sale of note receivable	--	--
Net loss	$ (0.04)	$ (0.

Warrants and options outstanding were not included in the computation of diluted earnings per share because the inclusion of these options would have an antidilutive effect. For additional disclosures regarding stock options and warrants see Note H.

Note H -- Stock Options and Warrants

In March 2001, the Company's board of directors approved the issuance of up to $1.5 million of senior debentures (increased to $2.0 million in May 2002). At June 30, 2001, $120,000 of the debentures had been placed of which $24,000 was deemed a discount on the note based on a $.10 per share value assigned to the warrants received by the purchaser. The debentures had maturities of up to four years and an interest rate of 15%. The holders of the debentures received warrants for the purchase of two Integral Vision shares for each $1 in principal value of the debentures purchased. The warrants have a conversion rate of $.50 per share. In July 2001, the Company's board of directors and the holder of the previously outstanding debentures approved an amendment to the terms of its debentures. As a result of the amendment, the debentures, including the $120,000 placed prior to the amendment, have an interest rate of 10% and continue to have maturities of up to four years. Additionally, the directors will determine the conversion rate at the date of issuance, subject to change in the event additional shares are issued in the future. In the nine months ended September 30, 2002, an additional $590,000 of the debentures were placed, $350,000 of which were purchased by the Company's chairman Charles J Drake. Additionally, $40,000 of these debentures were purchased by Max A. Coon, the Company's vice chairman and secretary, pursuant to an agreement between Mr. Coon and the Company on March 5, 2002. When given proper notice that the Company required cash to meet its obligations, the agreement obligated

Mr. Coon to provide cash to the Company in exchange for debentures and warrants, the terms of which were established on the date of the agreement. As part of the purchase, Mr. Coon received warrants for the purchase of 120,000 shares of Integral Vision common stock at a conversion price of $0.35 per share. At September 30, 2002, a total of $1,100,000 of the debentures had been placed. The purchasers of these debentures received warrants for the purchase of 240,000 shares of the Company's common stock at a conversion price of $.50 per share, 2,790,000 shares at a conversion price of $.35 per share and 50,000 shares at a conversion price of $.80 per share. At September 30, 2002, there was approximately $145,000 in principal and interest due to the debenture holders under the terms of the agreement. Although these payments are past due, the debenture holders have not given the Company a written notice of default and, subsequent to September 30, 2002, four of the prior note purchasers invested in an additional $200,000 in Class 2 Notes. The Company is negotiating with the debenture holders to extend the payment dates of the Notes and expects to reach an agreement before the end of the year.

Effective May 1, 2002, the Note and Warrant Purchase Agreement was amended to provide for "Class 2 Notes" and "Class 2 Warrants" which are subordinated to the prior purchasers. Class 2 Notes are working capital notes which are secured by accounts receivable of the Company. The number of Class 2 Warrants to be obtained is based on the length of time the related Class 2 Note is outstanding. In the nine months ended September 30, 2002, $550,000 of the Class 2 Notes were purchased by the prior note purchasers. The outstanding principal balance on the Class 2 Notes was $528,000 at September 30, 2002. Subsequent to September 30, 2002, $200,000 of additional Class 2 Notes were purchased by the prior note purchasers.

In May 2002, the Company's board of directors approved an increase to the amount of debentures that can be issued under the 2001 debenture plan from $1.5 million to $2.0 million. The increase gives the Company added flexibility in its efforts to meet its working capital needs.

In connection with the private placement of $7.0 million of debentures in 1997, which were retired in 1999, the company issued warrants for the purchase of 1,400,000 Integral Vision common shares at $6.86 per share through June 30, 2004, all of which were outstanding at September 30, 2002. Pursuant to the Company's 1997 Note and Warrant Purchase Agreement, the conversion price has been adjusted to take into consideration warrants issued subsequent to the 1997 placement. At September 30, 2002, the adjusted conversion price was $5.26 per share, which would allow holders of these warrants to increase the number of shares they are entitled to purchase from 1,400,000 shares to 1,825,203 shares.

In January 2002, the Compensation Committee of the Company's Board of Directors resolved to grant 225,000 qualified stock options for the purchase of common shares with an exercise price equal to the market price at the close of trading on the grant date, $.10 per share. In order to facilitate this grant, Mr. Charles Drake, the Company's Chairman, agreed to forfeit options on 144,000 shares so that they could be distributed to other key people. Additionally, in March 2002, the Compensation Committee resolved to grant 55,000 qualified and 20,000 non-qualified stock options for the purchase of common shares with an exercise price equal to the market price at the close of trading on the grant date, $.24 per share.

At September 30, 2002, there were options outstanding to purchase 1,065,000 shares of common stock at prices ranging from $.10 to $9.25 per share.

A summary of the outstanding warrants and options is as follows:

	Weighted Average Exercise Price	Number Outstanding (1)	W Rema
		(number of shares in	
1997 Note and Warrant Purchase Agreement	$ 5.26	1,825	
2001 Note and Warrant Purchase Agreement	$ 0.37	3,080	
Qualified ISO Plan	$ 6.55	58	
Non-Qualified Stock Option Plan	$ 5.92	9	
1995 Employee Stock Option Plan	$ 1.15	498	
1999 Employee Stock Option Plan	$ 0.51	500	
	$ 2.01	5,970	

(1) Excludes warrants exercisable under Class 2 Notes. The number of warrants available to holders of Class 2 Notes is dependent on the length of time the principal balance is outstanding and the agreed upon base exercise price. In the nine months ended September 30, 2002, $550,000 of the Class 2 Notes had been placed.

Note I -- Operations by Geographic Area

The following presents information by geographic area:

	September 30, 2002 (unaudited)	Dece 2
	(in thousands)	

Identifiable assets:		
United States	$ 5,137	$ 5,
United Kingdom	220	
Eliminations	(3,835)	(3,
	$ 1,522	$ 1,

	Three Months Ended September 30, 2002	2001	
		(unaudited) (in thousands)	
Net revenues from unaffiliated customers:			
United States	$ 363	$ 239	$
Untied Kingdom	193	267	
	$ 556	$ 506	$
Earnings (loss) from operations before income taxes:			
United States	$ (407)	$(1,765)	$(
United Kingdom	54	(742)	
	$ (353)	$(2,507)	$(
Depreciation and amortization expense:			
United States	$ 187	$ 710	$
United Kingdom	-	266	
	$ 187	$ 976	$
Capital expenditures:			
United States	$ -	$ -	$
United Kingdom	-	-	
	$ -	$ -	$
Net revenues by geographic area:			
North America*	$ 420	$ 283	$
Europe	104	214	
Asia	32	9	
	$ 556	$ 506	$

* Geographic areas that are considered individually material are listed (more than 10% of net revenues), all others are included in North America and in total are considered immaterial.

Note J -- Sale of Building

On July 27, 2001, the Company completed a transaction to sell the building it currently occupies in Farmington Hills, MI for $2.45 million, at which time the existing mortgages were retired. The Company continues to occupy a portion of the building under a five-year lease agreement with the new owner. Net proceeds from the sale was approximately $200,000 of which $186,000 was used to prepay nine months of rent, a requirement of the lease agreement. The Company recognized a loss on the transaction of approximately $22,000 in the third quarter of 2001, which is included in gain on sales of assets.

Note K -- Sale of Technology

Packaging Inspection Technology

On August 24, 2001, the Company completed the sale of certain of its packaging applications software and most of the fixed assets of its subsidiary, Integral Vision Ltd., to n.v. DIMACO, s.a. for $500,000 in cash and future royalties. Included in the transaction was the sale of the worldwide exclusive rights to Integral Vision's "Full Bottle Inspection System" (FBIS), a product that performs certain inspections on bottles at the end of a filling line. Integral Vision will receive a royalty on each FBIS sold for the next three years. The proceeds from the transaction were used primarily to fund current operations and to pay down existing trade payables.

Also included with the transaction was a manufacturing agreement whereby DIMACO will manufacture products for Integral Vision's Optical Disc and Display Inspection customers in Europe.

Under the terms of the sale, most of Integral Vision Ltd.'s personnel and costs will transfer to DIMACO. However, Integral Vision Ltd. will maintain sales and service staff to support its Optical Disc and Display Inspection customers in Europe.

The approximate net book values of the assets sold were $13,000 for inventory, $97,000 for fixed assets, and $276,000 for capitalized software development costs. The Company recognized a gain on the transaction of approximately $114,000, which is included in gain on sales of assets in the third quarter of 2001, primarily attributable to the software included in the sale.

The packaging applications included in the sale accounted for approximately $34,000 and $516,000 of the Company's net revenue for the three and nine month periods ended September 30, 2001, respectively.

Optical Disc Inspection Technology

On September 9, 2002, DaTARIUS Technologies Inc., a subsidiary of global test equipment manufacturer DaTARIUS Technologies GmbH, purchased Integral Vision's assets related to inspection systems for the optical disc industry, including the names "Automatic Inspection Systems" and "AID." The sale included Integral Visions optical disc scanner products as well as its range of print and identification code products used to inspect the printing stage of disc manufacture. The consideration the Company received for the technology consisted of a $100,000 advanced minimum royalty payment in addition to future royalties. Additionally, the Company received $25,000 from the sale of equipment to DaTARIUS. The Company recognized a gain on the transaction of approximately $112,000, which is included in gain on sale of assets in the third quarter of 2002, primarily attributable to the advanced minimum royalty payment received. The proceeds from the transaction were used primarily to fund current operations.

Included with the transaction was a Transition Services Agreement whereby Integral Vision provides assembly and agreed upon technical support services for the product line for up to twelve months after the closing date at an agreed upon rate.

The optical disc inspection technology included in the sale accounted for approximately $312,000 of the Company's net revenue for the three months ended September 30, 2002 compared to $292,000 for the three months ended September 30, 2001. For the nine months ended September 30, 2002, sales of the optical disc inspection technology accounted for approximately $743,000 of the Company's net revenue compared to $946,000 in the 2001 comparable period.

Note L -- Change in Estimate

Management has focused its development, sales and marketing efforts on the Company's inspection systems for the small flat panel display (SFPD) industry. Industry sources indicate that this market will be substantial once fully developed. The Company has developed inspection solutions for the leading technologies used in the SFPD industry including liquid crystal on silicon (LCOS), organic light emitting diodes (OLED), liquid crystal display (LCD), and microelectromechanical systems (MEMS).

Management periodically performs an analysis of the net realizable value of capitalized software costs. In 2001, based on market conditions and the direction of the Company, Management determined that capitalized software development costs exceeded the estimated net realizable value of amounts capitalized and a write-down was necessary. For the quarter ended September 30, 2001, $480,000 of additional amortization was included in costs of sales as a result of these analyses. Additionally, as a result of the analyses, direct costs of sales for the quarter ended September 30, 2001 included a $350,000 charge for the write-down of inventory.

In the third quarter of 2002, Management determined that capitalized patent costs exceeded the estimated net realizable value of amounts capitalized and a write-down was necessary. In the quarter ended September 30, 2002, $74,000 of additional amortization was included in costs of sales as a result of this determination.

Note M -- Officers' Advances

In 2001, Messrs. Charles Drake and Mark Doede each had loans from the Company, the outstanding balances of which were included in the stockholders' equity section of the consolidated balance sheet. In August 2001, the Compensation Committee of the Company's Board of Directors resolved to forgive $100,000 of the outstanding balance on each of their loans from the Company. The $200,000 charge for the write-down of the notes was included in general and administrative expenses in the consolidated statement of operations in the quarter ended September 30, 2001. Mr. Drake also made approximately $250,000 in principal payments on his note in 2001. Mr. Drake paid off the remaining principal balance of this note in 2002.

At June 30, 2002, Mr. Drake had received other short-term advances from the company of approximately $83,000. This amount is evidenced by a demand note and carries interest at 5.5% per annum. This amount is included in note receivable in the consolidated balance sheet. Mr. Drake received no new advances from the Company subsequent to June 30, 2002. Additionally, Mr. Drake has advanced approximately $19,000 to the Company, which the Company used to meet certain working capital requirements. This advance is included in short-term notes payable in the consolidated balance sheet.

In 2002, Mr. Doede made principal payments on his note of approximately $119,000. At September 30, 2002, Mr. Doede's outstanding note balance was $69,000. Mr. Doede received no new advances from the Company subsequent to June 30, 2002. Additionally, Mr. Doede has advanced approximately $18,000 to the Company, which the Company used to meet certain working capital requirements. This advance is included in short-term notes payable in the consolidated balance sheet. Mr. Doede has also voluntarily deferred approximately $40,000 of his wages. This amount is included in accrued compensation and related costs in the consolidated balance sheet.

At September 30, 2002, Mr. Arthur Harmala, the Company's Vice President of Marketing, had voluntarily deferred approximately $19,000 of his wages. This amount is included in accrued compensation and related costs in the consolidated balance sheet.

Note N -- Income Taxes

In March 2002, Congress enacted what is known as the "Job Creation and Worker Assistance Act of 2002" to provide tax incentives for economic recovery. One of the provisions of the Act was to extend the carryback period for net operating losses incurred in tax years ending in 2001 or 2002 to five years versus the three years previously allowed. Additionally, any net operating losses as computed for alternative minimum tax purposes for tax years ending in 2001 or 2002 can also be carried back five years and can be used to offset up to 100% of alternative minimum taxable income. Previously, alternative minimum tax net operating losses could only be used to offset up to 90% of alternative minimum taxable income. As a result of this Act, the Company was able to carryback its 2001 net operating loss as computed for alternative minimum tax purposes to 1999, which reduced its tax liability in that year to zero. In the quarter ended September 30, 2002, the Company received a refund of taxes previously paid of approximately $90,000.

Note O -- 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, the Company has incurred losses from operations in the current and prior year nine month periods of $1.8 million and $5.6 million, respectively. Further, during the years ended December 31, 2001, 2000, 1999 and 1998, the Company incurred losses from continuing operations of $7.7 million, $7.1 million, $5.7 million and $11.2 million, respectively. The continuing losses, in addition to working capital deficiencies, recurring reductions in product sales, and cash flow deficiencies, among other factors, may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitability. The Company's anticipated cash provided by operating activities will not be sufficient to support the Company's cash flow needs over the next twelve months. The projected cash shortfall over the next twelve months is estimated to be approximately $550,000, which is primarily attributable to amounts due to the Company's current debenture holders over the next twelve months. In order to address this shortfall, the Company is negotiating with the debenture holders to extend the payment dates of the Notes and expects to reach an agreement before the end of the year. At September 30, 2002, there was approximately $145,000 in principal and interest due to the debenture holders under the terms of the agreement. Although these payments are past due, the debenture holders have not given the Company a written

notice of default and, subsequent to September 30, 2002, four of the prior note purchasers invested in an additional $200,000 in Class 2 Notes. In March 2001, the Company's board of directors approved the issuance of up to $1.5 million of senior debentures (increased to $2.0 million in May 2002), which could provide additional financing to the Company. Additionally, effective May 1, 2002, the Company's Note and Warrant Purchase Agreement was amended to provide for "Class 2 Notes" and "Class 2 Warrants" which are subordinated to the prior purchasers. Class 2 Notes are working capital notes which are secured by accounts receivable of the Company. Management could also fund the projected shortfall through the sales of its debentures and Class 2 Notes. Additionally, if necessary, Management would attempt to obtain any additional cash needed to enable the Company to continue as a going concern through possible joint ventures and other strategic alliances. Additional financing may or may not be available through banks. There can be no assurance that Management will be able to successfully execute these plans before the Company has exhausted all of its resources. These uncertainties raise substantial doubt about the Company's ability to continue as a going concern.

Note P -- Foreign Currency Translation Adjustment

In June 2002, Integral Vision, Inc. wrote-off an inter-company receivable due from Integral Vision Ltd., its subsidiary in the United Kingdom. As the consolidated financial statements include the accounts of both entities, upon consolidation, the charge recorded by Integral Vision, Inc., approximately $3.1 million, was eliminated against the gain recorded by Integral Vision Ltd. However, previously unrecognized losses that resulted from foreign currency translation adjustments were recognized in the quarter ended June 30, 2002 and totaled approximately $208,000.

Note Q -- Off Balance Sheet Risk

A claim has been made against the Company citing unpaid royalties totaling $107,000. Management is still researching the claim but does not believe that the Company will ultimately be found to be liable to the claimant.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
INTEGRAL VISION, INC. AND SUBSIDIARY
SEPTEMBER 30, 2002

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO SEPTEMBER 30, 2001

Net revenues from continuing operations increased 9.9%, or $50,000, to $556,000 in the third quarter of 2002 from $506,000 in the third quarter of 2001. The increase was primarily attributable to increased sales of the Company's small flat panel display inspection systems over the prior year. Additionally, in spite of the fact that the Company sold its disc identification/print inspection technology in early September 2002 (see Note K to consolidated financial statements), sales of those products for the 2002 quarter were higher than in the comparable 2001 quarter. These increases were partially offset by decreased revenue from the Company's service activities in the 2002 quarter. The sale of the Company's packaging applications software in 2001 also impacted the increase in sales as sales of that product line accounted for $34,000 of the net revenue in the third quarter of 2001 (see Note K to consolidated financial statements).

Direct costs of sales decreased to $440,000 (approximately 79.1% of sales) in the third quarter of 2002 compared to $1.7 million (approximately 339% of sales) in the third quarter of 2001. Depreciation and amortization expense was lower in 2002 primarily due to the 2001 sale of the Company's building (see Note J to consolidated financial statements) and the write-off of capitalized software costs in 2001. Management periodically performs an analysis of the net realizable value of capitalized software costs. In 2001, based on market conditions and the direction of the Company, Management determined that capitalized software development costs exceeded the estimated net realizable value of amounts capitalized and a write-down was necessary. For the quarter ended September 30, 2001, $480,000 of additional amortization was included in costs of sales as a result of these analyses. Additionally, as a result of the analyses, direct costs of sales for the quarter ended September 30, 2001 included a $350,000 charge for the write-down of inventory. In the third quarter of 2002, Management determined that capitalized patent costs exceeded the estimated net realizable value of amounts capitalized and a write-down was necessary. In the quarter ended September 30, 2002, $74,000 of additional amortization was included in costs of sales as a result of this determination. The gross margin in the 2001 quarter was negative due to the fact that the sales volume was not sufficient to cover the fixed charges, depreciation and amortization, included in direct cost of sales.

Marketing costs decreased 59.7%, or $209,000, to $141,000 in the third quarter of 2002 from $350,000 in the third quarter of 2001. This decrease is primarily attributable to workforce reductions resulting from the implementation of a cost reduction plan by Management in late 2000 and throughout 2001. The plan also called for workforce reductions in both the general and administrative department and the engineering department, as evidenced by the figures below.

General and administrative costs decreased 70.4%, or $481,000, to $202,000 in the third quarter of 2002 from $683,000 in the third quarter of 2001. In 2001, Messrs. Charles Drake and Mark Doede each had loans from the Company. In August 2001, the Compensation Committee of the Company's Board of Directors resolved to forgive $100,000 of the outstanding balance on each of their loans from the Company, which resulted in a $200,000

charge to compensation expense. Additionally, Mr. Charles Drake was provided with 400,000 shares of unregistered stock of the Company, subject to certain sale restrictions. An additional $56,000 of compensation expense was charged to general and administrative expense in the 2001 quarter as a result of the issuance of these shares. General and administrative costs for the 2001 quarter also included a $62,000 charge for bad debts as certain of the Company's debtors' financial conditions worsened. Exclusive of these non-recurring charges, general and administrative costs decreased 44.7% or $163,000 in the 2002 quarter.

Engineering and development expenditures decreased 48.5%, or $204,000, to $217,000 in the third quarter of 2002 from $421,000 in the third quarter of 2001.

On June 30, 1999, the Company completed an agreement to sell substantially all the assets of its Welding Controls division for $25.7 million, net of costs of the sale, for cash, the assumption of certain liabilities, and a subordinated note (WTC note). The interest bearing portion of the note, approximately $1.9 million, carried an interest rate approximating prime plus 1% and required quarterly payments beginning on February 15, 2000, with a February 15, 2001 maturity date. The non-interest bearing portion of the note, $1.5 million, was discounted using an imputed interest rate of 9% and matured on February 15, 2001.

In January 2001, the Company sold 19.9% of the $1.7 million then outstanding under the note agreement to third party investors in exchange for consideration of $300,000. In May 2001, the Company completed a transaction whereby it repurchased the portion of the note previously sold to the investors and then sold the entire note receivable, which had an outstanding balance of $1.1 million at April 30, 2001, to a third party for $750,000. The Company recognized a loss on sale of the note receivable of $441,000 in the quarter ended March 31, 2001.

Gain on sales of assets in the 2002 quarter included a $112,000 gain on the sale of assets to DaTARIUS Technologies, Inc. in September 2002 (see Note K to consolidated financial statements). The 2001 quarter included a $114,000 gain on the sale of assets to n.v. DIMACO, s.a. in August 2001 (see Note K to consolidated financial statements). This gain was partially offset by a $22,000 loss on the sale of the Company's building in Farmington Hills, MI in July 2001.

Interest income and other increased $30,000 in the third quarter of 2002 compared to the 2001 quarter. The income in the 2002 quarter is primarily attributable to $18,000 of royalty income from the Company's VisionBlox software and $3,000 of interest charged on the officers' notes receivable. The 2001 quarter included $15,000 of interest charged on the officers' notes receivable which was offset by miscellaneous expenses. The decrease in interest income from the prior year period is primarily attributable to reductions to the officers' notes receivable in 2001 (see Note M to consolidated financial statements).

Interest expense increased $46,000 to $59,000 in the third quarter of 2002 from $13,000 in the third quarter of 2001. The increase is primarily attributable to the debentures and Class 2 notes that were sold under the 2001 Note and Warrant Purchase Agreement (see Note F to consolidated financial statements). The increase was partially offset by a reduction in mortgage interest as the Company's mortgages were paid in full when the sale of its building closed on July 27, 2001 (see Note J to consolidated financial statements).

NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO SEPTEMBER 30, 2001

Net revenues from continuing operations decreased 35.9%, or $775,000, to $1.4 million compared to $2.2 million in last year's comparable nine-month period. The decrease was partially attributable to the fact that the Company sold its packaging applications software in 2001 (see Note K to consolidated financial statements). Sales of that product line accounted for $516,000 of the net revenue in the 2001 period. Additionally, sales of the Company's disc identification/print inspection (CDiD/CDiP) products were lower in the 2002 period. The Company sold its disc identification/print inspection technology in early September 2002 (see Note K to consolidated financial statements). The Company's revenue from service activities and from sales of the Company's software were also lower in the 2002 period. These decreases were partially offset by increased sales of the Company's small flat panel display inspection product.

Direct costs of sales decreased to $1.1 million (approximately 79.2% of sales) in 2002 compared to $3.7 million (approximately 173% of sales) in last year's comparable period. This was primarily attributable to the lower sales volume and the lower depreciation and amortization expense in the 2002 period. Depreciation and amortization expense was lower in 2002 primarily due to the 2001 sale of the Company's building (see Note J to consolidated financial statements) and the write-off of capitalized software costs in 2001. Management periodically performs an analysis of the net realizable value of capitalized software costs. In 2001, based on market conditions and the direction of the Company, Management determined that capitalized software development costs exceeded the estimated net realizable value of amounts capitalized and a write-down was necessary. For the period ended September 30, 2001, $480,000 of additional amortization was included in costs of sales as a result of these analyses. Additionally, as a result of the analyses, direct costs of sales for the period ended September 30, 2001 included a $350,000 charge for the write-down of inventory. In the 2002 period, Management determined that capitalized patent costs exceeded the estimated net realizable value of amounts capitalized and a write-down was necessary. In the period ended September 30, 2002, $74,000 of additional amortization was included in costs of sales as a result of this determination. The gross margin in the 2001 period was negative due to the fact that the sales volume was not sufficient to cover the fixed charges, depreciation and amortization, included in direct cost of sales.

Marketing costs decreased 62.5%, or $810,000, to $487,000 compared to $1.3 million in last year's comparable nine-month period. This decrease is primarily attributable to workforce reductions resulting from the implementation of a cost reduction plan by Management in late 2000 and throughout 2001. The plan also called for workforce reductions in both the general and administrative department and the engineering department, as evidenced by the figures below.

General and administrative costs decreased 37.6%, or $550,000, to $911,000 compared to $1.5 million in last year's comparable nine-month period. In 2001, Messrs. Charles Drake and Mark Doede each had loans from the Company. In August 2001, the Compensation Committee of the Company's Board of Directors resolved to forgive $100,000 of the outstanding balance on each of their loans from the Company, which resulted in a $200,000 charge to compensation expense. Additionally, Mr. Charles Drake was provided with 400,000 shares of unregistered stock of the Company, subject to certain sale restrictions. An additional $56,000 of compensation expense was charged to general and administrative expense in the 2001 period as a result of the issuance of these shares. General and administrative costs for the 2001 period also included a $62,000 charge for bad debts as

certain of the Company's debtors' financial conditions worsened. Exclusive of these non-recurring charges, general and administrative costs decreased 20.3% or $232,000 in 2002.

Engineering and development expenditures decreased 63.2%, or $1.1 million, to $612,000 compared to $1.7 million in last year's comparable nine-month period.

On June 30, 1999, the Company completed an agreement to sell substantially all the assets of its Welding Controls division for $25.7 million, net of costs of the sale, for cash, the assumption of certain liabilities, and a subordinated note (WTC note). The interest bearing portion of the note, approximately $1.9 million, carried an interest rate approximating prime plus 1% and required quarterly payments beginning on February 15, 2000, with a February 15, 2001 maturity date. The non-interest bearing portion of the note, $1.5 million, was discounted using an imputed interest rate of 9% and matured on February 15, 2001.

In January 2001, the Company sold 19.9% of the $1.7 million then outstanding under the note agreement to third party investors in exchange for consideration of $300,000. In May 2001, the Company completed a transaction whereby it repurchased the portion of the note previously sold to the investors and then sold the entire note receivable, which had an outstanding balance of $1.1 million at April 30, 2001, to a third party for $750,000. The Company recognized a loss on sale of the note receivable of $441,000 in the quarter ended March 31, 2001.

Gain on sales of assets in the 2002 period included a $112,000 gain on the sale of assets to DaTARIUS Technologies, Inc. in September 2002 (see Note K to consolidated financial statements). The 2001 period included a $114,000 gain on the sale of assets to n.v. DIMACO, s.a. in August 2001 (see Note K to consolidated financial statements). This gain was partially offset by a $22,000 loss on the sale of the Company's building in Farmington Hills, MI in July 2001.

Interest income and other decreased $52,000 to $37,000 compared to $89,000 in last year's comparable nine-month period. The income in the 2002 period is primarily attributable to $18,000 of royalty income from the Company's VisionBlox software and $9,000 of interest charged on the officers' notes receivable. The income in the 2001 period is primarily attributable to $55,000 of interest charged on the officers' notes receivable and $34,000 of interest charged on the note receivable that resulted from the sale of the Company's Welding Controls division (see Note B to consolidated financial statements). The decrease in interest income from the prior year period is primarily attributable to the sale of the Company's note receivable in May 2001 and the receipt of principal payments on the outstanding balance of the note throughout the year. Reductions to the officers' notes receivable throughout 2001 also contributed to the decrease in interest income in the 2002 period (see Note M to consolidated financial statements).

Interest expense increased $31,000 to $172,000 compared to $141,000 in last year's comparable nine-month period. The increase is primarily attributable to the debentures and Class 2 notes that were sold under the 2001 Note and Warrant Purchase Agreement (see Note F to consolidated financial statements). The increase was partially offset by a reduction in mortgage interest as the Company's mortgages were paid in full when the sale of its building closed on July 27, 2001 (see Note J to consolidated financial statements). Additionally, the Company used proceeds from the sale of its note receivable in May 2001 (see Note B to consolidated financial statements) to pay in full its revolving line of credit at which time that agreement was terminated.

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In June 2002, Integral Vision, Inc. wrote-off an inter-company receivable due from Integral Vision Ltd., its subsidiary in the United Kingdom. As the consolidated financial statements include the accounts of both entities, upon consolidation, the charge recorded by Integral Vision, Inc., approximately $3.1 million, was eliminated against the gain recorded by Integral Vision Ltd. However, previously unrecognized losses that resulted from foreign currency translation adjustments were recognized in the June 30, 2002 quarter and totaled approximately $208,000.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities used $1.6 million in cash for the nine months primarily due to the Company's loss from operations of $1.8 million.

On September 9, 2002, DaTARIUS Technologies Inc., a subsidiary of global test equipment manufacturer DaTARIUS Technologies GmbH, purchased Integral Vision's assets related to inspection systems for the optical disc industry, including the names "Automatic Inspection Systems" and "AID." The sale included Integral Visions optical disc scanner products as well as its range of print and identification code products used to inspect the printing stage of disc manufacture. The consideration the Company received for the technology consisted of a $100,000 advanced minimum royalty payment in addition to future royalties. Additionally, the Company received $25,000 from the sale of equipment to DaTARIUS. The Company recognized a gain on the transaction of approximately $112,000, which was included in gain on sale of assets in the third quarter of 2002, primarily attributable to the advanced minimum royalty payment received. The proceeds from the transaction were used primarily to fund current operations.

Included with the transaction was a Transition Services Agreement whereby Integral Vision provides assembly and agreed upon technical support services for the product line for up to twelve months after the closing date at an agreed upon rate.

The Company's financing activities included the receipt of $590,000 from the sale of the Company's senior debentures and the receipt of $550,000 from the sale of the Company's Class 2 Notes. The Company made principal payments of approximately $22,000 on its Class 2 Notes in the period.

The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitability. The Company's anticipated cash provided by operating activities will not be sufficient to support the Company's cash flow needs over the next twelve months. The projected cash shortfall over the next twelve months is estimated to be approximately $550,000, which is primarily attributable to amounts due to the Company's current debenture holders over the next twelve months. In order to address this shortfall, the Company is negotiating with the debenture holders to extend the payment dates of the Notes and expects to reach an agreement before the end of the year. At September 30, 2002, there was approximately $145,000 in principal and interest due to the debenture holders under the terms of the agreement. Although these payments are past due, the debenture holders have not given the Company a written notice of default and, subsequent to September 30, 2002, four of the prior note purchasers invested in an additional $200,000 in Class 2 Notes. In March 2001, the Company's board of directors approved the issuance of up to $1.5 million of senior debentures (increased to $2.0 million in May 2002), which could provide additional financing to the Company. Additionally, effective May 1, 2002, the Company's Note and Warrant Purchase Agreement was amended to provide for "Class 2 Notes" and "Class 2 Warrants" which are subordinated to the prior purchasers. Class 2 Notes are working capital notes which are secured by accounts

receivable of the Company. Management could also fund the projected shortfall through the sales of its debentures and Class 2 Notes. Additionally, if necessary, Management would attempt to obtain any additional cash needed to enable the Company to continue as a going concern through possible joint ventures and other strategic alliances. Additional financing may or may not be available through banks. There can be no assurance that Management will be able to successfully execute these plans before the Company has exhausted all of its resources. These uncertainties raise substantial doubt about the Company's ability to continue as a going concern.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company is exposed to market risk stemming from changes in foreign exchange rates, interest rates and prices of inventory purchased for assembly into finished products. Changes in these factors could cause fluctuations in earnings and cash flows. In the normal course of business, exposure to interest rates is managed by fixing the interest rates on the Company's long term debt whenever possible. The Company does not generally enter into long-term purchase contracts but instead purchases inventory to fill specific sales contracts thereby minimizing risks with respect to inventory price fluctuations.

Foreign Exchange Rates -- The Company's location outside the US is in the United Kingdom. This is a sales office with net non-current assets that are not significant. On a consolidated basis the Company denominates sales in the following currencies:

- Japanese Yen

- Pound Sterling
- French Francs
- Euros

In Management's opinion, as the currencies of Western Europe and the UK are generally stable; there is no significant exposure to losses due to currency fluctuations. However, because the Yen has not been stable over the past several years, the Company does enter into forward sales contracts equal to the future amount of the Yen to be received at the time the order is accepted. These hedging transactions are on an order by order basis and at no time are they speculative in nature. At September 30, 2002, the Company had no open positions.

CONTROLS AND PROCEDURES

a) Evaluation of disclosure controls and procedures

The Company's Chief Executive Officer and Chief Financial Officer believe Integral Vision's disclosure controls and procedures, as defined in Securities Exchange Act Rules 13a-14 and 15d-14, are effective. This conclusion was reached after an evaluation of these controls and procedures as of September 30, 2002.

b) Changes in internal controls

We are not aware of any significant changes in the Company's internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses, or in other factors that could significantly affect these controls after September 30, 2002.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(c) On March 29, 2001 the Company sold $120,000 of its 15% Senior Subordinated Secured Notes. As part of the sale, the purchaser also received 240,000 warrants for the purchase of Integral Vision, Inc. common stock for $0.50 per share (see Note F to the accompanying financial statements for further information regarding the terms of the note and warrant, as they have been subsequently amended). The Company received cash in the amount of $120,000 in exchange for the note and warrants.

The terms of the notes were subsequently amended (see Note F to the accompanying consolidated financial statements) to eliminate the subordination provisions, change the interest rate to 10%, and to provide that the price for the warrants would be set by the Company's board of directors at the time the related note was purchased, based on the then current market price for the Company's common stock.

From July 18, 2001 through October 31, 2002, the Company sold notes and warrants totaling an additional $980,000. The purchasers in these transactions received warrants to purchase 2,790,000 shares of the Company's common stock at a conversion price of $.35 per share and 50,000 shares at a conversion price of $.80 per share.

The notes and warrants were sold in private transactions exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. There have been twelve purchasers, some of whom have purchased on more than one occasion. Of these, four of the purchasers are related entities or insiders of the Company. Each of the remaining purchasers is a client, or relative of the principal, of one State of California registered investment advisor. All of the purchasers are either "accredited investors" as that term is defined in Regulation D under the Securities Act of 1933 or, either alone or with their purchaser representative, have such knowledge and experience in financial and business matters that they are capable of evaluating the merits and risks of the investment.

Effective May 1, 2002, the Note and Warrant Purchase Agreement was amended to provide for "Class 2 Notes" and "Class 2 Warrants" which will be subordinated to the prior purchasers. Class 2 Notes are working capital notes which will be secured by accounts receivable of the Company. The number of Class 2 Warrants to be obtained will be based on the length of time the related Class 2 Note is outstanding. As of November 14, 2002, $750,000 of the Class 2 Notes were purchased by five of the prior note purchasers.

The Company is authorized to sell up to $2 million of its debentures. Any additional sales of debentures will be sold only in private transactions to investors meeting the above criteria.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number	Description of Document

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).
4.1	Note and Warrant Purchase Agreement (filed as Exhibit 4.1 to the registrant's Form 8-K dated July 15, 1997, SEC file 0-12728, and incorporated herein by reference).
4.3	Form of Integral Vision, Inc. Common Stock Purchase Warrant Certificate (filed as Exhibit 4.3 to registrant's Form 8-K dated July 15, 1997, SEC file 0-12728, and incorporated herein by reference).
4.4	Note and Warrant Purchase Agreement dated March 29, 2001 including Form of Integral Vision, Inc. 15% Senior Subordinated Secured Note and Integral Vision, Inc. Common Stock Purchase Warrant Certificate (filed as Exhibit 4.4 to registrant's Form 10-K for the year ended December 31, 2000, SEC file 0-12728, and incorporated herein by reference).
4.5	Form of amended Note and Warrant Purchase Agreement including Form of Integral Vision, Inc. 10% Secured Note and Integral Vision, Inc. Common Stock Purchase Warrant Certificate (filed as Exhibit 4.5 to registrant's Form 10-Q for the quarter ended June 30, 2001, SEC file 0-12728, and incorporated herein by reference).

4.6	Form of Second Amended Note and Warrant Purchase Agreement including Form of Integral Vision, Inc. Class 2 Note and Integral Vision, Inc. Class 2 Common Stock Purchase Warrant Certificate (filed as Exhibit 4.6 to registrant's Form 10-Q for the quarter ended March 31, 2002, SEC file 0-12728, and incorporated herein by reference).
10.1	Incentive Stock Option Plan of the Registrant as amended (filed as Exhibit 10.4 to the registrant's Form S-1 Registration Statement effective July 2, 1985, SEC File 2-98085, and incorporated herein by reference).
10.2	Second Incentive Stock Option Plan (filed as Exhibit 10.2 to the registrant's Form 10-K for the year ended December 31, 1992, SEC File 0-12728, and incorporated herein by reference).
10.3	Non-qualified Stock Option Plan (filed as Exhibit 10.3 to the registrant's Form 10-K for the year ended December 31, 1992, SEC File 0-12728, and incorporated herein by reference).

10.4	Amendment to Integral Vision, Inc. Incentive Stock Option Plan dated May 10, 1993 (filed as Exhibit 10.3 to the registrant's Form 10-K for the year ended December 31, 1993, SEC File 0-12728, and incorporated herein by reference).
10.5	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).
10.6	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).
10.7	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).
10.8*	Patent License Agreement dated October 4, 1995 by and between Integral Vision, Inc. and Square D Company (filed as Exhibit 10.24 to the registrant's Form 10-Q for the quarter ended September 30, 1995, SEC File 0-12728, and incorporated herein by reference).
10.9	Asset Sale Purchase Agreement between the registrant and Weltronic (filed as exhibit to the registrant's Preliminary Schedule 14A -- Rule 14A-101 dated May 6, 1999 and incorporated herein by reference).
10.10	Post Closing Adjustment and Settlement Agreement between Integral Vision, Inc. and Weltronic/Technitron, Inc. (filed as exhibit 10.33 to the registrant's Form 10-K for the year ended December 31, 1999, SEC file 0-12728, and incorporated herein by reference).
10.11	Loan agreement between National City Bank and Integral Vision, Inc. (filed as exhibit 10.9 to the registrant's Form 10-Q for the quarter ended June 30, 2000, SEC File 0-12728, and incorporated herein by reference).

10.12	Asset Sale Purchase Agreement between the registrant and n.v. DIMACO, s.a. (filed as exhibit 10.12 to the registrant's Form 10-Q for the quarter ended September 30, 2001 and incorporated herein by reference).
10.13	Asset Sale Purchase Agreement between the registrant and DaTARIUS Technologies, Inc.
99.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350, as adopted).

(b) Reports on Form 8-K. On September 11, 2002, a Form 8-K was filed to report an event under Item 5. No financial statements were included in the report.

* The Company has been granted confidential treatment with respect to certain portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

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.

Date: November 14, 2002

/S/ CHARLES J. DRAKE

Charles J. Drake,
Chairman of the Board and
Chief Executive Officer

Date: November 14, 2002

/S/ MARK R. DOEDE

Mark R. Doede,
President, Chief Operating Officer, and
Chief Financial Officer,

CERTIFICATION

I, Charles J. Drake, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Integral Vision, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such

statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/S/ Charles J. Drake

Charles J. Drake
Chief Executive Officer

CERTIFICATION

I, Mark R. Doede, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Integral Vision, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including

any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/S/ Mark R. Doede

Mark R. Doede
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description of Document
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).
4.1	Note and Warrant Purchase Agreement (filed as Exhibit 4.1 to the registrant's Form 8-K dated July 15, 1997, SEC file 0-12728, and incorporated herein by reference).
4.3	Form of Integral Vision, Inc. Common Stock Purchase Warrant Certificate (filed as Exhibit 4.3 to registrant's Form 8-K dated July 15, 1997, SEC file 0-12728, and incorporated herein by reference).
4.4	Note and Warrant Purchase Agreement dated March 29, 2001 including Form of Integral Vision, Inc. 15% Senior Subordinated Secured Note and Integral Vision, Inc. Common Stock Purchase Warrant Certificate (filed as Exhibit 4.4 to registrant's Form 10-K for the year ended December 31, 2000, SEC file 0-12728, and incorporated herein by reference).
4.5	Form of amended Note and Warrant Purchase Agreement including Form of Integral Vision, Inc. 10% Secured Note and Integral Vision, Inc. Common Stock Purchase Warrant Certificate (filed as Exhibit 4.5 to registrant's Form 10-Q for the quarter ended June 30, 2001, SEC file 0-12728, and incorporated herein by reference).
4.6	Form of Second Amended Note and Warrant Purchase Agreement including Form of Integral Vision, Inc. Class 2 Note and Integral Vision, Inc. Class 2 Common Stock Purchase Warrant Certificate (filed as Exhibit 4.6 to registrant's Form 10-Q for the quarter ended March 31, 2002, SEC file 0-12728, and incorporated herein by reference).
10.1	Incentive Stock Option Plan of the Registrant as amended (filed as Exhibit 10.4 to the registrant's Form S-1 Registration Statement effective July 2, 1985, SEC File 2-98085, and

incorporated herein by reference).

10.2	Second Incentive Stock Option Plan (filed as Exhibit 10.2 to the registrant's Form 10-K for the year ended December 31, 1992, SEC File 0-12728, and incorporated herein by reference).
10.3	Non-qualified Stock Option Plan (filed as Exhibit 10.3 to the registrant's Form 10-K for the year ended December 31, 1992, SEC File 0-12728, and incorporated herein by reference).
10.4	Amendment to Integral Vision, Inc. Incentive Stock Option Plan dated May 10, 1993 (filed as Exhibit 10.3 to the registrant's Form 10-K for the year ended December 31, 1993, SEC File 0-12728, and incorporated herein by reference).

10.5	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).
10.6	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).
10.7	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).
10.8*	Patent License Agreement dated October 4, 1995 by and between Integral Vision, Inc. and Square D Company (filed as Exhibit 10.24 to the registrant's Form 10-Q for the quarter ended September 30, 1995, SEC File 0-12728, and incorporated herein by reference).
10.9	Asset Sale Purchase Agreement between the registrant and Weltronic (filed as exhibit to the registrant's Preliminary Schedule 14A -- Rule 14A-101 dated May 6, 1999 and incorporated herein by reference).
10.10	Post Closing Adjustment and Settlement Agreement between Integral Vision, Inc. and Weltronic/Technitron, Inc. (filed as exhibit 10.33 to the registrant's Form 10-K for the year ended December 31, 1999, SEC file 0-12728, and incorporated herein by reference).
10.11	Loan agreement between National City Bank and Integral Vision, Inc. (filed as exhibit 10.9 to the registrant's Form 10-Q for the quarter ended June 30, 2000, SEC File 0-12728, and incorporated herein by reference).
10.12	Asset Sale Purchase Agreement between the registrant and n.v. DIMACO, s.a. (filed as exhibit 10.12 to the registrant's Form 10-Q for the quarter ended September 30, 2001 and incorporated

herein by reference).

10.13 Asset Sale Purchase Agreement between the registrant and DaTARIUS Technologies, Inc.

99.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350, as adopted).

(b) Reports on Form 8-K. On September 11, 2002, a Form 8-K was filed to report an event under Item 5. No financial statements were included in the report.

* The Company has been granted confidential treatment with respect to certain portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.